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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, 2011

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.

Delaware
(State of Incorporation)

(Exact Name of Registrant As Specified in Its Charter)

13-3861628
(I.R.S. Employer
Identification Number)

**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:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$0.001 per share	The Nasdaq Stock Market LLC

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2011 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$679,426,321 (computed by reference to the last reported sale price on The Nasdaq Capital Market on that date). The registrant does not have any non-voting common stock outstanding.

On February 28, 2012, 54,543,837 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2012 Annual Meeting of Stockholders, to be filed not later than April 30, 2012, are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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LIVEPERSON, INC.

2011 ANNUAL REPORT ON FORM 10-K

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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 OF 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 online engagement solutions offering a cloud-based platform which enables businesses to pro-actively connect with consumers through chat, voice, and content delivery, across multiple channels and screens, including websites, social media, 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 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 2011, we monitored approximately 1.4 billion visitor sessions per month across our customers’ websites. Today 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.

More than 8,500 companies, including Cisco, Hewlett-Packard, IBM, Microsoft, Verizon, Sky, Walt Disney, PNC, QVC 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 selectively engaging website visitors;
- accelerate the sales cycle, drive repeat business and increase average order values;
- increase consumer satisfaction, 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 (TCO), 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. According to a recent study by Forrester Research 31% of companies are moderate to heavy users of SaaS software and 68% of larger companies have begun adopting SaaS software solutions.

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.

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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 and the Tel Aviv Stock Exchange. LivePerson is headquartered in New York City with offices in Atlanta, London, San Francisco, Melbourne, 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. According to a recent J.P. Morgan report, global e-commerce sales should reach \$963 billion by 2013, growing at a compounded annual growth rate (CAGR) of 19.4% from 2010 to 2013. According to this report, e-commerce growth will benefit from several trends including the emergent adoption of broadband, predicting the strongest growth to come from Asia with a projected 28% CAGR from 2010 to 2013. In comparison, on the same basis, U.S. and European e-commerce sales are expected to grow by 12% and 13%, respectively.

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 a Forrester Research survey published during 2011, it was predicted by year-end that 37% of all online U.S. consumers would use chat for customer service, which is nearly double the 19% that used chat for customer service in 2009. Chat adoption has increased to roughly one in four seniors and has risen to nearly one-half of online consumers ages 18 to 32. At 62%, chat has the highest satisfaction rate among all online customer service channels in the Forrester survey.

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 demographics shifts favor LivePerson's current and planned offerings. According to a Forrester Research survey, members of Generation Y are dedicated consumers of online content and wide adopters of social support; most use multiple technologies for online communications such as email, social networking and text messaging, and create and share user-generated content. Survey results indicated that in 2011 39% of Generation Y consumers had used a forum or community for social support. Forrester also indicated that this demographic is demanding, with high expectations for the services they purchase via the Web which may in turn accelerate the demand for LivePerson's online, real-time customer engagement solutions.

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

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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. In 2011, we expanded our eco-system to approximately 25 partners 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. During 2011, 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 currently plan to continue to invest in our operations in this region in 2012. We have also invested in direct sales and service personnel in Australia and continue to evaluate partnership opportunities and sales and marketing strategies to support further expansion into the Asia-Pacific region. We currently have a partner supporting our sales, marketing and support efforts in the Asia-Pacific region, based in Melbourne, with initial focus on Australia, New Zealand, the Philippines and Singapore.

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 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.

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Evaluating Strategic Alliances and Acquisitions When Appropriate. We have successfully integrated several acquisitions over the past decade. 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: chat, voice/click-to-call, and personalized content delivery, 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.

LP Chat. LP Chat, creates meaningful, real-time connections with consumers that result in higher conversion rates and superior experiences across the consumer lifecycle. LP Chat offers a reliable, secure and efficient way for businesses to connect with consumers wherever they are, including websites, social media, and mobile devices. Delivered through an open, integrated and scalable platform/architecture, LP Chat combines sophisticated technology with robust business intelligence to produce compelling, measurable results for e-commerce, marketing, consumer experience and contact center executives.

Leveraging online site traffic monitoring and a sophisticated rules engine, LP Chat enables customers to proactively engage online visitors. This engagement solution 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 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. LP Chat 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 (typically at a lower cost per engagement).

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.

LP Voice. LP Voice provides customers with a seamless connection between a website and the voice channel to effectively engage prospects and consumers at their most critical moments online.

LivePerson Expert Platform. LivePerson continues to maintain a marketplace platform where Users can chat live with independent Experts in a variety of categories.

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LP Marketer. Introduced in 2011, LP Marketer provides businesses of all sizes with a real-time data-driven targeting solution that intelligently delivers personalized digital user experiences. LP Marketer features a powerful combination of advanced visitor intelligence, robust traffic segmentation capabilities and user-friendly campaign-building tools that greatly reduce or eliminate reliance upon a company's internal IT resources. The result is a highly-relevant and compelling experience for each visitor, which can lead to increased consumer satisfaction and loyalty as well as measurable improvements in conversion rates and transaction values.

LP Insights. Introduced in 2011, LP Insights provides customers with a text analytics tool that enables them to data mine for 'Voice of the Customer' and 'Voice of the Agent' content. LP Insights analyzes chat transcripts and other internal and external sources of text (such as Facebook, twitter, and email), making sense of consumers' words, behavior, reasons for contact, buying patterns, and sentiments. These insights deliver turn-key business intelligence driving improvement opportunities across the entire business system.

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.

No single customer accounted for or exceeded 10% of our total revenue in 2011.

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 online consumer acquisition. These executives have a vested interest in improving 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. 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 (ROI), we transition to a program management model wherein we work hand-in-hand with the customer, providing detailed analyses, 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 particularly as an adjunct to our SMB sales. 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, thereby allowing us to develop and refine marketing programs for specific industry segments. We market our products and services to executives responsible for the online channel and consumer service operations of their organization. Our focus is on the financial services, retail, telecommunications, technology, and travel/hospitality industries, as well as SMBs. Our integrated marketing strategy includes 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 efforts in support of our consumer operations are focused on generating increased traffic to the LivePerson website primarily through paid and organic search, affiliate programs, display advertising and direct email. We are continually developing relationships with online publishers whose audiences have an affinity towards the services offered by Experts. By providing the Experts with tools to self-promote their live advice services on LivePerson through blogs and social media, we also receive qualified traffic through these channels. We also work to maximize the rate of conversion of this traffic into either paying Users or active Experts.

Our marketing strategy also encompasses public relations. As a result of relationships developed with the media and industry analyst community, we gain positive media and editorial coverage. Other initiatives include securing public speaking opportunities, case studies and bylined articles featuring key executives and customers, which helps raise LivePerson's profile and reinforces our position as an industry leader. We also proactively facilitate formal and informal interaction among our most accomplished customers, enabling us to expand our role as one of their key strategic partners.

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 RightNow Technologies (recently acquired by Oracle Corporation), 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. We believe that as the scope, size and sophistication of our customers' requirements increases, our competitors' relative strengths as compared to our offerings declines. 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 and Yahoo Answers. The consumer operations also compete with niche players offering advice in specific vertical categories.

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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 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.

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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
- 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 collocation 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.

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, content and quality of products and services, taxation, advertising, 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 to comply with applicable laws. Interpretation of user privacy and data protection laws, and their application to the Internet in the U.S. and foreign jurisdictions is ongoing. 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 of data. 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. If the scope of this type of 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 generally. Some jurisdictions are considering whether the collection of even anonymous data may invade the privacy of Web site visitors. If laws that limit data collection practices are enacted, 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 collection of 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.

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Businesses using our products may collect personal information from their web users when those web users contact them with inquiries. Federal, state and foreign government bodies and agencies, however, have adopted and are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers. When required, we use a variety of data security procedures and practices such as encryption and masking algorithms to comply with applicable regulations, and encourage our customers to do the same. Changes to applicable laws and or interpretation thereof could significantly increase the economic burden to us of such compliance, and could negatively impact our business. The European Union and many countries within the European Union have adopted privacy directives or have imposed restrictions on the collection and use 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 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:

- proposed regulations regarding cybersecurity 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. While there are currently many proposals by lawmakers and industry in this area that address the collection, maintenance and use of personal information, Web browsing and geolocation data, and establish data security and breach notification procedures, and several of those proposals, if adopted, would not be expected to materially impact our business, this is an evolving and unsettled area of regulation and 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 restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from children under 13. Today, our policies limit use of our consumer-facing site to adults over 18 years of age; and
- the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or 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.

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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. The Company monitors pending legislation and regulatory initiatives to ascertain relevance, analyze impact and develop strategic direction surrounding regulatory trends and developments.

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 technological and creative skills of our personnel, new service developments, frequent enhancements and reliable maintenance are more essential to establishing and maintaining a competitive advantage. Others may develop technologies that are similar or superior to our technology. We enter into confidentiality and other written agreements with our employees, consultants, customers, potential customers and strategic partners, and through these and other written agreements, we attempt to control access to and distribution of our software, documentation and other proprietary information. Despite our efforts to protect our proprietary rights, third parties may, in an unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop a service with the same functionality as our services. Policing unauthorized use of our services and intellectual property rights is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology or intellectual property rights, particularly in foreign countries where we do business, where our services are sold or used, where the laws may not protect proprietary rights as fully as do the laws of the United States or where enforcement of laws protecting proprietary rights is not common or effective.

Substantial litigation regarding intellectual property rights exists in the software industry. In the ordinary course of our business, our services have been and may be increasingly subject to third-party infringement claims as claims by non-practicing entities become more prevalent and as the number of competitors in our industry segment grows and the functionality of services in different industry segments overlaps. Some of our competitors in the market for real-time sales, marketing and customer service solutions or other third parties may have filed or may intend to file patent applications covering aspects of their technology. Any claims alleging infringement of third-party intellectual property rights could require us to spend significant amounts in litigation (even if the claim is invalid), distract management from other tasks of operating our business, pay substantial damage awards, prevent us from selling our products, delay delivery of the LivePerson services, develop non-infringing software, technology, business processes, systems or other intellectual property (none of which might be successful), or limit our ability to use the intellectual property that is the subject of any of these claims, unless we enter into license agreements with the third parties (which may be costly, unavailable on commercially reasonable terms, or not available at all). Therefore, such claims could have a material adverse effect on our business, results of operations and financial condition.

Employees

As of March 1, 2012, we had 524 full-time employees. Our employees are not covered by collective bargaining agreements. We believe our relations with our employees are satisfactory.

Website Access to Reports

We make available, free of charge, on our website (www.liveperson.com), our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the Securities and Exchange Commission. *The Company's web site address provided above is not intended to function as a hyperlink, and the information on the Company's web site is not and should not be considered part of this Annual Report on Form 10-K and is not incorporated by reference herein.*

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Item 1A. Risk Factors

The following are certain of the important risk factors that could cause, or contribute to causing, our actual operating results to differ materially from those indicated, expected or suggested by forward-looking statements made in this Annual Report on Form 10-K or presented elsewhere by management from time to time. The risks described below are not the only ones we face. Additional risks not presently known to us, or that we currently deem immaterial, may become important factors that impair our business operations. Prospective and existing investors are strongly urged to carefully consider the various cautionary statements and risks set forth in this report and other public filings before deciding to purchase, hold or sell our common stock.

Risks Related to Our Business

Our quarterly revenue and operating results may be subject to significant fluctuations, which may adversely affect the trading price of our common stock.

Although we achieved profitability in 2011, we may in the future incur losses and experience negative cash flow, either or both of which may be significant and may cause our quarterly revenue and operating results to fluctuate significantly. These fluctuations may be as a result of a variety of factors, including the following factors which are in part within our control, and in part outside of our control:

- continued adoption by companies doing business online of real-time sales, marketing and customer service solutions;
- continued adoption by individual Experts and consumers of online real-time advice services;
- changes in our pricing models, policies or the pricing policies of our current and future competitors;
- our customers' business success;
- our customers' demand for our services;
- consumer demand for our services;
- our ability to attract and retain customers;
- the amount and timing of capital expenditures and other costs relating to the expansion of our operations, including those related to acquisitions; and
- the introduction of new services by us or our competitors.

Our revenue and results may also fluctuate significantly in the future due to the following factors that are entirely outside of our control:

- economic conditions specific to the Internet, electronic commerce and online media; and
- general economic and political conditions.

Period-to-period comparisons of our operating results may not be meaningful because of these factors. You should not rely upon these comparisons as indicators of our future performance.

Due to the foregoing factors, it is possible that our results of operations in one or more future quarters may fall below the expectations of securities analysts and investors. If this occurs, the trading price of our common stock could decline.

The ongoing global economic downturn may adversely affect our business and results of operations.

The U.S. and other global economies have continued to experience an economic downturn that has affected all sectors of the economy, particularly in the financial services and retail industries, resulting in declines in economic growth and consumer confidence, increases in unemployment rates and uncertainty about economic stability. Global credit and financial markets have also experienced extreme disruptions, including diminished liquidity and credit availability and rapid fluctuations in market valuations. Our business has been affected by these conditions, and there is no certainty that economic conditions will not deteriorate further.

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These uncertainties affect businesses such as ours in a number of ways, making it difficult to accurately forecast and plan our future business activities.

Weak economic conditions may also cause our customers to experience difficulty in supporting their current operations and implementing their business plans. Our customers may reduce their spending on our services, may not be able to discharge their payment and other obligations to us, may experience difficulty raising capital, or may elect to scale back the resources they devote to customer service and/or sales and marketing technology, including services such as ours. The economic condition may also lead consumers and businesses to continue to postpone spending, which may cause our customers to decrease or delay their purchases of our products and services. If the current economic conditions continue or further deteriorate for us or our customers, we could be required to record charges relating to restructuring costs or the impairment of assets, may not be able to collect receivables on a timely basis, and our business, financial condition and results of operations could be materially adversely affected.

If we are not competitive in the markets for online sales, marketing and customer service solutions, or online consumer services, our business could be harmed.

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. Established or new entities may enter the market in the near future, including those that provide solutions for real-time interaction online, or online consumer services related to real-time advice.

We compete directly with companies focused on technology that facilitates real-time sales, email management, searchable knowledgebase applications and customer service interaction. These markets remain fairly saturated with small companies that compete on price and features. We face significant competition from online interaction solution providers, including SaaS providers such as RightNow Technologies (recently acquired by Oracle Corporation), Talisma, eGain and TouchCommerce. 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. Furthermore, many of our competitors offer a broader range of customer relationship management products and services than we currently offer. We may be disadvantaged and our business may be harmed if companies doing business online choose real-time sales, marketing and customer service solutions from such providers.

Finally, we compete with customers and potential customers that choose to provide a real-time sales, marketing and customer service solution in-house as well as, to a lesser extent, traditional offline customer service solutions, such as telephone call centers.

We believe that competition will increase as our current competitors increase the sophistication of their offerings and as new participants enter the market. As compared to our company, some of our larger current and potential competitors have:

- greater brand recognition;
- more diversified lines of products and services; and
- significantly 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. These competitors may be able to:

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

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Any change in the general market acceptance of the real-time sales, marketing and customer service solution business model or in online, real-time consumer advice services may harm our competitive position. Such changes may allow our competitors additional time to improve their service or product offerings, and would also provide time for new competitors to 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 pressures, reduced operating margins and loss of market share.

The success of our business is dependent on the retention of existing customers and their purchase of additional services, as well as attracting new customers and consumer users to our consumer services.

Our business services agreements typically have twelve month terms. In some cases, our agreements are terminable or may terminate upon 30 to 90 days' notice without penalty. If a significant number of our customers, or any one client to whom we provide a significant amount of services, were to terminate services, or reduce the amount of services purchased or fail to purchase additional services, our results of operations may be negatively and materially affected. Dissatisfaction with the nature or quality of our services could also lead customers to terminate our service. We depend on monthly fees and interaction-based fees from our services for substantially all of our revenue. If our retention rate declines, our revenue could decline unless we are able to obtain additional customers or alternate revenue sources. Because of the historically small amount of services sold in initial orders, we depend on the growth of our customer base and sales to new customers and sales of additional services to our existing customers.

New and developing regulatory or other legal requirements could materially impact our business.

We, and our customers, are subject to a number of foreign and domestic laws and regulations that apply to the conduct of business on the Internet such as, but not limited to, laws and regulations relating to user privacy, data privacy, content, advertising, information security and intellectual property rights. We post on our web site our privacy policies and practices concerning the use and disclosure of user data, and we observe data security protocols and other business practices to comply with applicable laws. Interpretation of user privacy and data protection laws, and their application to the Internet in the U.S. and foreign jurisdictions is ongoing. 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 of data. 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. If the scope of this type of 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 generally. Some jurisdictions are considering whether the collection of even anonymous data may invade the privacy of Web site visitors. If laws that limit data collection practices are enacted, 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 collection of 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.

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Proposed regulations regarding cybersecurity 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 ratcheted up its enforcement actions against companies that fail to live up to their privacy or data security commitments to consumers. While there are currently many proposals by lawmakers and industry in this area that address the collection, maintenance and use of personal information, Web browsing and geolocation data, and establish data security and breach notification procedures, and several of those proposals, if adopted, would not be expected to materially impact our business, this is an evolving and unsettled area of regulation and 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 restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from children under 13. Today, our policies limit use of our consumer-facing site to adults over 18 years of age.

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.

If our goodwill becomes impaired, we may be required to record a charge to earnings.

Under accounting principles generally accepted in the U.S., we review our goodwill for impairment at least annually and when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill may not be recoverable include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in our industry. In December 2008, we recorded a \$23.5 million impairment charge in connection with the Kasamba Inc. acquisition. From time to time, we may be required to record additional charges to earnings in our financial statements during the period in which any impairment of our goodwill is determined, which may negatively impacting our results of operations.

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We are exposed to currency rate fluctuations and our results of operations may be affected as a result.

Although the functional currency of our Israeli subsidiaries is the U.S. dollar, as a result of the expanding 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 has increased. In addition, the functional currency of our operations in the U.K. is the U.K. pound. Conducting business in currencies other than the U.S. dollar subjects us to fluctuations in currency exchange rates that could adversely affect our results of operations. Fluctuations in the value of the U.S. dollar relative to other foreign currencies affect our revenue, cost of revenue and operating expenses, and result in foreign currency transaction gains and losses. Currently, we are not a party to any hedging transactions intended to reduce our exposure to exchange rate fluctuations for our international operations. We may seek to enter into hedging transaction in the future, but we may be unable to enter into those transactions successfully, on acceptable terms or at all. We cannot predict whether or not we will incur foreign exchange losses in the future. To the extent the international component of our revenues grows, our results of operations will become more sensitive to foreign exchange rate fluctuations.

We could face 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.

In October 2007, we acquired Kasamba Inc., an Israeli-based provider of a platform for online, real-time expert advice. In October 2000, we acquired HumanClick, an Israeli-based provider of real-time online customer service applications. In addition, we have established a sales, marketing and client support presence in the United Kingdom in support of expansion efforts into Western Europe, and have integrated the United Kingdom operations of Proficient Systems into that office. There are risks related to doing business in international markets as well as in the online consumer market, such as changes in regulatory requirements, tariffs and other trade barriers, fluctuations in currency exchange rates, more stringent rules relating to the privacy of Internet users and adverse tax consequences. In addition, there are likely to be different consumer preferences and requirements in specific international markets. Furthermore, we may face difficulties in staffing and managing any foreign operations. One or more of these factors could harm any future international operations.

We may be unable to respond to the rapid technological change and changing client preferences in the online sales, marketing, customer service, and/or online consumer services industries and this may harm our business.

If we are unable, for technological, legal, financial or other reasons, to adapt in a timely manner to changing market conditions in the online sales, marketing, customer service and/or e-commerce industry or our customers' or Internet users' requirements or preferences, our business, results of operations and financial condition would be materially and adversely affected. Business on the Internet is characterized by rapid technological change. In addition, the market for online sales, marketing, customer service and expert advice solutions is relatively new. Sudden changes in client and Internet user requirements and preferences, frequent new product and service introductions embodying new technologies, such as broadband communications, and the emergence of new industry standards and practices such as but not limited to security standards could render the LivePerson services and our proprietary technology and systems obsolete. The rapid evolution of these products and services will require that we continually improve the performance, features and reliability of our services. Our success will depend, in part, on our ability to:

- enhance the features and performance of our services;
- develop and offer new services that are valuable to companies doing business online as well as Internet users; and
- respond to technological advances and emerging industry standards and practices in a cost-effective and timely manner.

If any of our new services, including upgrades to our current services, do not meet our customers' or Internet users' expectations, our business may be harmed. Updating our technology may require significant additional capital expenditures and could materially and adversely affect our business, results of operations and financial condition.

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If new services require us to grow rapidly, this could place a significant strain on our managerial, operational, technical and financial resources. In order to manage our growth, we could be required to implement new or upgraded operating and financial systems, procedures and controls. Our failure to expand our operations in an efficient manner could cause our expenses to grow, our revenue to decline or grow more slowly than expected and could otherwise have a material adverse effect on our business, results of operations and financial condition.

Our business is significantly dependent on our ability to retain our current key personnel, to attract new personnel, and to manage staff attrition.

Our future success depends to a significant extent on the continued services of our senior management team. The loss of the services of any member of our senior management team could have a material and adverse effect on our business, results of operations and financial condition. We cannot assure you that we would be able to successfully recruit and integrate newly-hired senior managers who would work together successfully with our existing management team.

We may be unable to attract, integrate or retain other highly qualified employees in the future. If our retention efforts are ineffective, employee turnover could increase and our ability to provide services to our customers would be materially and adversely affected. Furthermore, the requirement to expense stock options may discourage us from granting the size or type of stock option awards that job candidates may require to join our company.

Any staff attrition we experience, whether initiated by the departing employees or by us, could place a significant strain on our managerial, operational, financial and other resources. To the extent that we do not initiate or seek any staff attrition that occurs, there can be no assurance that we will be able to identify and hire adequate replacement staff promptly, if at all, and even that if such staff is replaced, we will be successful in integrating these employees. In addition, we may not be able to outsource certain functions. We expect to evaluate our needs and the performance of our staff on a periodic basis, and may choose to make adjustments in the future. If the size of our staff is significantly reduced, either by our choice or otherwise, it may become more difficult for us to manage existing, or establish new, relationships with customers and other counter-parties, or to expand and improve our service offerings. It may also become more difficult for us to implement changes to our business plan or to respond promptly to opportunities in the marketplace. Further, it may become more difficult for us to devote personnel resources necessary to maintain or improve existing systems, including our financial and managerial controls, billing systems, reporting systems and procedures. Thus, any significant amount of staff attrition could cause our business and financial results to suffer.

We may be unsuccessful in expanding our operations internationally, which could adversely affect our results of operations.

During the past decade, we have completed acquisitions outside the United States. We have also continued to invest in expansion of operations in the United Kingdom, Europe, Israel and the Asia-Pacific region. Our ability to continue our international expansion involves various risks, including the possibility that returns on such investments will not be achieved in the near future, or ever, and the difficulty of competing in markets with which we are unfamiliar.

Our international operations may also fail due to other risks inherent in foreign operations, including:

- varied, unfamiliar and unclear legal and regulatory restrictions, including different legal and regulatory standards applicable to Internet services, communications, privacy, and data protection;
- difficulties in staffing and managing foreign operations;
- differing intellectual property laws that may not provide sufficient protection for our intellectual property;
- adverse tax consequences;
- difficulty in addressing country-specific business requirements and regulations;
- fluctuations in currency exchange rates;

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- strains on financial and other systems to properly administer VAT and other taxes; and
- legal, political or systemic restrictions on the ability of U.S. companies to do business in foreign countries.

Our current and any future international expansion plans will require management attention and resources and may be unsuccessful. We may find it impossible or prohibitively expensive to continue expand internationally or we may be unsuccessful in our attempt to do so, and our results of operations could be adversely impacted.

If we do not successfully integrate past or potential future acquisitions, our business could adversely impacted.

We have made several acquisitions during the past decade. In April 2010, we acquired NuConomy Ltd., an Israeli-based development-stage company. In October 2007, we acquired Kasamba Inc., an Israeli-based provider of a platform for online, real-time expert advice. In July 2006, we acquired Proficient Systems, Inc., a U.S. provider of hosted proactive chat solutions that help companies generate revenue on their websites. In the future, we may acquire or invest in complementary companies, products or technologies. Acquisitions and investments involve numerous risks to us, including:

- difficulties in integrating operations, technologies, products and personnel with LivePerson;
- diversion of financial and management resources from efforts related to the LivePerson services or other pre-existing operations;
- risks of entering new markets beyond providing real-time sales, marketing and customer service solutions for companies doing business online;
- potential loss of either our existing key employees or key employees of any companies we acquire; and
- our inability to generate sufficient revenue following an acquisition to offset acquisition or investment costs.

These difficulties could disrupt our ongoing business, expose us to unexpected costs, distract our management and employees, increase our expenses and adversely affect our results of operations. Furthermore, we may incur debt or issue equity securities to pay for any future acquisitions. The issuance of equity securities could be dilutive to our existing stockholders.

We are dependent on technology systems and third-party content that are beyond our control.

The success of our services depends in part on our customers' online services as well as the Internet connections of visitors to websites, both of which are outside of our control. As a result, it may be difficult to identify the source of problems if they occur. In the past, we have experienced problems related to connectivity which has resulted in slower than normal response times to Internet user chat requests and messages and interruptions in service. Our services rely both on the Internet and on our connectivity vendors for data transmission. Therefore, even when connectivity problems are not caused by our services, our customers or Internet users may attribute the problem to us. This could diminish our brand and harm our business, divert the attention of our technical personnel from our product development efforts or cause significant client relations problems.

In addition, we rely in part on third-party service providers and other third parties for Internet connectivity and network infrastructure hosting, security and maintenance. These providers may experience problems that result in slower than normal response times and/or interruptions in service. If we are unable to continue utilizing the third-party services that support our Web hosting and infrastructure or if our services experience interruptions or delays due to third party providers, our reputation and business could be harmed.

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We also rely on the security of our third party providers to protect our proprietary information and information of our customers. Information technology system failures, including a breach of our or our third party providers' data security, could disrupt our ability to function in the normal course of business by potentially causing, among other things, an unintentional disclosure of customer our information. Additionally, despite our security procedures or those of our third party providers, information systems may be vulnerable to threats such as computer hacking, cyber-terrorism or other unauthorized attempts by third parties to access, modify or delete our or our customers' personal information. Any such breach could have a material adverse effect on our operating results and our reputation as a provider of business collaboration and communications solutions.

We also depend on third parties for hardware and software and our consumer services depend on third parties for content. Such products and content could contain defects or inaccurate information. Problems arising from our use of such hardware or software or third party content could require us to incur significant costs or divert the attention of our technical or other personnel from our product development efforts or to manage issues related to content. To the extent any such problems require us to replace such hardware or software we may not be able to do so on acceptable terms, if at all.

Failures or breaches in our services, those of our third party providers, or in the websites of our customers, including those resulting from security vulnerabilities, defects or errors, could harm our business.

While we continue to expand our focus on this issue and are taking measures to safeguard our services from cybersecurity threats, device capabilities continue to evolve, enabling more data and processes, such as mobile computing, potentially increasing the risk that security failures will occur are increasing. Our products are inherently complex and may contain defects or errors that are detected only when the products are in use. Because our services are responsible for critical communication between our customers and consumers, security failures, defects or errors in our components, materials or software or those used by our customers could have an adverse impact on us, on our customers and on the end users of their websites. Such adverse impact could include a decrease in demand for our services, damage to our reputation and to our customer relationships, and other financial liability or harm to our business.

Privacy concerns relating to the Internet could result in new legislation, negative public perception and/or user behavior that negatively affect our business.

We collect data from live online Internet user dialogues and enable our customers to capture and save information about their Internet user interactions. To the extent that additional legislation regarding Internet user privacy is enacted, such as legislation governing the collection and use of information regarding Internet users through the use of cookies, the effectiveness of the LivePerson services could be impaired by restricting us from collecting information which may be valuable to our customers. The foregoing could have a material adverse effect our business, results of operations and financial condition.

In addition, privacy concerns may cause Internet users to avoid online sites that collect such behavioral information and even the perception of security and privacy concerns, whether or not valid, may indirectly inhibit market acceptance of our services. In addition, we or our customers may be harmed by any laws or regulations that restrict the ability to collect, transmit or use this data. The European Union and many countries within the E.U. have adopted privacy directives or laws that strictly regulate the collection and use of personally identifiable information of Internet users. The United States has also adopted legislation which governs the collection and use of certain personal information, such as the Children's Online Privacy Protection Act which directs the U.S. Federal Trade Commission to regulate the collection of data from children on commercial websites. The U.S. Federal Trade Commission has also taken action against website operators who do not comply with their stated privacy policies. Furthermore, other foreign jurisdictions have adopted legislation governing the collection and use of personal information. These and other governmental efforts may limit our customers' ability to collect and use information about their interactions with their Internet users through our services. As a result, such laws and efforts could create uncertainty in the marketplace that could reduce demand for our services or increase the cost of doing business as a result of litigation costs or increased service delivery costs, or could in some other manner have a material adverse effect on our business, results of operations and financial condition.

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We may be liable if third parties misappropriate personal information belonging to our customers' Internet users.

The dialogue transcripts of the text-based chats and email interactions between our customers and Internet users may include personal information, such as contact and demographic information. Although we employ and continually test and update our security measures to protect this information from unauthorized access, it is still possible that our security measures could be breached and such a breach could result in unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information. Because the techniques employed by hackers to obtain unauthorized access or to sabotage systems change frequently and are becoming more sophisticated, we may be unable to anticipate all techniques or to implement adequate preventative measures. Any security breach could result in disclosure of our trade secrets or disclosure of confidential customer, supplier or employee data. If third parties were able to penetrate our network security or otherwise misappropriate personal information relating to our customers' Internet users or the text of customer service inquiries, our competitive position may be harmed and we could be subject to liability. We could be subject to negligence claims or claims for misuse of personal information. These claims could result in litigation, which could have a material adverse effect on our business, results of operations and financial condition. We may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by such breaches. The need to physically secure and securely transmit confidential information online has been a significant barrier to e-commerce and online communications. Any well-publicized compromise of security could deter people from using online services such as the ones we offer or from using them to conduct transactions, which involve transmitting confidential information. Because our success depends on the general acceptance of our services and electronic commerce, we may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by these breaches.

We may be subject to legal liability and/or negative publicity for the services provided to consumers via our technology platforms.

Our technology platforms enable representatives of our customers as well as individual service providers to communicate with consumers and other persons seeking information or advice on the Internet. The law relating to the liability of online platform providers such as us for the activities of users of their online platforms is often challenged in the U.S. and internationally. We may be unable to prevent users of our technology platforms from providing negligent, unlawful or inappropriate advice, information or content via our technology platforms, or from behaving in an unlawful manner, and we may be subject to allegations of civil or criminal liability for negligent, fraudulent, unlawful or inappropriate activities carried out by users of our technology platforms.

Claims could be made against online services companies under both U.S. and foreign law such as fraud, defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated by users of our technology platforms. In addition, domestic and foreign legislation has been proposed that could prohibit or impose liability for the transmission over the Internet of certain types of information. Our defense of any of these actions could be costly and involve significant time and attention of our management and other resources.

The Digital Millennium Copyright Act, or DMCA, is intended, among other things, to reduce the liability of online service providers for listing or linking to third party Web properties that include materials that infringe copyrights or rights of others. Additionally, portions of The Communications Decency Act, or CDA, are intended to provide statutory protections to online service providers who distribute third party content. A safe harbor for copyright infringement is also available under the DMCA to certain online service providers that provide specific services, if the providers take certain affirmative steps as set forth in the DMCA. Important questions regarding the safe harbor under the DMCA and the CDA have yet to be litigated, and we cannot guarantee that we will meet the safe harbor requirements of the DMCA or of the CDA. If we are not covered by a safe harbor, for any reason, we could be exposed to claims, which could be costly and time-consuming to defend.

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Our consumer service allows consumers to provide feedback regarding service providers. Although all such feedback is generated by users and not by us, claims of defamation or other injury could be made against us for content posted on our websites. Our liability for such claims may be higher in jurisdictions outside the U.S. where laws governing Internet transactions are unsettled.

If we become liable for information provided by our users and carried via our service in any jurisdiction in which we operate, we could be directly harmed and we may be forced to implement new measures to reduce our exposure to this liability. In addition, the increased attention focused upon liability issues as a result of these lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this potential liability could harm our business.

In addition, negative publicity and user sentiment generated as a result of fraudulent or deceptive conduct by users of our technology platforms could damage our reputation, reduce our ability to attract new users or retain our current users, and diminish the value of our brand.

In the future, we may be required to spend substantial resources to take additional protective measures or discontinue certain service offerings, either of which could harm our business. Any costs incurred as a result of potential liability relating to the sale of unlawful services or the unlawful sale of services could harm our business.

In addition to privacy legislation, any new legislation or regulation regarding the Internet, software sales or export and/or the Software-as-a-Service industry, and/or the application of existing laws and regulations to the Internet, software sales or export, and/or the Software-as-a-Service industry could create new legal or regulatory burdens on our business that could have a material adverse effect on our business, results of operations and financial condition. Additionally, as we operate outside the U.S., the international regulatory environment relating to the Internet, software sales or export, and/or the Software-as-a-Service industry could have a material adverse effect on our business, results of operations and financial condition.

Our products and services may infringe upon intellectual property rights of third parties and any infringement could require us to incur substantial costs and may distract our management.

We are subject to the risk of claims alleging infringement of third-party proprietary rights against us or against our customers for use of our products. Certain of our customer contracts contain indemnification obligations requiring us to indemnify our customers from certain claims arising from the use of our services. Substantial litigation regarding intellectual property rights exists in the software industry. In the ordinary course of our business, our services and/or our customers' use of our services may be increasingly subject to third-party infringement claims as claims by non-practicing entities become more prevalent and the number of competitors in our industry segment grows and the functionality of services in different industry segments overlaps. Some of our competitors in the market for real-time sales, marketing and customer service solutions or other third parties may have filed or may intend to file patent applications covering aspects of their technology. Any claims alleging infringement of third-party intellectual property rights could require us to spend significant amounts in litigation (even if the claim is invalid), distract management from other tasks of operating our business, pay substantial damage awards, prevent us from selling our products, delay delivery of the LivePerson services, develop non-infringing software, technology, business processes, systems or other intellectual property (none of which might be successful), or limit our ability to use the intellectual property that is the subject of any of these claims, unless we enter into license agreements with the third parties (which may be costly, unavailable on commercially reasonable terms, or not available at all). Therefore, such claims could have a material adverse effect on our business, results of operations and financial condition.

Our business and prospects would suffer if we are unable to protect and enforce our intellectual property rights.

Our success and ability to compete depend, in part, upon the protection of our intellectual property rights relating to the technology underlying the LivePerson services. It is possible that:

- any issued patent or patents issued in the future may not be broad enough to protect our intellectual property rights;

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- any issued patent or any patents issued in the future could be successfully challenged by one or more third parties, which could result in our loss of the right to prevent others from exploiting the inventions claimed in the patents;
- current and future competitors may independently develop similar technologies, duplicate our services or design around any patents we may have; and
- effective patent protection may not be available in every country in which we do business, where our services are sold or used, where the laws may not protect proprietary rights as fully as do the laws of the U.S. or where enforcement of laws protecting proprietary rights is not common or effective.

Further, to the extent that the invention described in any U.S. patent was made public prior to the filing of the patent application, we may not be able to obtain patent protection in certain foreign countries. We also rely upon copyright, trade secret, trademark and other common law in the U.S. and other jurisdictions, as well as confidentiality procedures and contractual provisions, to protect our proprietary technology, processes and other intellectual property. Any steps we might take may not be adequate to protect against infringement and misappropriation of our intellectual property by third parties. Similarly, third parties may be able to independently develop similar or superior technology, processes or other intellectual property. Policing unauthorized use of our services and intellectual property rights is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology or intellectual property rights, particularly in foreign countries where we do business, where our services are sold or used, where the laws may not protect proprietary rights as fully as do the laws of the United States or where enforcement of laws protecting proprietary rights is not common or effective. The unauthorized reproduction or other misappropriation of our intellectual property rights could enable third parties to benefit from our technology without paying us for it. If this occurs, our business, results of operations and financial condition could be materially and adversely affected. In addition, disputes concerning the ownership or rights to use intellectual property could be costly and time-consuming to litigate, may distract management from operating our business and may result in our loss of significant rights.

Technological or other defects could disrupt or negatively impact our services, which could harm our business and reputation.

We face risks related to the technological capabilities of our services. We expect the number of interactions between our customers' operators and Internet users over our system to increase significantly as we expand our client base. Our network hardware and software may not be able to accommodate this additional volume. Additionally, we must continually upgrade our software to improve the features and functionality of our services in order to be competitive in our markets. If future versions of our software contain undetected errors, our business could be harmed. If third-party content is flawed, our business could be harmed. As a result of major software upgrades at LivePerson, our client sites have, from time to time, experienced slower than normal response times and interruptions in service. If we experience system failures or degraded response times, our reputation and brand could be harmed. We may also experience technical problems in the process of installing and initiating the LivePerson services on new Web hosting services. These problems, if not remedied, could harm our business.

Our services also depend on complex software which may contain defects, particularly when we introduce new versions onto our servers. We may not discover software defects that affect our new or current services or enhancements until after they are deployed. It is possible that, despite testing by us, defects may occur in the software. These defects could result in:

- damage to our reputation;
- lost sales;
- delays in or loss of market acceptance of our products; and
- unexpected expenses and diversion of resources to remedy errors.

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The non-payment or late payment of amounts due to us from a significant number of customers may negatively impact our financial condition or make it difficult to forecast our revenues accurately.

During 2011, we increased our allowance for doubtful accounts by \$290,000 to approximately \$851,000, principally due to an increase in accounts receivable as a result of increased sales and, to a lesser extent, to an increase in the proportion of receivables due from customers with greater credit risk. We wrote off approximately \$163,000 of previously reserved accounts, leaving a net allowance for doubtful accounts of approximately \$688,000. A larger proportion of receivables are due from larger corporate customers that typically have longer payment cycles. During 2010, we increased our allowance for doubtful accounts by \$166,000 to approximately \$561,000, principally due to an increase in accounts receivable as a result of increased sales and, to a lesser extent, to an increase in the proportion of receivables due from customers with greater credit risk. As a result of increasingly long payment cycles, we have faced increased difficulty in predicting our operating results for any given period, and have experienced significant unanticipated fluctuations in our revenues from period to period. Any failure to achieve anticipated revenues in a period could cause our stock price to decline.

Our services are subject to payment-related risks.

For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our profit margins. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards and it could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers or facilitate other types of online payments, and our business and operating results could be adversely affected.

Through our consumer-facing platform, we facilitate online transactions between individual service providers who provide online advice and information to consumers. In connection with these services, we accept payments using a variety of methods, such as credit card, debit card and PayPal. These payments are subject to “chargebacks” when consumers dispute payments they have made to us. Chargebacks can occur whether or not services were properly provided. Susceptibility to chargebacks puts a portion of our revenue at risk. We take measures to manage our risk relative to chargebacks and to recoup properly charged fees, however, if we are unable to successfully manage this risk our business and operating results could be adversely affected. As we offer new payment options to our users, we may be subject to additional regulations, compliance requirements, and fraud.

We are also subject to a number of other laws and regulations relating to money laundering, international money transfers, privacy and information security and electronic fund transfers. If we were found to be in violation of applicable laws or regulations, we could be subject to civil and criminal penalties or forced to cease our payments services business.

We have a history of losses, we had an accumulated deficit of \$88.1 million as of December 31, 2011 and we may incur losses in the future.

Although we achieved profitability in 2011, we may, in the future, incur losses and experience negative cash flow, either or both of which may be significant. We recorded net losses from inception through the year ended December 31, 2003. We recorded net income for the years ended December 31, 2004 through 2007 and 2009 through 2011.

We recorded a net loss of \$23.8 million for the year ended December 31, 2008. As of December 31, 2011, our accumulated deficit was approximately \$88.1 million. We cannot assure you that we can sustain or increase profitability on a quarterly or annual basis in the future. Failure to maintain profitability may materially and adversely affect the market price of our common stock.

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With the recent volatility in the capital markets, there is a risk that we could suffer a loss of principal in our cash and cash equivalents and short term investments and suffer a reduction in our interest income or in our return on investments.

As of December 31, 2011, we had \$93.3 million in cash and cash equivalents. We regularly invest excess funds from our cash and cash equivalents in short-term money market funds. We currently hold no mortgaged-backed or auction rate securities. However, some of our investments are subject to general credit, liquidity, market and interest rate risks, which may be exacerbated by the ongoing uncertainty in the U.S. and global credit markets that have affected various sectors of the financial markets and caused global credit and liquidity issues. In the future, these market risks associated with our investment portfolio may harm the results of our operations, liquidity and financial condition. Although we believe we have chosen a more cautious portfolio designed to preserve our existing cash position, it may not adequately protect the value of our investments. Furthermore, this more cautious portfolio is unlikely to provide us with any significant interest income in the near term.

We cannot assure our stockholders that our current or future stock repurchase programs will enhance/has enhanced long-term stockholder value and stock repurchases could increase the volatility of the price of our common stock and will diminish our cash reserves.

On May 14, 2010, our Board of Directors approved a stock repurchase program through June 30, 2012. Under the program, we are authorized to repurchase shares of our common stock, in the open market or privately negotiated transactions, at times and prices considered appropriate by them depending upon prevailing market conditions and other corporate considerations, up to an aggregate purchase price of \$10.0 million. The timing and actual number of shares repurchased depend on a variety of factors including the timing of open trading windows, price, corporate and regulatory requirements, and other market conditions. The program may be suspended or discontinued at any time without prior notice. Repurchases pursuant to our stock repurchase program could affect our stock price and increase its volatility. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, our stock repurchase program will diminish our cash reserves, which could impact our ability to pursue possible future strategic opportunities and acquisitions and could result in lower overall returns on our cash balances. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of stock. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness. As of March 1, 2012, approximately \$6.4 million remained available for purchases under the program.

Failure to license necessary third party software for use in our products and services, or failure to successfully integrate third party software, could cause delays or reductions in our sales, or errors or failures of our service.

We license third party software that we plan to incorporate into our products and services. In the future, we might need to license other software to enhance our products and meet evolving customer requirements. These licenses may not continue to be available on commercially reasonable terms or at all. Some of this technology could be difficult to replace once integrated. The loss of, or inability to obtain, these licenses could result in delays or reductions of our applications until we identify, license and integrate or develop equivalent software, and new licenses could require us to pay higher royalties. If we are unable to successfully license and integrate third party technology, we could experience a reduction in functionality and/or errors or failures of our products, which may reduce demand for our products and services.

Third-party licenses may expose us to increased risks, including risks associated with the integration of new technology, the impact of new technology integration on our existing technology, the diversion of resources from the development of our own proprietary technology, and our inability to generate revenue from new technology sufficient to offset associated acquisition and maintenance costs.

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We believe our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Accounting principles generally accepted in the U.S. are subject to interpretation by the FASB, the American Institute of Certified Public Accountants, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

Our reputation depends, in part, on factors which are partially or entirely outside of our control.

Our services typically appear under the LivePerson brand or as a LivePerson-branded icon on our customers' websites. The customer service operators who respond to the inquiries of our customers' Internet users are employees or agents of our customers; they are not our employees. The experts who respond to the inquiries of Internet users are independent consultants or agents of our customers; they are not our employees. As a result, we are not able to control the actions of these operators or experts. In addition, an Internet user may not know that the operator or expert is not a LivePerson employee. If an Internet user were to have a negative experience in a LivePerson-powered real-time dialogue, it is possible that this experience could be attributed to us, which could diminish our brand and harm our business. Finally, we believe the success of our business services is aided by the prominent placement of the chat icon on a customer's website, over which we also have no control.

Our products are complex, and errors, failures or "bugs" may be difficult to correct.

Our products are complex, integrating hardware, software and elements of a customers' existing infrastructure. Despite quality assurance testing conducted prior to the release of our products our software may contain "bugs" that are difficult to detect and fix. Any such issues could interfere with the expected operation of a solution, which might negatively impact customer satisfaction, reduce sales opportunities or affect gross margins. Depending upon the size and scope of any such issue, remediation may have a negative impact on our business. Our inability to cure an application or product defect, should one occur, could result in the failure of an application or product line, damage to our reputation, litigation and/or product reengineering expenses. Our insurance may not cover or may be insufficient to cover expenses associated with such events.

Political, economic and military conditions in Israel could negatively impact our Israeli operations

Our product development staff, help desk and online sales support operations are located in Israel. As of December 31, 2011, we had 290 full-time employees in Israel. Although substantially all of our sales to date have been made to customers outside Israel, we are directly influenced by the political, economic and military conditions affecting Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has caused security and economic problems in Israel. Since September 2000, there has been a marked increase in violence, civil unrest and hostility, including armed clashes, between the State of Israel and the Palestinians, primarily but not exclusively in the West Bank and Gaza Strip, and negotiations between the State of Israel and Palestinian representatives have effectively ceased. The election of representatives of the Hamas movement to a majority of seats in the Palestinian Legislative Council in January 2006 created additional unrest and uncertainty in the region. In July and August of 2006, Israel was involved in a full-scale armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group and political party, in southern Lebanon, which involved missile strikes against civilian targets in northern Israel that resulted in economic losses. Since June 2007, there has been an escalation in violence in the Gaza Strip. In December 2008 and January 2009, Israel engaged in an armed conflict with Hamas, which involved civilian targets in various parts of Israel and negatively affected business conditions in Israel. Recent popular uprisings in various countries in the Middle East and northern Africa are affecting the political stability of those countries. This instability may lead to deterioration of the political and trade relationships that exist between the State of Israel and these countries, as well as potentially affecting the global economy and marketplace through changes in oil and gas prices. In addition, Iran has publicly threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region, such

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as Hamas in Gaza and Hezbollah in Lebanon. This situation may potentially escalate in the future to violent events which may negatively affect Israel. Continued hostilities between Israel and its neighbors and any future armed conflict, terrorist activity or political instability in the region could adversely affect our operations in Israel and adversely affect the market price of our ordinary shares. Further escalation of tensions or violence might require more widespread military reserve service by some of our Israeli employees and might result in a significant downturn in the economic or financial condition of Israel, either of which could have a material adverse effect on our operations in Israel and our business. In addition, several Arab countries still restrict business with Israeli companies. Our operations in Israel could be adversely affected by restrictive laws or policies directed towards Israel and Israeli businesses.

Capital needs necessary to execute our business strategy could increase substantially and we may not be able to secure additional financing to execute this strategy.

We believe that our current cash and cash equivalents and cash generated from operations, if any, will be sufficient to fund our working capital and capital expenditure requirements for at least the next twelve months. To the extent that we require additional funds to support our operations or the expansion of our business, or to pay for acquisitions, we may need to sell additional equity, issue debt or convertible securities or obtain credit facilities through financial institutions. In the past, we have obtained financing principally through the sale of preferred stock, common stock and warrants. If additional funds are raised through the issuance of debt or preferred equity securities, these securities could have rights, preferences and privileges senior to holders of common stock, and could have terms that impose restrictions on our operations. If additional funds are raised through the issuance of additional equity or convertible securities, our stockholders could suffer dilution. We cannot assure you that additional funding, if required, will be available to us in amounts or on terms acceptable to us. If sufficient funds are not available or are not available on acceptable terms, our ability to fund any potential expansion, take advantage of acquisition opportunities, develop or enhance our services or products, or otherwise respond to competitive pressures would be significantly limited. Those limitations would materially and adversely affect our business, results of operations and financial condition.

Risks Related to Our Industry

Future regulation of the Internet may slow our growth, resulting in decreased demand for our services and increased costs of doing business.

State, federal and foreign regulators could adopt laws and regulations that impose additional burdens on companies that conduct business online. These laws and regulations could discourage communication by e-mail or other web-based communications, particularly targeted e-mail of the type facilitated by our services, which could reduce demand for our services.

The growth and development of the market for online services may prompt calls for more stringent consumer protection laws or laws that may inhibit the use of Internet-based communications or the information contained in these communications. The adoption of any additional laws or regulations may decrease the expansion of the Internet. A decline in the growth of the Internet, particularly as it relates to online communication, could decrease demand for our services and increase our costs of doing business, or otherwise harm our business. Any new legislation or regulations, application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or application of existing laws and regulations to the Internet and other online services could increase our costs and harm our growth.

We depend on the continued viability of the infrastructure of the Internet.

To the extent that the Internet continues to experience growth in the number of users and frequency of use by consumers resulting in increased bandwidth demands, we cannot assure you that the infrastructure for the Internet will be able to support the demands placed upon it. The Internet has experienced outages and delays as a result of damage to portions of its infrastructure. Outages or delays could adversely affect online sites, email and the level of traffic on the Internet. We also depend on Internet service providers that provide our customers and Internet users with access to the LivePerson services. In the past, users have experienced difficulties due to system failures unrelated to our service. In addition, the Internet could lose its viability due to delays in the adoption of new standards and protocols required to handle increased levels of Internet

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activity. Insufficient availability of telecommunications services to support the Internet also could result in slower response times and negatively impact use of the Internet generally, and our customers' sites (including the LivePerson dialogue windows) in particular. If the infrastructure of the Internet does not effectively support the growth of the Internet, we may not maintain profitability and our business, results of operations and financial condition will suffer.

We are dependent on the continued growth and acceptance of the Internet as a medium for commerce, and the related expansion of the Internet infrastructure.

We cannot be sure that a sufficiently broad base of consumers will continue to use the Internet as a medium for commerce. Convincing our customers to offer real-time sales, marketing and customer service technology may be difficult. The continuation of the Internet as a viable commercial marketplace is subject to a number of factors, including:

- continued growth in the number of users;
- concerns about transaction security or security problems such as “viruses” and “worms” or hackers;
- concerns about cybersecurity attacks or the security of confidential information online;
- continued development of the necessary technological infrastructure;
- development of enabling technologies;
- uncertain and increasing government regulation; and
- the development of complementary services and products.

Other Risks

Our stock price has been highly volatile and may experience extreme price and volume fluctuations in the future, which could reduce the value of your investment and subject us to litigation.

Fluctuations in market price and volume are particularly common among securities of Internet and other technology companies. The market price of our common stock has fluctuated significantly in the past and may continue to be highly volatile, with extreme price and volume fluctuations, in response to the following factors, some of which are beyond our control:

- variations in our quarterly operating results;
- changes in market valuations of publicly-traded companies in general and Internet and other technology companies in particular;
- our announcements of significant client contracts, acquisitions and our ability to integrate these acquisitions, strategic partnerships, joint ventures or capital commitments;
- our failure to complete significant sales;
- additions or departures of key personnel;
- future sales of our common stock;
- changes in financial estimates by securities analysts; and
- terrorist attacks against the United States, in Israel, or in the United Kingdom, the engagement in hostilities or an escalation of hostilities by or against the United States, Israel, or the United Kingdom, or the declaration of war or national emergency by the United States, Israel, or the United Kingdom.

In the past, companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation. We may in the future be the target of similar litigation, which could result in substantial costs and distract management from other important aspects of operating our business.

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Our common stock is traded on more than one market and this may result in price variations.

Shares of our common stock are currently traded on the Nasdaq Capital Market and the Tel Aviv Stock Exchange (“TASE”). Trading in our common stock on these markets takes place in different currencies (U.S. dollars on the Nasdaq and NIS on the TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). The trading prices of our common stock on these two markets may differ due to these and other factors. Any decrease in the trading price of our common stock on one of these markets could cause a decrease in the trading price of our common stock on the other market. Differences in trading prices on the two markets could negatively impact our trading price.

Our stockholders who each own greater than five percent of the outstanding common stock and our named executive officers and directors will be able to influence matters requiring a stockholder vote.

Our stockholders who each own greater than five percent of the outstanding common stock and their affiliates, and our named executive officers and directors, in the aggregate, and as of December 31, 2011, beneficially own approximately 41% of our outstanding common stock. As a result, these stockholders, if acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership could also have the effect of delaying or preventing a change in control.

The future sale of shares of our common stock may negatively affect our stock price.

If our stockholders sell substantial amounts of our common stock, including shares issuable upon the exercise of outstanding options and warrants in the public market, or if our stockholders are perceived by the market as intending to sell substantial amounts of our common stock, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. No prediction can be made as to the effect, if any, that market sales of our common stock will have on the market price of our common stock.

Anti-takeover provisions in our charter documents and Delaware law may make it difficult for a third party to acquire us.

Provisions of our amended and restated certificate of incorporation, such as our staggered Board of Directors, the manner in which director vacancies may be filled and provisions regarding the calling of stockholder meetings, could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders. In addition, provisions of our amended and restated bylaws, such as advance notice requirements for stockholder proposals, and applicable provisions of Delaware law, such as the application of business combination limitations, could impose similar difficulties. Further, provisions of our amended and restated certificate of incorporation relating to directors, stockholder meetings, limitation of director liability, indemnification and amendment of the certificate of incorporation and bylaws may not be amended without the affirmative vote of not less than 66.67% of the outstanding shares of our capital stock entitled to vote generally in the election of directors (considered for this purpose as a single class) cast at a meeting of our stockholders called for that purpose. Our amended and restated bylaws may not be amended without the affirmative vote of at least 66.67% of our Board of Directors or without the affirmative vote of not less than 66.67% of the outstanding shares of our capital stock entitled to vote generally in the election of directors (considered for this purpose as a single class) cast at a meeting of our stockholders called for that purpose.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently lease approximately 18,500 square feet at our headquarters location in New York City, under a lease expiring in April 2020. In March 2012, we modified our existing lease for additional office space of approximately 18,500 also expiring in April 2020. We also lease approximately 4,500 square feet of office space in San Francisco under a lease expiring in October 2013.

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Two of our wholly-owned subsidiaries, LivePerson Ltd. (formerly HumanClick Ltd.) and Kasamba, Ltd., maintain offices in Raanana, Israel of approximately 54,000 square feet, under leases expiring in December 2015.

Our wholly-owned subsidiary, Proficient Systems, Inc. maintains offices in Atlanta, Georgia of approximately 9,000 square feet, under a lease expiring in November 2015.

Our wholly-owned subsidiary, LivePerson (UK) Ltd. maintains offices in Reading, United Kingdom of approximately 1,000 square feet, under a lease expiring in May 2012.

We also lease space for our primary and back-up hosting facilities at separate locations in the continental U.S and Europe.

We believe that our properties are in good condition, are well maintained and are suitable and adequate to carry on our operations for the foreseeable future.

Item 3. Legal Proceedings

On July 31, 2007, we were served with a complaint filed in the United States District Court for the Southern District of New York by the Shareholders' Representative of Proficient Systems, Inc. In connection with the July 2006 acquisition of Proficient, we were contingently required to issue up to 2,050,000 shares of common stock based on the terms of an earn-out provision in the merger agreement. In accordance with the terms of the earn-out provision, we issued 1,127,985 shares of LivePerson common stock in the second quarter of 2007 to the former shareholders of Proficient. The amended complaint filed by the Shareholders' Representative, or Plaintiff, on May 12, 2009 alleges that we breached the merger agreement by failing to properly account for net annualized revenue, and demands payment of damages on the grounds that substantially all of the remaining contingently issuable earn-out shares should have been paid. We believe the claims are without merit. The case proceeded to trial, which ended on November 4, 2010. Post-trial filings were made on November 19, 2010. The Court has still not issued its ruling in this case. In the event that the Court finds in whole or in part for Plaintiff, we would be required to pay monetary damages in the amount held by the Court to have been underpaid in the earn-out. We are presently unable to reasonably estimate the amount of actual damages, if any, that will be awarded by the Court. If the Court were to find in favor of Plaintiff on every claim at issue in the litigation, the maximum potential damages award would be approximately \$6.0 million. Should we be required to pay any damages award, the associated payment would be allocated to goodwill in connection with Proficient acquisition.

On November 3, 2010, Gemini IP LLC filed an amended complaint in a suit pending in the United States District Court for the Eastern District of Texas, adding patent infringement allegations against us and various other defendants, including LANDesk Software, Inc., Saba Software, Inc., Genesys S.A. d/b/a Genesys Conferencing, Genesys Conferencing, Inc., Avaya Inc., Best Buy Co., Inc., Bomgar Corporation, ConnectWise, Inc., Elsinore Technologies Inc., GFI Software Ltd., GFI USA, Inc., GFI Software Development, Ltd., LogMeIn, Inc., N-able Technologies Incorporated, NTR Global, Venti Solutions, LLC, Zoho Corporation, Zenith Infotech Ltd., International Business Machines Corp., Samsung Electronics America, Inc., Samsung Electronics Co., Ltd., Samsung Telecommunications America, LLC, AT&T, Inc., Sony Corporation, and Sony Corporation of America. On August 26, 2011, Gemini and LivePerson jointly filed a motion asking the Court to dismiss all claims with prejudice. The Court has not yet ruled on that motion.

On June 15, 2011, we filed suit against Lodsys, LLC, in the United States District Court for the Northern District of Illinois, seeking a declaratory judgment that our products do not infringe four patents which Lodsys had previously asserted were infringed by our customers, as well as a declaratory judgment that those four patents are invalid. On July 5, 2011, Lodsys moved to dismiss the Illinois case based on lacking personal jurisdiction, and also countersued us and other plaintiffs in similarly-situated declaratory judgment actions, including DriveTime Automotive Group, Inc., ESET, LLC, ForeSee Results, LLC, OpinionLab, Inc., and The New York Times Company, in the United States District Court for the Eastern District of Texas. In the Texas case, Lodsys alleges that we infringe one of the patents involved in the co-pending Illinois case, and seeks damages for past infringement, and an injunction against future infringement. We believe Lodsys's claims are without merit. On October 25, 2011 the Court granted the parties' joint motion to transfer the cases from Illinois to the Eastern District of Wisconsin, and all pending motions were withdrawn, including Lodsys's

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pending motion to dismiss. On January 6, 2012 Lodsys filed a motion to dismiss the Wisconsin case, or, in the alternative, for a more definite statement. On January 27, 2012 we filed an amended complaint in the Wisconsin case. On February 10, 2012 Lodsys filed a motion to dismiss the Wisconsin case, or, in the alternative, to transfer or stay. On January 23, 2012, we moved to dismiss the Texas case in favor of the first-filed Wisconsin case. On February 9, 2012 Lodsys filed its opposition to the Cour motion, and we filed our reply on February 21, 2012. This motion is fully briefed.

On February 7, 2012, we filed suit against Pragmatus Telecom LLC in the District of Delaware, seeking a declaratory judgment that the our products do not infringe three patents owned by Pragmatus which Pragmatus had previously asserted were infringed by certain of our customers, as well as a declaratory judgment that those four patents are invalid.

Although we do not currently expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect our operating results or cash flows in a particular period. 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 other legal proceedings arising in the ordinary course of its business, which may arise from direct legal claims brought by or against us, or from claims brought against our customers for which we have a contractual indemnification obligation.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

The principal United States market on which our common stock is traded is The Nasdaq Capital Market of The Nasdaq Stock Market under the symbol LPSN. Our shares of common stock are also traded on the Tel Aviv Stock Exchange.

The following table sets forth, for each full quarterly period within the two most recent fiscal years, the high and low sales prices (in U.S. dollars per share) of our common stock as reported or quoted on The Nasdaq Capital Market:

	High	Low
Year ended December 31, 2011:		
First Quarter	\$ 12.67	\$ 9.72
Second Quarter	\$ 14.14	\$ 10.46
Third Quarter	\$ 14.71	\$ 9.95
Fourth Quarter	\$ 13.52	\$ 9.22
Year ended December 31, 2010:		
First Quarter	\$ 8.13	\$ 5.85
Second Quarter	\$ 8.94	\$ 5.99
Third Quarter	\$ 8.77	\$ 6.10
Fourth Quarter	\$ 11.75	\$ 8.47

Holders

As of February 28, 2012, there were approximately 186 holders of record of our common stock.

Dividends

We have not declared or paid any cash dividends on our capital stock since our inception. We intend to retain earnings, if any, to finance the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

Issuer Purchases of Equity Securities

On May 14, 2010, our Board of Directors approved a stock repurchase program through June 30, 2012.

The following table summarizes repurchases of our common stock under our stock repurchase program during the quarter ended December 31, 2011:

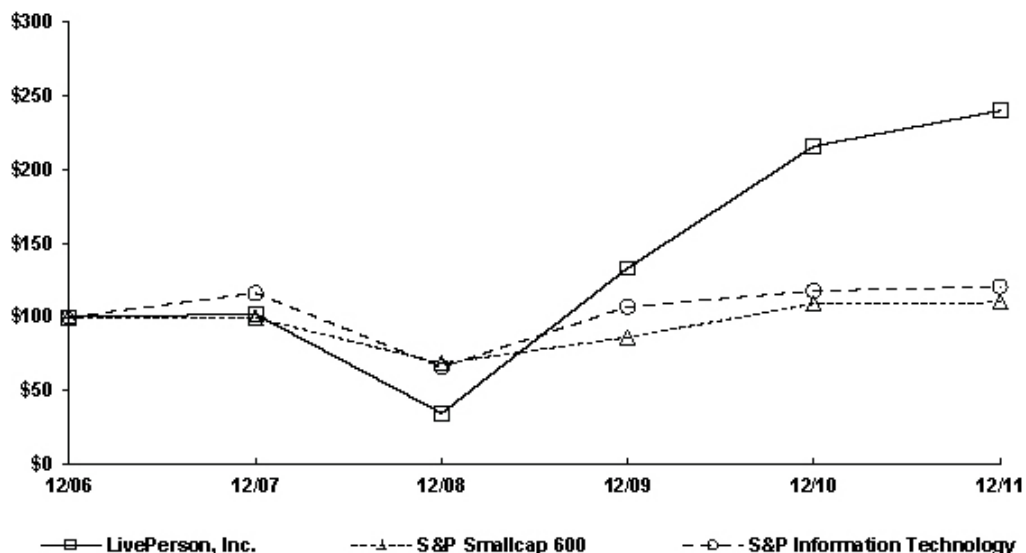
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
10/1/2011 – 10/31/2011	—	\$ —	—	\$ 6,365,000
11/1/2011 – 11/30/2011	—	—	—	6,365,000
12/1/2011 – 12/31/2011	—	—	—	6,365,000
Total	—	\$ —	—	\$ 6,365,000

(1) Under the stock repurchase program, we are authorized to repurchase shares of our common stock, in the open market or privately negotiated transactions, at times and prices considered appropriate by our Board of Directors depending upon prevailing market conditions and other corporate considerations, up to an aggregate purchase price of \$10.0 million. As of March 1, 2012, approximately \$6.4 million remained available for purchases under the program.

Stock Performance Graph

The graph depicted below compares the annual percentage changes in the LivePerson's cumulative total stockholder return with the cumulative total return of the Standard & Poor's SmallCap 600 Index and the Standard & Poor's Information Technology Index.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Live Person, Inc., the S&P Smallcap 600 Index,
and the S&P Information Technology Index



* \$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.
 Fiscal year ending December 31.

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Notes:

- (1) The graph covers the period from December 31, 2006 to December 31, 2011.
- (2) The graph assumes that \$100 was invested at the market close on December 31, 2006 in LivePerson's Common Stock, in the Standard & Poor's SmallCap 600 Index and in the Standard & Poor's Information Technology Index, and that all dividends were reinvested. No cash dividends have been declared on LivePerson's Common Stock.
- (3) Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate by reference this Annual Report on Form 10-K or future filings made by the Company under those statutes, the Stock Performance Graph above is not deemed filed with the Securities and Exchange Commission, is not deemed soliciting material and shall not be deemed incorporated by reference into any of those prior filings or into any future filings made by us under those statutes, except to the extent that we specifically incorporate such information by reference into a previous or future filing, or specifically requests that such information be treated as soliciting material, in each case under those statutes.

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Item 6. Selected Consolidated Financial Data

The selected consolidated financial data with respect to our consolidated balance sheets as of December 31, 2011 and 2010 and the related consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009 have been derived from our audited consolidated financial statements which are included herein. The selected financial data with respect to our balance sheets as of December 31, 2009, 2008 and 2007 and the related statements of operations for the years ended December 31, 2008 and 2007 have been derived from our audited financial statements which are not included herein. Due to our acquisitions of NuConomy in April 2010 and Kasamba in October 2007, we believe that comparisons of our operating results with each other, or with those of prior periods, may not be meaningful. The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto and the information contained in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In Thousands, Except Share and per Share Data)				
Consolidated Statement of Operations Data:					
Revenue	\$ 133,089	\$ 109,862	\$ 87,490	\$ 74,655	\$ 52,228
Operating expenses:					
Cost of revenue	33,195	29,640	21,076	20,307	13,534
Product development	20,222	15,711	12,111	12,899	9,032
Sales and marketing	38,884	32,835	27,355	26,124	16,124
General and administrative	21,044	17,077	13,417	13,042	9,208
Amortization of intangibles	109	259	745	1,407	1,116
Goodwill impairment	—	—	—	23,501	—
Total operating expenses	113,454	95,522	74,704	97,280	49,014
Income (loss) from operations	19,635	14,340	12,786	(22,625)	3,214
Other (expense) income:					
Financial (expense)	(548)	(106)	(80)	(376)	(18)
Interest income	63	99	94	329	914
Total other (expense) income, net	(485)	(7)	14	(47)	896
Income (loss) before (provision for) benefit from income taxes	19,150	14,333	12,800	(22,672)	4,110
(Provision for) benefit from income taxes ⁽¹⁾	(7,112)	(5,074)	(5,037)	(1,165)	1,711
Net income (loss) attributable to common stockholders	\$ 12,038	\$ 9,259	\$ 7,763	\$ (23,837)	\$ 5,821
Basic net income (loss) per common share	\$ 0.23	\$ 0.18	\$ 0.16	\$ (0.50)	\$ 0.13
Diluted net income (loss) per common share	\$ 0.22	\$ 0.18	\$ 0.16	\$ (0.50)	\$ 0.12
Weighted average shares outstanding used in basic net income (loss) per common share calculation	52,876,999	50,721,880	47,962,688	47,428,251	43,696,378
Weighted average shares outstanding used in diluted net income (loss) per common share calculation	55,008,742	52,907,541	49,008,440	47,428,251	46,814,080

(1) For the year ended December 31, 2007, the benefit from income taxes is related to the release of the Company’s valuation allowance against deferred tax assets.

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	December 31,				
	2011	2010	2009	2008	2007
	(In Thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 93,278	\$ 61,336	\$ 45,572	\$ 25,500	\$ 26,222
Working capital	96,354	61,600	39,996	19,924	17,641
Total assets	166,051	131,143	104,281	81,948	102,488
Total stockholders' equity	137,698	104,643	81,137	63,583	84,712

Item 7. 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 consolidated financial statements, which are prepared in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that management believes are reasonable based upon the information available. We base these estimates on our historical experience, future expectations and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments that may not be readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. These estimates and assumptions relate to estimates of the carrying amount of goodwill, intangibles, stock based-compensation, valuation allowances for deferred income taxes, accounts receivable, the expected term of a client relationship, accruals and other factors. We evaluate these estimates on an ongoing basis. Actual results could differ from those estimates under different assumptions or conditions, and any differences could be material.

Overview

LivePerson provides online engagement solutions that facilitate real-time assistance and expert advice. We are organized into two operating segments: Business and Consumer. The Business segment facilitates real-time online interactions — chat, voice/click-to-call, email and self-service/knowledgebase for global corporations of all sizes. The Consumer segment facilitates online transactions between independent service providers (“Experts”) and individual consumers (“Users”) seeking help on the Web. We were incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced initially in November 1998.

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 sales agents, and we have recently established a midmarket sales group focused on adding new customers that are larger than our typical SMB customers, but smaller than our typical enterprise customers. We have also expanded our efforts to retain existing SMB 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 engagement and chat transcript text analysis. Over time, we expect to develop and launch additional capabilities that leverage our existing market position as a leader in proactive, intelligence-driven online engagement.
- *Creating and Supporting an Open Development Platform.* We have recently introduced an open development platform capability, supported by a community of developers and developer tools that enable third-party developers to create and deliver new applications that leverage our existing customer base and proactive engagement technology. By creating and supporting this platform, we expect to enable both independent developers and research and development personnel within our customer base to accelerate their product development and innovation, and to expand the value and usage of our current and future products and capabilities.

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- *Expanding our international presence.* We continue to increase our investment in sales and support personnel in the United Kingdom, 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.

Financial Overview for the Three and Twelve Months Ended December 31, 2011

Financial overview of the three and twelve months ended December 31, 2011 compared to the comparable periods in 2010 are as follows:

- Revenue increased 22% and 21% to \$36.5 million and \$133.1 million in the three and twelve months ended December 31, 2011, respectively from \$29.9 million and \$109.9 million in the comparable periods in 2010.
- Gross profit margin increased to 78% and 75% in the three and twelve months ended December 31, 2011 from 72% and 73% in the in the comparable periods in 2010.
- Operating expenses increased 18% and 19% to \$30.4 million and \$113.5 million in the three and twelve months ended December 31, 2011, respectively from \$25.8 million and \$95.5 million in the comparable periods in 2010.
- We incurred financial expense of \$132,000 and \$548,000 in the three and twelve months ended December 31, 2011, respectively from \$59,000 and \$106,000 in the comparable periods in 2010.
- Net income increased 41% to \$3.9 million in the three months ended December 31, 2011 from net income of \$2.7 million for the three months ended December 31, 2010. Net income increased 30% to \$12.0 million in the twelve months ended December 31, 2011 from net income of \$9.3 million for the twelve months ended December 31, 2010.

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 ("PFP") arrangements, we recognize revenue net of the labor provider's fee in accordance with ASC 605-45, "Principal Agent Considerations," due primarily to the fact that the call center labor vendor is the primary obligor with respect to the labor services provided. Additionally, we perform as an agent without risk of loss for collection and do not bear inventory risk with respect to the outsourced labor services. Finally, we do not provide any part of the labor services, have no latitude in establishing prices for the labor services and generally do not have discretion in selecting the vendor.

The majority of our larger customers also pay a professional services fee related to implementation. We defer these implementation fees and associated direct costs and recognize them ratably over the expected term of the client relationship upon commencement of the hosting services. We may also charge professional service fees related to additional training, business consulting and analysis in support of the LivePerson services.

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We also sell certain of the LivePerson services directly via Internet download. These services are marketed as LivePerson Pro and LivePerson Contact Center for small and mid-sized businesses (“SMBs”), and are paid for almost exclusively by credit card. Credit card payments accelerate cash flow and reduce our collection risk, subject to the merchant bank’s right to hold back cash pending settlement of the transactions. Sales of LivePerson Pro and LivePerson Contact Center may occur with or without the assistance of an online sales representative, rather than through face-to-face or telephone contact that is typically required for traditional direct sales.

We recognize monthly service revenue based upon the fee charged for the LivePerson services, provided that there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed or determinable. Our service agreements typically have twelve month terms and are terminable 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 in accordance with FASB Accounting Standards Update 2009-13. This guidance 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) estimates. If a professional services arrangement does not qualify for separate accounting, we recognize the fees, and the related labor costs, ratably over a period of 48 months, representing our current estimate of the term of the client relationship.

For revenue 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.

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 December 31, 2011, there was approximately \$26.5 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 2.2 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. Our concentration of credit risk is limited due to our large number of customers; 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 consolidated financial statements. No single customer accounted for or exceeded 10% of our total revenue in 2011, 2010 and 2009. One customer accounted for approximately 18% and 22% of accounts receivable at December 31, 2011 and 2010, respectively. We increased our allowance for doubtful accounts by \$290,000 to approximately \$851,000, principally due to an increase in accounts receivable as a result of increased sales and to a lesser extent, to an increase in the proportion of our receivables due from customers with greater credit risk. We wrote off approximately \$163,000 of previously

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reserved accounts, leaving a net allowance for doubtful accounts of approximately \$688,000. A larger proportion 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) than 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 analyses and consider other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions including projected future cash flows (including timing), discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables.

In the third quarter of 2011, we adopted ASU 2011-08 and determined that it is 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. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying value of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying value or the fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Use of Estimates

The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the U.S. requires our management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of goodwill, intangibles, stock-based compensation, valuation allowances for deferred income tax assets, accounts receivable, the expected term of a customer relationship, accruals and other factors. Actual results could differ from those estimates.

Recently Issued Accounting Standards

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. This ASU is intended to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. An entity is required to apply this amendment for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. ASU No. 2011-11 relates specifically to disclosures, it will not have an impact on our consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This ASU is intended to simplify how entities, test goodwill for impairment. 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, Intangibles — Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. We elected early adoption of this update and it had no impact on our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments to the FASB Accounting Standards Codification (Codification) in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. We are currently assessing the impact of this update on our consolidated financial statements.

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 89% of total revenue for the year ended December 31, 2011. Revenue from our Business segment accounted for 87% and 86% of total revenue for the years ended December 31, 2010 and 2009, respectively. Revenue attributable to our monthly hosted Business services accounted for 94% of total Business revenue for the year ended December 31, 2011. Revenue attributable to our monthly hosted Business services accounted for 95% of total Business revenue for the year ended December 31, 2010. Revenue attributable to our monthly hosted Business services accounted for 96%

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of total Business revenue for the year ended December 31, 2009. 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. This lag has recently ranged from 30 to 90 days.

Revenue from our Consumer segment is generated from online transactions between Experts and Users is recognized net of Expert fees and accounted for approximately 11% of total revenue for the year ended December 31, 2011. Revenue generated from online transactions between Experts and Users accounted for approximately 13% and 14% of total revenue for the years ended December 31, 2010 and 2009, respectively.

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.

Operating Expenses

Our cost of revenue consists of:

- compensation costs relating to employees who provide customer support and implementation services to our customers;
- 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 the consumer and SMB services; and
- amortization of certain intangibles.

Our product development expenses consist primarily of compensation and related expenses for product development personnel, allocated occupancy costs and related overhead, outsourced labor and expenses for testing new versions of our software. Product development expenses are charged to operations as incurred.

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

During 2011, we increased our allowance for doubtful accounts by \$290,000 to approximately \$851,000, principally due to an increase in accounts receivable as a result of increased sales and, to a lesser extent, to an increase in the proportion of receivables due from customers with greater credit risk. We wrote off approximately \$163,000 of previously reserved accounts, leaving a net allowance for doubtful accounts of approximately \$688,000. A larger proportion of receivables are due from larger corporate customers that typically have longer payment cycles. During 2010, we increased our allowance for doubtful accounts by \$166,000 to approximately \$561,000, principally due to an increase in accounts receivable as a result of increased 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.

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Non-Cash Compensation Expense

The net non-cash compensation amounts for the years ended December 31, 2011, 2010 and 2009 consist of:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
		(In Thousands)	
Stock-based compensation expense related to ASC 718-10	\$ 6,771	\$ 5,142	\$ 4,726
Total	\$ 6,771	\$ 5,142	\$ 4,726

Results of Operations

The Company is organized into two operating segments. The Business segment facilitates real-time online interactions — chat, voice/click-to-call, email and self-service/knowledgebase for global corporations of all sizes. The Consumer segment facilitates online transactions between Experts and Users.

Comparison of Fiscal Years Ended December 31, 2011 and 2010

Revenue — Business. Revenue increased by 24% to \$118.6 million for the year ended December 31, 2011, from \$95.7 million for the year ended December 31, 2010. This increase is primarily attributable to revenue from new customers in the amount of approximately \$11.3 million and, to a lesser extent, to revenue from existing customers who increased their use of our services in the amount of approximately \$9.4 million, net of cancellations, as well as an increase in professional services revenue of approximately \$2.2 million. Our revenue growth has traditionally been driven by a mix of revenue from new customers as well as expanding business and revenue from existing customers.

Revenue — Consumer. Revenue increased by 2% to \$14.5 million for the year ended December 31, 2011, from \$14.2 million for the year ended December 31, 2010. This increase is primarily attributable to an increase in gross revenue as a result of higher rates charged by experts, partially offset by a decrease in minutes. In addition, net revenue also increased due to 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, the cost of supporting our server and network infrastructure, and allocated occupancy costs and related overhead. Cost of revenue increased by 15% to \$29.8 million in 2011, from \$25.9 million in 2010. This increase in expense is primarily attributable to an increase in total compensation and related costs for additional and existing customer service and network operations personnel in the amount of approximately \$2.6 million and an increase for primary and backup server facilities and allocated overhead related to costs of supporting our server and network infrastructure of approximately \$1.2 million as a result of increased revenue.

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. Cost of revenue decreased by 10% to \$3.4 million in 2011, from \$3.8 million in 2010. This decrease is primarily attributable to the intangible assets related to the Kasamba acquisition that was fully amortized as of September 30, 2011.

Product Development. Our product development expenses consist primarily of compensation and related expenses for product development personnel as well as allocated occupancy costs and related overhead. Product development costs increased by 29% to \$20.2 million in 2011, from \$15.7 million in 2010. This increase is primarily attributable to an increase in compensation and related costs for additional and existing product development personnel of approximately \$4.5 million as a result of our increased efforts to expand our product offerings. We are increasing 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.

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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. Sales and marketing expenses increased by 25% to \$32.7 million in 2011, from \$26.2 million in 2010. This increase is primarily attributable to an increase in compensation and related costs for additional and existing sales and marketing personnel of approximately \$4.6 million, an increase in advertising, public relations and trade show exhibit expenses of approximately \$1.2 million, and an increase in allocated occupancy costs and related overhead in the amount of approximately \$593,000. This increase relates to our continued efforts to enhance our brand recognition and increase sales lead activity.

Sales and Marketing — Consumer. Our sales and marketing expenses consist of compensation and related expenses for marketing personnel, as well as online promotion and trade show exhibit expenses and allocated occupancy costs and related overhead. Sales and marketing expenses decreased by 7% to \$6.2 million in 2011, from \$6.7 million in 2010. This decrease is primarily attributable to a decrease in compensation and related costs and allocated overhead for additional and existing marketing personnel in the amount of approximately \$554,000.

General and Administrative. Our general and administrative expenses consist primarily of compensation and related expenses for executive, accounting, legal, human resources and administrative personnel, allocated occupancy costs and related overhead, professional fees, provision for doubtful accounts and other general corporate expenses. General and administrative expenses increased by 23% to \$21.0 million in 2011, from \$17.1 million in 2010. This increase is primarily attributable to an increase in compensation and related expenses for additional and existing accounting, legal and human resource personnel in the amount of approximately \$2.3 million and increases in legal and other professional, depreciation, rent and telephone expenses in the amounts of \$1.0 million, \$125,000, \$84,000 and \$82,000, respectively.

Amortization of Intangibles. Amortization expense was \$109,000 for the year ended December 31, 2011 and relates primarily to acquisition costs recorded as a result of our acquisition of NuConomy in April 2010 and to the purchases of patents in August 2009. Amortization expense was \$259,000 for the year ended December 31, 2010 and relates primarily to acquisition costs recorded as a result of our acquisition of Kasamba in October 2007. This decrease is attributable to the fact that the intangible assets related to the Kasamba acquisition were fully amortized in 2010. Additional amortization expense in the amount of \$920,000 and \$1.2 million is included in cost of revenue for the years ended December 31, 2011 and 2010, respectively. Amortization expense is expected to be approximately \$306,000 in the year ended December 31, 2012.

Other (Expense) Income. Financial expense was \$548,000 and \$106,000 in the twelve months ended December 31, 2011 and 2010, respectively. Financial expense is the result of currency rate fluctuations associated with the exchange rate movement of the U.S. dollar against the New Israeli Shekel. Interest income was \$63,000 and \$99,000 in the twelve months ended December 31, 2011 and 2010 respectively, and consists of interest earned on cash and cash equivalents. This decrease is primarily attributable to decrease in short term interest rates partially offset by increases in cash and cash equivalents.

Provision for Income Taxes. For the year ended December 31, 2011, our effective tax rate was 37.1% resulting in a provision for income taxes of \$7.1 million. For the year ended December 31, 2010, our effective tax rate was 35.4% resulting in a provision for income taxes of \$5.1 million in 2010. The increase in effective tax rate is primarily due to a decrease in deductible expenses resulting from disqualifying dispositions from the exercise of incentive stock options in the year ended December 31, 2011.

Net Income. We had net income of \$12.0 million in 2011 compared to net income of \$9.3 million in 2010. Revenue increased \$23.2 million while operating expenses increased by \$17.9 million, contributing to a net increase in income from operations of \$5.3 million.

Comparison of Fiscal Years Ended December 31, 2010 and 2009

Revenue — Business. Revenue increased by 27% to \$95.7 million for the year ended December 31, 2010, from \$75.6 million for the year ended December 31, 2009. This increase is primarily attributable to revenue from new customers in the amount of approximately \$12.0 million and, to a lesser extent, to revenue from existing customers who increased their use of our services in the amount of approximately \$6.9 million, net of cancellations, partially offset by a decrease in professional services revenue of approximately \$1.2 million. Our revenue growth has traditionally been driven by a mix of revenue from new customers as well as expansion from existing customers.

Revenue — Consumer. Revenue increased by 19% to \$14.2 million for the year ended December 31, 2010, from \$11.9 million for the year ended December 31, 2009. This increase is primarily attributable to an increase in gross revenue of approximately \$1.8 million as a result of higher rates charged by Experts. In addition, net revenue also increased due to an increase in the fees we charge Experts of approximately \$500,000.

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, the cost of supporting our server and network infrastructure, and allocated occupancy costs and related overhead. Cost of revenue increased by 48% to \$25.9 million in 2010, from \$17.5 million in 2009. This increase in expense is primarily attributable to an increase for primary and backup server facilities and allocated overhead related to costs of supporting our server and network infrastructure of approximately \$4.1 million as a result of increased revenue and an increase in total compensation and related costs for additional and existing customer service and network operations personnel in the amount of approximately \$4.1 million. The increase in cost of revenue in excess of revenue growth was driven primarily by increased investment in more robust business continuity capabilities within our hosting facilities. In addition, costs related to data collection and storage has increased, as we have improved the scope and quality of the analytical reporting we provide to our larger 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. Cost of revenue increased by 6% to \$3.8 million in 2010, from \$3.6 million in 2009. This increase is primarily attributable to an increase in credit card and transaction processing fees and related costs in the amount of approximately \$97,000 and to an increase in primary and backup server facilities and allocated overhead related to costs of supporting our server and network infrastructure of approximately \$80,000 as a result of increased revenue and an increase in total compensation and related costs for additional and existing customer service and network support personnel in the amount of approximately \$50,000.

Product Development. Our product development expenses consist primarily of compensation and related expenses for product development personnel as well as allocated occupancy costs and related overhead. Product development costs increased by 30% to \$15.7 million in 2010, from \$12.1 million in 2009. This increase is primarily attributable to an increase in compensation and related costs for additional and existing product development personnel as a result of our increased efforts to expand our product offerings of approximately \$3.1 million and allocated occupancy costs and related overhead in the amount of approximately \$477,000. We are increasing 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.

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. Sales and marketing expenses increased by 29% to \$26.2 million in 2010, from \$20.4 million in 2009. This increase is primarily attributable to an increase in compensation and related costs for additional and existing sales and marketing personnel of approximately \$4.9 million, an increase in allocated occupancy costs and related overhead in the amount of

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approximately \$478,000 and an increase in advertising, public relations and trade show exhibit expenses of approximately \$457,000. This increase relates to our continued efforts to enhance our brand recognition and increase sales lead activity.

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, trade show exhibit expenses and allocated occupancy costs and related overhead. Sales and marketing expenses decreased by 5% to \$6.7 million in 2010, from \$7.0 million in 2009. This decrease is primarily attributable to a decrease in advertising and promotional expenses of approximately \$423,000 driven by improved efficiency in search engine optimization partially offset by an increase in compensation and related costs and allocated overhead for additional and existing marketing personnel in the amount of approximately \$69,000.

General and Administrative. Our general and administrative expenses consist primarily of compensation and related expenses for executive, accounting, legal, human resources and administrative personnel. General and administrative expenses increased by 27% to \$17.1 million in 2010, from \$13.4 million in 2009. This increase is primarily attributable to an increase in compensation and related expenses for additional and existing accounting, legal and human resource personnel in the amount of approximately \$1.4 million and increases in rent, legal and other professional, corporate learning and development and telephone in the amounts of \$849,000, \$844,000, \$306,000 and \$257,000, respectively.

Amortization of Intangibles. Amortization expense was \$259,000 and \$745,000 in the years ended December 31, 2010 and 2009, respectively, and relates primarily to acquisition costs recorded as a result of our acquisition of Kasamba in October 2007 and Proficient in July 2006. This decrease is attributable to the fact that the intangible assets related to the Proficient acquisition were fully amortized in 2009. Additional amortization expense in the amount of \$1.2 million is included in cost of revenue for the years ended December 31, 2010 and 2009. Amortization expense is expected to be approximately \$964,000 in the year ended December 31, 2011.

Other (Expense) Income. Financial expense was \$106,000 and \$80,000 in the twelve months ended December 31, 2010 and 2009 respectively, and relates to unfavorable currency rate movements, related to our Israeli operations. Interest income was \$99,000 and \$94,000 in the twelve months ended December 31, 2010 and 2009 respectively, and consists of interest earned on cash and cash equivalents. These increases are primarily attributable to our increases in cash and cash equivalents partially offset to decreases in short term interest rates.

(Provision for) Income Taxes. For the year ended December 31, 2010, our effective tax rate was 35.4% resulting in a provision for income taxes of \$5.1 million. For the year ended December 31, 2009, our effective tax rate was 39.4% resulting in a provision for income taxes of \$5.0 million in 2009. The decrease in effective tax rate is primarily due to an increase in deductible expenses resulting from disqualifying dispositions from the exercise of incentive stock options in the year ended December 31, 2010.

Net Income. We had net income of \$9.3 million in 2010 compared to net income of \$7.8 million in 2009. Revenue increased \$22.4 million while operating expenses increased by \$20.8 million, contributing to a net increase in income from operations of \$1.6 million.

Liquidity and Capital Resources

As of December 31, 2011, we had approximately \$93.3 million in cash and cash equivalents, an increase of approximately \$31.9 million from December 31, 2010. This increase is primarily attributable to net cash provided by operating activities and, to a lesser extent, proceeds from the issuance of common stock in connection with the exercise of stock options by employees and the excess tax benefit from the exercise of employee stock options, partially offset by the purchases of fixed assets for our collocation facility and to the build-out of new office space in New York and Israel. We invest our cash in short-term money market funds.

Net cash provided by operating activities was \$25.1 million in the year ended December 31, 2011 and consisted of net income, non-cash expenses related to ASC-718-10, amortization of intangibles and depreciation and increases in deferred revenue, accounts payable and accrued expenses, deferred income taxes and a decrease in prepaid expenses, partially offset by an increase in accounts receivable. Net cash provided by operating activities was \$15.5 million in the year ended December 31, 2010 and consisted of net income,

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non-cash expenses related to ASC-718-10, amortization of intangibles and depreciation and increases in deferred revenue, accounts payable and accrued expenses, deferred income taxes, partially offset by an increase in accounts receivable, prepaid expenses and other current assets.

Net cash used in investing activities was \$7.3 million in the year ended December 31, 2011 and was due primarily to build-out of new office space in New York and Israel and to a lesser extent, to purchases of fixed assets for our collocation facilities. Net cash used in investing activities was \$8.9 million in the year ended December 31, 2010 and was due primarily to purchase of fixed assets for our collocation facilities.

Net cash provided by financing activities was \$14.3 million in the year ended December 31, 2011 and consisted primarily of the proceeds from the issuance of common stock in connection with the exercise of stock options by employees and the excess tax benefit from exercise of employee stock options. Net cash provided by financing activities was \$9.2 million in the year ended December 31, 2010 and consisted primarily of the proceeds from the issuance of common stock in connection with the exercise of stock options by employees and the excess tax benefit from exercise of employee stock options, partially offset by the repurchase of common stock.

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 intangible assets, as well as non-cash compensation costs. Historically, we incurred significant quarterly net losses from inception through June 30, 2003, significant negative cash flows from operations in our quarterly periods from inception through December 31, 2002 and negative cash flows from operations of \$124,000 in the three month period ended March 31, 2004. As of December 31, 2011, we had an accumulated deficit of approximately \$88.1 million. These losses have been funded primarily through the issuance of common stock in our initial public offering in 2000 and, prior to the initial public offering, the issuance of convertible preferred stock.

We anticipate that our current cash and cash equivalents will be sufficient to satisfy our working capital and capital requirements for at least the next 12 months. However, we cannot assure you that we will not require additional funds prior to such time, and we would then seek to sell additional equity or debt securities through public financings, or seek alternative sources of financing. We cannot assure you that additional funding will be available on favorable terms, when needed, if at all. If we are unable to obtain any necessary additional financing, we may be required to further reduce the scope of our planned sales and marketing and product development efforts, which could materially adversely affect our business, financial condition and operating results. In addition, we may require additional funds in order to fund more rapid expansion, to develop new or enhanced services or products or to invest in complementary businesses, technologies, services or products.

Contractual Obligations and Commitments

We do not have any special purposes entities, and other than operating leases, which are described below. We do not engage in off-balance sheet financing arrangements.

We lease facilities and certain equipment under agreements accounted for as operating leases. These leases generally require us to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the years ended December 31, 2011 and 2010 was approximately \$6.6 million and \$6.4 million, respectively.

As of December 31, 2011, our principal commitments were approximately \$19.1 million under various operating leases, of which approximately \$7.1 million is due in 2012. We currently expect that our principal commitments for the year ending December 31, 2012 will not exceed \$8.0 million in the aggregate.

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Our contractual obligations at December 31, 2011 are summarized as follows:

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Operating leases	\$ 19,096	\$ 7,126	\$ 9,398	\$ 1,752	\$ 820
Total	\$ 19,096	\$ 7,126	\$ 9,398	\$ 1,752	\$ 820

Capital Expenditures

During 2007, we began to build a collocation facility in the eastern U.S. to host the Business and Consumer services. During 2010, the Company began to build additional collocation facilities in Europe to host the LivePerson and Consumer services. Through December 31, 2011, we spent approximately \$21.4 million for servers, network components and related hardware and software. Though we expect to incur additional costs in 2012 related to the continued build-out of our collocation facilities and similar backup facilities to support disaster recovery capabilities in the U.S and U.K, our total capital expenditures are not currently expected to exceed \$10.0 million in 2012. We anticipate that our current cash and cash equivalents from operations will be sufficient to complete the build-out.

Indemnifications

We enter into service and license agreements in the ordinary course of business. Pursuant to some of these agreements, we agree to indemnify certain customers from and against certain types of claims and losses suffered or incurred by them as a result of using our products.

We also have agreements whereby our executive officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at our request in such capacity. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a directors and officers insurance policy that reduces our exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. Currently, we have no liabilities recorded for these agreements as of December 31, 2011.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Currency Rate Fluctuations

As a result of the expanding 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. For the year ended December 31, 2011, the U.S dollar appreciated approximately 8% as compared to the NIS. This fluctuation decreased the value of our NIS deposits which caused a non-cash re-measurement charge in the amount of \$548,000. For the year ended December 31, 2011, expenses generated by our Israeli operations totaled approximately \$37.8 million. We do not currently hedge our foreign currency risk exposure. We actively monitor the movement of the U.S. dollar against the NIS and U.K. pound 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 in the future 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 and the functional currency of our operations in the United Kingdom is the U.K. pound.

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 2011, we increased our allowance for doubtful accounts \$290,000 to approximately \$851,000, principally due to an increase in accounts receivable as a result of increased sales and, to a lesser extent, to an increase in the proportion of our receivables due from customers with greater credit risk. We wrote off approximately \$163,000 of previously reserved accounts, leaving a net allowance for doubtful accounts of approximately \$688,000. A larger proportion of receivables are due from larger corporate customers that typically have longer payment cycles. During 2010, we increased our allowance for doubtful accounts by \$166,000 to approximately \$561,000, principally due to an increase in accounts receivable as a result of increased sales. A larger proportion of receivables are due from larger corporate customers that typically have longer payment cycles.

Interest Rate Risk

Our investments consist of cash and cash equivalents. Therefore, changes in the market's interest rates do not affect in any material respect the value of the investments as recorded by us.

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Item 8. Consolidated Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
LivePerson, Inc.
New York, NY

We have audited the accompanying consolidated balance sheets of LivePerson, Inc. as of December 31, 2011 and 2010 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LivePerson, Inc. at December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), LivePerson, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 13, 2012 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York
March 13, 2012

LIVEPERSON, INC.

CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share and per Share Data)

	December 31,	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 93,278	\$ 61,336
Accounts receivable, net of allowance for doubtful accounts of \$688 and \$561, in 2011 and 2010, respectively	20,999	16,491
Prepaid expenses and other current assets	5,390	6,341
Deferred tax assets, net	2,342	1,529
Total current assets	122,009	85,697
Property and equipment, net	13,879	12,762
Intangibles, net	1,095	2,124
Goodwill	24,090	24,015
Deferred tax assets, net	2,829	3,876
Deferred implementation costs, net of current	247	164
Security deposits	356	499
Other assets	1,546	2,006
Total assets	<u>\$ 166,051</u>	<u>\$ 131,143</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,258	\$ 6,416
Accrued expenses	12,019	12,111
Deferred revenue	5,378	5,570
Total current liabilities	25,655	24,097
Deferred revenue, net of current	1,152	513
Other liabilities	1,546	1,890
Total liabilities	<u>28,353</u>	<u>26,500</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value per share; 5,000,000 shares authorized, 0 shares issued and outstanding at December 31, 2011 and 2010	—	—
Common stock, \$.001 par value per share; 100,000,000 shares authorized, 54,090,344 shares issued and outstanding at December 31, 2011; 51,753,842 shares issued and outstanding at December 31, 2010	54	52
Additional paid-in capital	226,113	205,063
Accumulated deficit	(88,135)	(100,173)
Accumulated other comprehensive loss	(334)	(299)
Total stockholders' equity	<u>137,698</u>	<u>104,643</u>
Total liabilities and stockholders' equity	<u>\$ 166,051</u>	<u>\$ 131,143</u>

See accompanying notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Share and per Share Data)

	Year Ended December 31,		
	2011	2010	2009
Revenue	\$ 133,089	\$ 109,862	\$ 87,490
Operating expenses:			
Cost of revenue	33,195	29,640	21,076
Product development	20,222	15,711	12,111
Sales and marketing	38,884	32,835	27,355
General and administrative	21,044	17,077	13,417
Amortization of intangibles	109	259	745
Total operating expenses	113,454	95,522	74,704
Income from operations	19,635	14,340	12,786
Other (expense) income:			
Financial expense	(548)	(106)	(80)
Interest income	63	99	94
Total other (expense) income, net	(485)	(7)	14
Income before provision for income taxes	19,150	14,333	12,800
Provision for income taxes	7,112	5,074	5,037
Net income	12,038	9,259	7,763
Basic net income per common share	\$ 0.23	\$ 0.18	\$ 0.16
Diluted net income per common share	\$ 0.22	\$ 0.18	\$ 0.16
Weighted average shares outstanding used in basic net income per common share calculation	52,876,999	50,721,880	47,962,688
Weighted average shares outstanding used in diluted net income per common share calculation	55,008,742	52,907,541	49,008,440

See accompanying notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31,		
	2011	2010	2009
Net income	\$ 12,038	\$ 9,259	\$ 7,763
Foreign currency translation adjustment	(35)	(127)	(34)
Comprehensive income	<u>\$ 12,003</u>	<u>\$ 9,132</u>	<u>\$ 7,729</u>

See accompanying notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands, Except Share Data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2008	47,357,017	\$ 47	\$ 180,869	\$ (117,195)	\$ (138)	\$ 63,583
Repurchase of common stock	(16,223)	—	(28)	—	—	(28)
Common stock issued upon exercise of stock options	2,094,888	2	4,189	—	—	4,191
Stock-based compensation	—	—	4,726	—	—	4,726
Tax benefit from exercise of employee stock options	—	—	936	—	—	936
Net Income	—	—	—	7,763	—	7,763
Other comprehensive loss	—	—	—	—	(34)	(34)
Balance at December 31, 2009	49,435,682	49	190,692	(109,432)	(172)	81,137
Repurchase of common stock	(534,496)	—	(3,649)	—	—	(3,649)
Common stock issued upon exercise of stock options	2,843,547	3	11,407	—	—	11,410
Stock-based compensation	—	—	5,142	—	—	5,142
Common stock issued under Employee Stock Purchase Plan	9,109	—	74	—	—	74
Tax benefit from exercise of employee stock options	—	—	1,397	—	—	1,397
Net income	—	—	—	9,259	—	9,259
Other comprehensive loss	—	—	—	—	(127)	(127)
Balance at December 31, 2010	51,753,842	52	205,063	(100,173)	(299)	104,643
Common stock issued upon exercise of stock options	2,278,451	2	9,706	—	—	9,708
Stock-based compensation	—	—	6,771	—	—	6,771
Common stock issued under Employee Stock Purchase Plan	58,051	—	572	—	—	572
Tax benefit from exercise of employee stock options	—	—	4,001	—	—	4,001
Net income	—	—	—	12,038	—	12,038
Other comprehensive loss	—	—	—	—	(35)	(35)
Balance at December 31, 2011	<u>54,090,344</u>	<u>\$ 54</u>	<u>\$ 226,113</u>	<u>\$ (88,135)</u>	<u>\$ (334)</u>	<u>\$137,698</u>

See accompanying notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income	\$ 12,038	\$ 9,259	\$ 7,763
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation expense	6,771	5,142	4,726
Depreciation	6,563	5,791	3,347
Amortization of intangibles	1,029	1,486	1,973
Provision for doubtful accounts, net	290	166	68
Deferred income taxes	229	832	2,865
Changes in operating assets and liabilities, net of acquisition:			
Accounts receivable	(4,798)	(6,391)	(2,760)
Prepaid expenses and other current assets	665	(2,687)	(1,948)
Deferred implementation costs	(84)	(28)	12
Security deposits	146	(174)	23
Other assets	116	—	(116)
Accounts payable	1,451	45	1,836
Accrued expenses	211	1,224	2,367
Deferred revenue	447	884	866
Net cash provided by operating activities	<u>25,074</u>	<u>15,549</u>	<u>21,022</u>
Cash flows from investing activities:			
Purchases of property and equipment, including capitalized software	(7,268)	(8,002)	(5,442)
Acquisition of NuConomy, net of cash acquired	—	(789)	—
Acquisition of Proficient	(75)	(95)	(98)
Acquisition of patents	—	—	(475)
Net cash used in investing activities	<u>(7,343)</u>	<u>(8,886)</u>	<u>(6,015)</u>
Cash flows from financing activities:			
Repurchase of common stock	—	(3,649)	(28)
Excess tax benefit from the exercise of employee stock options and warrants	4,001	1,397	936
Proceeds from issuance of common stock in connection with the exercise of options and warrants	10,280	11,484	4,191
Net cash provided by financing activities	<u>14,281</u>	<u>9,232</u>	<u>5,099</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(70)	(131)	(34)
Net increase in cash and cash equivalents	31,942	15,764	20,072
Cash and cash equivalents at the beginning of the year	61,336	45,572	25,500
Cash and cash equivalents at the end of the year	<u>\$ 93,278</u>	<u>\$ 61,336</u>	<u>\$ 45,572</u>

See accompanying notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands, Except Share Data)

Supplemental disclosure of non-cash investing and financing activities:

Cash flows from investing activities for the years ended December 31, 2011, 2010 and 2009 do not include the purchases of approximately \$1,631, \$1,259 and \$259, respectively of capitalized equipment related to the Company's collocation facilities because the corresponding invoices are included in accounts payable for the corresponding year end period, and therefore did not have an impact on cash flows.

During the years ended December 31, 2011, 2010 and 2009, total net cash paid for income taxes were \$2,579, \$3,800 and \$2,000, respectively.

During the year ended December 31, 2009, the Company settled a pre-acquisition contingency related to the Kasamba acquisition resulting in a decrease in accrued expenses in the amount of \$566.

See accompanying notes to consolidated financial statements.

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(1) Summary of Operations and Significant Accounting Policies

(a) Summary of Operations

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

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

(b) Principles of Consolidation

The consolidated financial statements reflect the operations of LivePerson and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the U.S. requires the Company’s management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of goodwill, intangibles, stock-based compensation, valuation allowances for deferred income tax assets, accounts receivable, the expected term of a customer relationship, and accruals. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

The Company considers all highly liquid securities with original maturities of three months or less when acquired to be cash equivalents. Cash equivalents, which primarily consist of money market funds, are recorded at cost, which approximates fair value.

(e) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, generally three to five years for equipment and software. Leasehold improvements are depreciated using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Total depreciation for the years ended December 31, 2011, 2010 and 2009 was \$6,563, \$5,791, and \$3,347, respectively.

(f) Impairment of Long-Lived Assets

In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying value of the asset exceeds the fair value of the asset. Assets to be disposed of

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(1) Summary of Operations and Significant Accounting Policies – (continued)

would be separately presented in the balance sheet and reported at the lower of the carrying value or the fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(g) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. All other balances are reviewed on a pooled basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

(h) 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 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, the Company recognizes revenue net of the labor provider's fee in accordance with ASC 605-45, "Principal Agent Considerations," due primarily to the fact that the call center labor vendor is the primary obligor with respect to the labor services provided. Additionally, the Company performs as an agent without risk of loss for collection and does not bear inventory risk with respect to the outsourced labor services. Finally, the Company does not provide any part of the labor services, has no latitude in establishing prices for the labor services and generally does not have discretion in selecting the vendor.

The majority of the Company's larger customers also pay a professional services fee related to implementation. The Company defers these implementation fees and associated direct costs and recognizes them ratably over the expected term of the customer relationship upon commencement of the hosting services. The Company may also charge professional service fees related to additional training, business consulting and analysis in support of the LivePerson services.

The Company also sells certain of the LivePerson services directly via Internet download. These services are marketed as LivePerson Pro and LivePerson Contact Center for small and mid-sized businesses ("SMBs"), and are paid for almost exclusively by credit card. Credit card payments accelerate cash flow and reduce the Company's collection risk, subject to the merchant bank's right to hold back cash pending settlement of the transactions. Sales of LivePerson Pro and LivePerson Contact Center may occur with or without the assistance of an online sales representative, rather than through face-to-face or telephone contact that is typically required for traditional direct sales.

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(1) Summary of Operations and Significant Accounting Policies – (continued)

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 in accordance with FASB Accounting Standards Update 2009-13. This guidance 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) estimates. If a professional services arrangement does not qualify for separate accounting, the Company recognizes the fees, and the related labor costs, ratably over a period of 48 months, representing the Company's current estimate of the term of the customer relationship.

For revenue 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 or determinable.

(i) Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in results of operations in the period that the tax change occurs. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

(j) Advertising Costs

The Company expenses the cost of advertising and promoting its services as incurred. Such costs totaled approximately \$6,310 \$6,132, and \$6,098 for the years ended December 31, 2011, 2010 and 2009, respectively.

(k) Financial Instruments and Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable which approximate fair value at December 31, 2011 because of the short-term nature of these instruments. The Company invests its cash and cash equivalents with financial institutions that it believes are of high quality, and performs periodic evaluations of these instruments and the relative credit standings of the institutions with which it invests. At certain times, the Company's cash balances with any one financial institution may exceed Federal Deposit Insurance Corporation insurance limits. The Company believes it mitigates its risk by depositing its cash balances with high credit, quality financial institutions.

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(1) Summary of Operations and Significant Accounting Policies – (continued)

The Company's customers are located primarily in the United States. The Company performs ongoing credit evaluations of its customers' financial condition (except for customers who purchase the LivePerson services by credit card via Internet download) and has established an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. Concentration of credit risk is limited due to the Company's large number of customers. No single customer accounted for or exceeded 10% of revenue in 2011, 2010 or 2009. One customer accounted for approximately 18% and 22% of accounts receivable at December 31, 2011 and 2010, respectively.

(l) 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 Statement of Income for the years ended December 31, 2011, 2010 and 2009:

	December 31,		
	2011	2010	2009
Cost of revenue	\$ 1,023	\$ 866	\$ 790
Product development expense	1,703	1,329	1,402
Sales and marketing expense	1,668	1,371	1,337
General and administrative expense	2,377	1,576	1,197
Total stock based compensation included in operating expenses	<u>\$ 6,771</u>	<u>\$ 5,142</u>	<u>\$ 4,726</u>

The per share weighted average fair value of stock options granted during the years ended December 31, 2011, 2010 and 2009 was \$6.47, \$3.89 and \$1.53, 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 for the years ended December 31, 2011, 2010 and 2009:

	December 31,		
	2011	2010	2009
Dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	0.9% – 3.7%	2.6% – 3.8%	2.8% – 3.9%
Expected life (in years)	5.0	5.0	5.0
Historical volatility	60.1% – 61.5%	60.3% – 61.9%	61.3% – 68.2%

(m) Basic and Diluted Net Income 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

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)**(1) Summary of Operations and Significant Accounting Policies – (continued)**

calculated using the treasury stock method and reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock.

Diluted net income per common share for the year ended December 31, 2011 includes the effect of options to purchase 5,235,305 shares of common stock with a weighted average exercise price of \$4.94. Diluted net income per common share for the year ended December 31, 2011 does not include the effect of options to purchase 3,608,110 shares of common stock as the effect of their inclusion is anti-dilutive. Diluted net income per common share for the year ended December 31, 2010 includes the effect of options to purchase 5,294,867 shares of common stock with a weighted average exercise price of \$3.61. Diluted net income per common share for the year ended December 31, 2010 does not include the effect of options to purchase 3,524,395 shares of common stock as the effect of their inclusion is anti-dilutive. Diluted net income per common share for the year ended December 31, 2009 includes the effect of options to purchase 3,358,569 shares of common stock with a weighted average exercise price of \$2.04. Diluted net income per common share for the year ended December 31, 2009 does not include the effect of options to purchase 5,353,242 shares of common stock as the effect of their inclusion is anti-dilutive.

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

	Year Ended December 31,		
	2011	2010	2009
Basic	52,876,999	50,721,880	47,962,688
Effect of assumed exercised options	2,131,743	2,185,661	1,045,752
Diluted	55,008,742	52,907,541	49,008,440

(n) Segment Reporting

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 supports and manages real-time online interactions — chat, voice/click-to-call, email and self-service/knowledgebase and sells its products and services to 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 U.S. The chief operating decision-makers evaluate performance, make operating decisions, and allocate 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 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 and income tax expense because management does not use this information to measure performance of the operating segments. There are currently no intersegment sales.

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(1) Summary of Operations and Significant Accounting Policies – (continued)

Summarized financial information by segment for the year ended December 31, 2011, based on the Company's internal financial reporting system utilized by the Company's chief operating decision makers, follows:

	Consolidated	Corporate	Business	Consumer
Revenue:				
Hosted services – Business	\$ 111,934	\$ —	\$ 111,934	\$ —
Hosted services – Consumer	14,522	—	—	14,522
Professional services	6,633	—	6,633	—
Total revenue	133,089	—	118,567	14,522
Cost of revenue	33,195	—	29,793	3,402
Sales and marketing	38,884	—	32,690	6,194
Amortization of intangibles	109	—	109	—
Unallocated corporate expenses	41,266	41,266	—	—
Operating income (loss)	\$ 19,635	\$ (41,266)	\$ 55,975	\$ 4,926

Summarized financial information by segment for the year ended December 31, 2010, based on the Company's internal financial reporting system utilized by the Company's chief operating decision makers, follows:

	Consolidated	Corporate	Business	Consumer
Revenue:				
Hosted services – Business	\$ 91,262	\$ —	\$ 91,262	\$ —
Hosted services – Consumer	14,195	—	—	14,195
Professional services	4,405	—	4,405	—
Total revenue	109,862	—	95,667	14,195
Cost of revenue	29,640	—	25,863	3,777
Sales and marketing	32,835	—	26,184	6,651
Amortization of intangibles	259	—	43	216
Unallocated corporate expenses	32,788	32,788	—	—
Operating income (loss)	\$ 14,340	\$ (32,788)	\$ 43,577	\$ 3,551

Summarized financial information by segment for the year ended December 31, 2009, based on the Company's internal financial reporting system utilized by the Company's chief operating decision makers, follows:

	Consolidated	Corporate	Business	Consumer
Revenue:				
Hosted services – Business	\$ 72,372	\$ —	\$ 72,372	\$ —
Hosted services – Consumer	11,942	—	—	11,942
Professional services	3,176	—	3,176	—
Total revenue	87,490	—	75,548	11,942
Cost of revenue	21,076	—	17,522	3,554
Sales and marketing	27,355	—	20,350	7,005
Amortization of intangibles	745	—	457	288
Unallocated corporate expenses	25,528	25,528	—	—
Operating income (loss)	\$ 12,786	\$ (25,528)	\$ 37,219	\$ 1,095

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(1) Summary of Operations and Significant Accounting Policies – (continued)

Revenues attributable to domestic and foreign operations follows:

	December 31,		
	2011	2010	2009
United States	\$ 101,519	\$ 84,725	\$ 67,244
United Kingdom	18,250	14,110	9,650
Other Countries	13,320	11,027	10,596
Total revenue	\$ 133,089	\$ 109,862	\$ 87,490

Long-lived assets by geographic region follows:

	December 31,	
	2011	2010
United States	\$ 28,626	\$ 29,319
Israel	13,167	13,736
United Kingdom	2,249	2,391
Total long-lived assets	\$ 44,042	\$ 45,446

(o) Comprehensive Loss

ASC 220-10, "Reporting Comprehensive Income," requires the Company to report in its consolidated financial statements, in addition to its net income, comprehensive loss, which includes all changes in equity during a period from non-owner sources including, as applicable, foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. The Company's comprehensive loss for all periods presented is related to the effect of foreign translation losses.

(p) Computer Software

The Company follows the provisions of ASC 350-40, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." ASC 350-40 provides guidance for determining whether computer software is internal-use software and on accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. It also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. The Company capitalized \$1,086 as of December 31, 2011 and \$536 as of December 31, 2010. Software costs are included in "Property and equipment, net" on the Company's balance sheet and are depreciated using the straight-line method over their estimated useful life, generally three years.

(q) Goodwill and Intangible Assets

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

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(1) Summary of Operations and Significant Accounting Policies – (continued)

could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. The Company performs internal valuation analyses and considers 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. ASC 350-10 also requires that intangible assets with estimatable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with ASC 360-10-35, “Accounting for Impairment or Disposal of Long-Lived Assets.”

(r) Deferred Rent

The Company records rent expense on a straight-line basis over the term of the related lease. The difference between the rent expense recognized for financial reporting purposes and the actual payments made in accordance with the lease agreement is recognized as deferred rent liability on the Company’s balance sheet.

(s) Foreign Currency Translation

Assets and liabilities in foreign functional currencies are translated at the exchange rate as of the balance sheet date. Translation adjustments are recorded as a separate component of stockholders’ equity. Revenue, costs and expenses denominated in foreign functional currencies are translated at the weighted average exchange rate for the period. The translation adjustment of \$35, \$127 and \$34 for the years ended December 31, 2011, 2010 and 2009, respectively, is related to the Company’s wholly-owned United Kingdom subsidiary. The functional currency of the Company’s wholly-owned Israeli subsidiaries is the U.S. dollar.

(t) Recently Issued Accounting Standards

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. This ASU is intended to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position. This includes the effect or potential effect of rights of setoff associated with an entity’s recognized assets and recognized liabilities within the scope of this update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. An entity is required to apply this amendment for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. ASU No. 2011-11 relates specifically to disclosures, it will not have an impact on the Company’s consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This ASU is intended to simplify how entities, test goodwill for impairment. 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, Intangibles-Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(1) Summary of Operations and Significant Accounting Policies – (continued)

annual or interim period have not yet been issued. The Company elected early adoption of this update and it had no impact on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term “fair value.” The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments to the FASB Accounting Standards Codification (Codification) in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company is currently assessing the impact of this update on its consolidated financial statements.

(u) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. Cash and cash equivalents, accounts receivable, security deposits and accounts payable carrying amounts approximate fair value because of the short maturity of these instruments.

(v) Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2011 are as follows:

	<u>Total</u>	<u>Business</u>	<u>Consumer</u>
Balance as of December 31, 2010	\$ 24,015	\$ 15,991	\$ 8,024
Adjustments to goodwill:			
Contingent earnout payments	75	75	—
Balance as of December 31, 2011	<u>\$ 24,090</u>	<u>\$ 16,066</u>	<u>\$ 8,024</u>

The changes in the carrying amount of goodwill for the year ended December 31, 2010 are as follows:

	<u>Total</u>	<u>Business</u>	<u>Consumer</u>
Balance as of December 31, 2009	\$ 23,920	\$ 15,896	\$ 8,024
Adjustments to goodwill:			
Contingent earnout payments	95	95	—
Balance as of December 31, 2010	<u>\$ 24,015</u>	<u>\$ 15,991</u>	<u>\$ 8,024</u>

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(1) Summary of Operations and Significant Accounting Policies – (continued)

Intangible assets are summarized as follows (see Note 2):

	Acquired Intangible Assets		
	As of December 31, 2011		
	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization
Amortizing intangible assets:			
Technology	\$ 6,199	3.8 years	\$ 5,474
Customer contracts	2,400	3.0 years	2,400
Trade names	630	3.0 years	630
Non-compete agreements	410	1.2 years	410
Patents	475	11.0 years	105
Other	235	3.0 years	235
Total	\$ 10,349		\$ 9,254
	As of December 31, 2010		
	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization
Amortizing intangible assets:			
Technology	\$ 6,199	3.8 years	\$ 4,489
Customer contracts	2,400	3.0 years	2,400
Trade names	630	3.0 years	630
Non-compete agreements	410	1.2 years	410
Patents	475	11.0 years	61
Other	235	3.0 years	235
Total	\$ 10,349		\$ 8,225

Amortization expense is calculated on a straight-line basis over the estimated useful life of the asset. Aggregate amortization expense for intangible assets was \$1,029, \$1,486 and \$1,973 for the years ended December 31, 2011, 2010 and 2009, respectively. For the years ended December 31, 2011 and 2010, a portion of this amortization is included in cost of revenue. Estimated amortization expense for the next five years is: \$306 in 2012, \$306 in 2013, \$240 in 2014, \$43 in 2015, \$43 in 2016 and \$157 thereafter.

(2) Acquisitions

Proficient Systems

On July 18, 2006, the Company acquired Proficient Systems, Inc. (“Proficient”), a provider of hosted proactive chat solutions that help companies generate revenue on their web sites. This transaction was accounted for under the purchase method of accounting and, accordingly, the operating results of Proficient were included in the Company’s consolidated results of operations from the date of acquisition. The acquisition added several U.K. based financial services customers and provided an innovative product marketing team. During the twelve months ended December 31, 2011, 2010 and 2009, the Company incurred additional costs related to the earn-out litigation in the amount of \$75, \$95, \$98, respectively, resulting in an increase in goodwill. See “Legal Proceedings” and Note 9 of our consolidated financial statements for additional information regarding the Proficient litigation.

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)**(2) Acquisitions – (continued)**

Based on the achievement of certain revenue targets as of March 31, 2007, LivePerson was contingently required to issue up to an additional 2,050,000 shares of common stock. Based on these targets, the Company issued 1,127,985 shares of common stock valued at \$8,894, based on the quoted market price of the Company's common stock on the date the contingency was resolved, and made a cash payment of \$20 related to this contingency. At March 31, 2007, the value of these shares has been allocated to goodwill with a corresponding increase in equity. In accordance with the purchase agreement, the earn-out consideration was subject to review by Proficient's Shareholders' Representative. On July 31, 2007, the Company was served with a complaint filed in the United States District Court for the Southern District of New York by the Shareholders' Representative of Proficient ("Plaintiff"). The complaint filed by the Shareholders' Representative sought certain documentation relating to calculation of the earn-out consideration, and demanded payment of damages on the grounds that substantially all of the remaining contingently issuable earn-out shares should have been paid. The Company believes the claims are without merit. The case proceeded to trial, which ended on November 4, 2010. Post-trial filings were made on November 19, 2010. The Court has still not issued its ruling in this case. In the event that the Court finds in whole or in part for Plaintiff, the Company would be required to pay monetary damages in the amount held by the Court to have been underpaid in the earn-out. The Company is presently unable to reasonably estimate the amount of actual damages, if any, that will be awarded by the Court. If the Court were to find in favor of Plaintiff on every claim at issue in the litigation, the maximum potential damages award would be approximately \$6,000. Should the Company be required to pay any damages award, the associated expense would be allocated to goodwill in connection with Proficient acquisition.

NuConomy Ltd.

On April 13, 2010, the Company acquired all of the outstanding shares of NuConomy Ltd. ("NuConomy"), an Israeli-based development-stage company whose web analytics and optimization platform is intended to help companies better assess and understand website and social marketing performance, in exchange for aggregate cash consideration of \$800. This transaction was accounted for as an asset purchase. The net asset was allocated to "Intangibles, net."

(3) Balance Sheet Components***Property and Equipment***

Property and equipment is summarized as follows:

	December 31,	
	2011	2010
Computer equipment and software	\$ 30,182	\$ 25,002
Furniture, equipment and building improvements	4,356	1,856
	34,538	26,858
Less accumulated depreciation	20,659	14,096
Total	\$ 13,879	\$ 12,762

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)**(3) Balance Sheet Components – (continued)***Accrued Expenses*

Accrued expenses consist of the following:

	December 31,	
	2011	2010
Payroll and other employee related costs	\$ 6,435	\$ 6,973
Professional services, consulting and other vendor fees	4,686	4,211
Sales commissions	446	565
Other	452	362
Total	<u>\$ 12,019</u>	<u>\$ 12,111</u>

(4) Capitalization

On May 14, 2010, our Board of Directors approved a stock repurchase program through June 30, 2012.

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, up to an aggregate purchase price of \$10,000. As of December 31, 2010, the Company had repurchased 534,496 shares of its common stock for an aggregate cost of approximately \$3,600. No shares were repurchased under this program during 2011.

(5) Stock Options and Employee Stock Purchase Plan

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, thereby reserving for issuance 19,567,744 shares of common stock in the aggregate. Options to acquire common stock granted thereunder have ten-year terms. As of December 31, 2011, approximately 12,810,000 shares of common stock were reserved for issuance under the 2009 Plan (taking into account all option exercises through December 31, 2011). As of December 31, 2011, there was approximately \$26,491 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 2.2 years.

In March 2000, the Company adopted the 2000 Employee Stock Purchase Plan with 450,000 shares of common stock initially reserved for issuance (the “2000 ESPP”). The 2000 ESPP expired on its terms on the last day of April 2010.

In June 2010, our stockholders approved the 2010 Employee Stock Purchase Plan with 1,000,000 shares of common stock initially reserved for issuance. As of December 31, 2011, approximately 933,000 shares of common stock were reserved for issuance under the Employee Stock Purchase Plan (taking into account all share purchases through December 31, 2011).

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(5) Stock Options and Employee Stock Purchase Plan – (continued)

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

	Options	Weighted Average Exercise Price
Options outstanding at December 31, 2008	9,939,045	\$ 3.67
Options granted	1,960,500	2.66
Options exercised	(2,094,888)	2.06
Options cancelled	(1,092,849)	3.65
Options outstanding at December 31, 2009	8,711,808	3.82
Options granted	3,809,380	7.13
Options exercised	(2,843,547)	4.10
Options cancelled	(860,881)	5.09
Options outstanding at December 31, 2010	8,816,760	5.04
Options granted	3,642,600	12.24
Options exercised	(2,278,451)	4.28
Options cancelled	(1,337,496)	7.03
Options outstanding at December 31, 2011	8,843,413	\$ 7.91
Options exercisable at December 31, 2009	4,463,915	\$ 4.03
Options exercisable at December 31, 2010	3,097,748	\$ 3.93
Options exercisable at December 31, 2011	2,805,399	\$ 4.63

The total value of stock options exercised during the years ended December 31, 2011, 2010 and 2009 was approximately \$17,174, \$11,050 and \$6,204, respectively. The total intrinsic value of options exercisable at December 31, 2011, 2010 and 2009 was approximately \$21,890, \$22,491 and \$12,799, respectively. The total intrinsic value of nonvested options at December 31, 2011, 2010 and 2009 was approximately \$19,839, \$32,420 and \$14,318, respectively. The total intrinsic value of all outstanding options at December 31, 2011, 2010 and 2009 was approximately \$41,729, \$54,911 and \$27,117, respectively.

A summary of the status of the Company's nonvested options as of December 31, 2009, and changes during the years ended December 31, 2010 and 2011 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested Shares at January 1, 2010	4,247,893	\$ 2.13
Granted	3,809,380	3.89
Vested	(1,521,951)	2.41
Cancelled	(816,310)	2.83
Nonvested Shares at December 31, 2010	5,719,012	\$ 3.13
Nonvested Shares at January 1, 2011	5,719,012	\$ 3.13
Granted	3,642,600	6.47
Vested	(1,967,639)	3.00
Cancelled	(1,355,959)	3.83
Nonvested Shares at December 31, 2011	6,038,014	\$ 5.04

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(6) Valuation and Qualifying Accounts

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions / Write-Offs	Balance at End of Period
For the year ended December 31, 2011	\$ 561	\$ 290	\$ (163)	\$ 688
Allowance for doubtful accounts				
For the year ended December 31, 2010	\$ 395	\$ 166	\$ —	\$ 561
Allowance for doubtful accounts				
For the year ended December 31, 2009	\$ 340	\$ 68	\$ (13)	\$ 395
Allowance for doubtful accounts				

(7) Income Taxes

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

Under Section 382 of the Internal Revenue Code of 1986, as amended, the Company's use of its federal net operating loss ("NOL") carryforwards may be limited if the Company experiences an ownership change, as defined in Section 382. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization. As of December 31, 2011, the Company had approximately \$7,279 of federal NOL carryforwards available to offset future taxable income. Included in this amount is \$6,124 of federal NOL carryovers from the Company's acquisition of Proficient. These carryforwards expire in various years through 2027.

The domestic and foreign components of income before provision for income taxes consist of the following:

	Year Ended December 31,		
	2011	2010	2009
United States	\$ 16,495	\$ 12,478	\$ 10,972
Foreign	2,655	1,855	1,828
	\$ 19,150	\$ 14,333	\$ 12,800

No additional provision has been made for U.S. income taxes on the undistributed earnings of its Israeli subsidiary, LivePerson Ltd (formerly HumanClick Ltd.), as such earnings have been taxed in the U.S. and accumulated earnings of the Company's other foreign subsidiaries are immaterial through December 31, 2011.

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(7) Income Taxes – (continued)

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2011	2010	2009
Current income taxes:			
U.S. Federal	\$ 5,839	\$ 3,554	\$ 1,418
State and local	600	473	516
Foreign	444	215	238
Total current income taxes	6,883	4,242	2,172
Deferred income taxes:			
U.S. Federal	232	694	2,719
State and local	(38)	(60)	21
Foreign	35	198	125
Total deferred income taxes	229	832	2,865
Total income taxes	\$ 7,112	\$ 5,074	\$ 5,037

The difference between the total income taxes computed at the federal statutory rate and the benefit from income taxes consists of the following:

	Year Ended December 31,		
	2011	2010	2009
Federal Statutory Rate	34.48%	34.30%	34.00%
State taxes, net of federal benefit	2.56%	2.27%	2.80%
Non-deductible expenses – ISO	0.47%	(0.88)%	2.19%
Non-deductible expenses – Other	0.51%	0.43%	0.26%
Foreign taxes	(0.13)%	(0.08)%	(0.44)%
Other	(0.76)%	(0.64)%	0.54%
Total provision	37.13%	35.40%	39.35%

The effects of temporary differences and tax loss carryforwards that give rise to significant portions of federal deferred tax assets and deferred tax liabilities at December 31, 2011 and 2010 are presented below:

	2011	2010
Deferred tax assets:		
Net operating loss carryforwards	\$ 2,504	\$ 2,720
Accounts payable and accrued expenses	424	317
Non-cash compensation	2,582	2,177
Goodwill and intangibles amortization	1,462	1,632
Allowance for doubtful accounts	260	208
Net deferred tax assets	7,232	7,054
Deferred tax liabilities:		
Plant and equipment	(2,061)	(1,443)
Intangibles related to the Kasamba acquisition	—	(206)
Total deferred tax liabilities	(2,061)	(1,649)
Net deferred assets	\$ 5,171	\$ 5,405

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)**(8) Commitments and Contingencies**

The Company leases facilities and certain equipment under agreements accounted for as operating leases. These leases generally require the Company to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the years ended December 31, 2011, 2010 and 2009 was approximately \$6,615, \$6,428 and \$4,855, respectively.

Future minimum lease payments under non-cancelable operating leases (with an initial or remaining lease terms in excess of one year) are as follows:

Year ending December 31,	Operating Leases
2012	\$ 7,126
2013	4,427
2014	2,766
2015	2,205
2016	570
Thereafter	2,002
Total minimum lease payments	<u>\$ 19,096</u>

Capital Expenditures

During 2007, the Company began to build a collocation facility in the eastern U.S. to host the LivePerson and Consumer services. During 2010, the Company began to build additional collocation facilities in Europe to host the LivePerson and Consumer services. Through December 31, 2011, the Company spent approximately \$21,350 for servers, network components and related hardware and software. This amount is included in "Assets — Property and equipment, net" on our December 31, 2011 balance sheet. Though the Company expects to incur additional costs in 2012 related to the continued build-out of our collocation facilities and similar backup facilities to support disaster recovery capabilities in the U.S. and U.K., its total capital expenditures are not currently expected to exceed \$10,000 in 2012. The Company anticipates that our current cash and cash equivalents and cash from operations will be sufficient to complete the build-out.

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. Matching contributions are deposited in to the employees 401(k) account and are subject to 5 year graded vesting. Salaries and related expenses include \$545 and \$436 of employer matching contributions for the years ended December 31, 2011 and 2010, respectively.

Indemnifications

The Company enters into service and license agreements in its ordinary course of business. Pursuant to some of these agreements, the Company agrees to indemnify certain customers from and against certain types of claims and losses suffered or incurred by them as a result of using the Company's products.

The Company also has agreements whereby its executive officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a directors and officers insurance policy that reduces its exposure and enables the Company to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. Currently, the Company has no liabilities recorded for these agreements as of December 31, 2011.

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(9) Legal Matters

On July 31, 2007, the Company was served with a complaint filed in the United States District Court for the Southern District of New York by the Shareholders' Representative of Proficient Systems, Inc. In connection with the July 2006 acquisition of Proficient, the Company was contingently required to issue up to 2,050,000 shares of common stock based on the terms of an earn-out provision in the merger agreement. In accordance with the terms of the earn-out provision, the Company issued 1,127,985 shares of LivePerson common stock in the second quarter of 2007 to the former shareholders of Proficient. The amended complaint filed by the Shareholders' Representative, or Plaintiff, on May 12, 2009 alleges that the Company breached the merger agreement by failing to properly account for net annualized revenue, and demands payment of damages on the grounds that substantially all of the remaining contingently issuable earn-out shares should have been paid. The Company believes the claims are without merit. The case proceeded to trial, which ended on November 4, 2010. Post-trial filings were made on November 19, 2010. The Court has still not issued its ruling in this case. In the event that the Court finds in whole or in part for Plaintiff, the Company would be required to pay monetary damages in the amount held by the Court to have been underpaid in the earn-out. The Company is presently unable to reasonably estimate the amount of actual damages, if any, that will be awarded by the Court. If the Court were to find in favor of Plaintiff on every claim at issue in the litigation, the maximum potential damages award would be approximately \$6,000. Should the Company be required to pay any damages award, the associated payment would be allocated to goodwill in connection with Proficient acquisition.

On November 3, 2010, Gemini IP LLC filed an amended complaint in a suit pending in the United States District Court for the Eastern District of Texas, adding patent infringement allegations against the Company and various other defendants, including LANDesk Software, Inc., Saba Software, Inc., Genesys S.A. d/b/a Genesys Conferencing, Genesys Conferencing, Inc., Avaya Inc., Best Buy Co., Inc., Bomgar Corporation, ConnectWise, Inc., Elsinore Technologies Inc., GFI Software Ltd., GFI USA, Inc., GFI Software Development, Ltd., LogMeIn, Inc., N-able Technologies Incorporated, NTR Global, Venti Solutions, LLC, Zoho Corporation, Zenith Infotech Ltd., International Business Machines Corp., Samsung Electronics America, Inc., Samsung Electronics Co., Ltd., Samsung Telecommunications America, LLC, AT&T, Inc., Sony Corporation, and Sony Corporation of America. On August 26, 2011, Gemini and LivePerson jointly filed a motion asking the Court to dismiss all claims with prejudice. The Court has not yet ruled on that motion.

On June 15, 2011, the Company filed suit against Lodsys, LLC, in the United States District Court for the Northern District of Illinois, seeking a declaratory judgment that the Company's products do not infringe four patents which Lodsys had previously asserted were infringed by the Company's customers, as well as a declaratory judgment that those four patents are invalid. On July 5, 2011, Lodsys moved to dismiss the Illinois case based on lacking personal jurisdiction, and also countersued the Company and other plaintiffs in similarly-situated declaratory judgment actions, including DriveTime Automotive Group, Inc., ESET, LLC, ForeSee Results, LLC, OpinionLab, Inc., and The New York Times Company, in the United States District Court for the Eastern District of Texas. In the Texas case, Lodsys alleges that the Company infringes one of the patents involved in the co-pending Illinois case, and seeks damages for past infringement, and an injunction against future infringement. The Company believes Lodsys's claims are without merit. On October 25, 2011 the Court granted the parties' joint motion to transfer the cases from Illinois to the Eastern District of Wisconsin, and all pending motions were withdrawn, including Lodsys's pending motion to dismiss. On January 6, 2012 Lodsys filed a motion to dismiss the Wisconsin case, or, in the alternative, for a more definite statement. On January 27, 2012 the Company filed an amended complaint in the Wisconsin case. On February 10, 2012 Lodsys filed a motion to dismiss the Wisconsin case, or, in the alternative, to transfer or stay. On January 23, 2012, the Company moved to dismiss the Texas case in favor of the first-filed Wisconsin case. On February 9, 2012 Lodsys filed its opposition to the Company's motion, and the Company filed its reply on February 21, 2012. This motion is fully briefed.

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

(9) Legal Matters – (continued)

On February 7, 2012, the Company filed suit against Pragmatus Telecom LLC in the District of Delaware, seeking a declaratory judgment that the Company's products do not infringe three patents owned by Pragmatus which Pragmatus had previously asserted were infringed by certain of the Company's customers, as well as a declaratory judgment that those four patents are invalid.

Although the Company currently does not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial condition or results of operations, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flows in a particular period. 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 it assesses the likelihood of loss as probable.

From time to time, the Company is involved in other legal proceedings arising in the ordinary course of its business, which may arise from direct legal claims brought by or against the Company, or from claims brought against the Company's customers for which the Company has a contractual indemnification obligation.

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(10) Unaudited Supplementary Financial Information — Quarterly Results of Operations

The following table sets forth, for the periods indicated, the Company's financial information for the eight most recent quarters ended December 31, 2011. In the Company's opinion, this unaudited information has been prepared on a basis consistent with the annual consolidated financial statements and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the unaudited information for the periods presented. This information should be read in conjunction with the consolidated financial statements, including the related notes, included herein.

	Quarter Ended							
	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010
Revenue	\$ 36,509	\$ 34,347	\$ 31,851	\$ 30,382	\$ 29,935	\$ 28,221	\$ 26,398	\$ 25,308
Operating expenses:								
Cost of revenue	8,047	8,368	8,685	8,095	8,235	7,595	7,178	6,632
Product development	5,563	5,266	5,016	4,377	4,257	3,940	3,908	3,606
Sales and marketing	10,738	9,907	9,379	8,860	8,404	8,289	8,452	7,690
General and administrative	6,009	5,689	5,386	3,960	4,932	4,178	4,175	3,792
Amortization of intangibles	76	11	11	11	10	83	83	83
Total operating expenses	30,433	29,241	28,477	25,303	25,838	24,085	23,796	21,803
Income from operations	6,076	5,106	3,374	5,079	4,097	4,136	2,602	3,505
Other (expense) income:								
Financial (expense) income	(132)	(780)	208	156	(59)	43	(41)	(49)
Interest income	15	18	16	14	16	30	30	23
Total other (expense) income, net	(117)	(762)	224	170	(43)	73	(11)	(26)
Income before provision for income taxes	5,959	4,344	3,598	5,249	4,054	4,209	2,591	3,479
Provision for income taxes	2,083	1,609	1,402	2,018	1,312	1,444	975	1,343
Net income	\$ 3,876	\$ 2,735	\$ 2,196	\$ 3,231	\$ 2,742	\$ 2,765	\$ 1,616	\$ 2,136
Basic net income per common share	\$ 0.07	\$ 0.05	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.05	\$ 0.03	\$ 0.04
Diluted net income per common share	\$ 0.07	\$ 0.05	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.05	\$ 0.03	\$ 0.04
Weighted average shares outstanding used in basic net income per common share calculation	53,563,396	53,109,824	52,735,556	52,080,363	51,133,917	50,976,468	50,921,609	49,838,491
Weighted average shares outstanding used in diluted net income per common share calculation	55,756,350	55,736,089	55,553,247	54,805,222	53,831,339	53,302,655	53,416,706	52,193,862

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share and per Share Data)

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 9A. Controls and Procedures

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2011 based on the framework established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's evaluation described above, our management concluded that our internal control over financial reporting was effective as of December 31, 2011.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by BDO USA, LLP, an independent registered public accounting firm. Their attestation is included herein.

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.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2011 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.

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 Exchange Act, as of December 31, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2011 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
LivePerson, Inc.
New York, NY

We have audited LivePerson, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). LivePerson, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, LivePerson, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LivePerson, Inc.'s as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated March 13, 2012 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York
March 13, 2012

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 is incorporated by reference to the sections captioned to “Matters to be Considered at Annual Meeting — Election of Directors,” “Executive Officers,” “Board Committees and Meetings — Audit Committee,” “Codes of Conduct and Corporate Governance Documents” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the definitive proxy statement for our 2012 Annual Meeting of Stockholders.

There have been no changes to the procedures by which stockholders may recommend nominees to our Board of Directors since our last disclosure of such procedures, which appeared in the definitive proxy statement for our 2011 Annual Meeting of Stockholders.

We have adopted a Code of Ethics that applies to our Chief Executive Officer, who is our principal executive officer, and other senior financial officers. Our Code of Ethics is available at: www.liveperson.com under “Investor Relations / Corporate Governance.” *The Company’s web site address provided above is not intended to function as a hyperlink, and the information on the Company’s web site is not and should not be considered part of this Annual Report on Form 10-K and is not incorporated by reference herein.* The Company will post on this website any amendments to our Code of Ethics.

Item 11. Executive Compensation

The information required by this Item 11 is incorporated by reference to the sections captioned “Compensation Discussion and Analysis,” “Compensation Committee Report” (which information shall be deemed furnished in this Annual Report on Form 10-K), “Executive and Director Compensation” and “Compensation Committee Interlocks and Insider Participation” in the definitive proxy statement for our 2012 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 is incorporated by reference to the sections captioned “Ownership of Securities” and “Potential Payments Upon Termination or Change-in-Control” in the definitive proxy statement for our 2012 Annual Meeting of Stockholders.

The following table provides certain information regarding the common stock authorized for issuance under our equity compensation plans, as of December 31, 2011:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans ⁽²⁾ (c)
Equity compensation plans approved by stockholders ⁽¹⁾	8,843,413	\$ 7.91	3,966,822
Equity compensation plans not approved by stockholders	—	—	—
Total	8,843,413	\$ 7.91	3,966,822

(1) Our equity compensation plans which were approved by our stockholders are the 2009 Stock Incentive Plan and the 2010 Employee Stock Purchase Plan.

(2) Excludes securities reflected in column (a). Also see Note 5 to our consolidated financial statements.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 is incorporated by reference to the sections captioned “Certain Relationships and Related Transactions” and “Director Independence” in the definitive proxy statement for our 2012 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 is incorporated by reference to the section captioned “Independent Registered Public Accounting Firm Fees and Pre-Approval Policies and Procedures” in the definitive proxy statement for our 2012 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements.

Incorporated by reference to the index of consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules.

None.

3. Exhibits.

Incorporated by reference to the Exhibit Index immediately preceding the exhibits attached to this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on March 13, 2012.

LIVEPERSON, INC.

By: /s/ Robert P. LoCascio

Name: Robert P. LoCascio

Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 13, 2012.

<u>Signature</u>	<u>Title(s)</u>
<u>/s/ Robert P. LoCascio</u> Robert P. LoCascio	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
<u>/s/ Daniel R. Murphy</u> Daniel R. Murphy	Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ Peter Block</u> Peter Block	Director
<u>/s/ Kevin C. Lavan</u> Kevin C. Lavan	Director
<u>/s/ David Vaskevitch</u> David Vaskevitch	Director
<u>/s/ William G. Wesemann</u> William G. Wesemann	Director

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EXHIBIT INDEX

Number	Description
2.1	Agreement and Plan of Merger, dated as of June 22, 2006, among LivePerson, Inc., Soho Acquisition Corp., Proficient Systems, Inc. and Gregg Freishtat as Shareholders' Representative (incorporated by reference to the identically numbered exhibit in the Current Report on Form 8-K filed on June 22, 2006)
3.1	Fourth Amended and Restated Certificate of Incorporation (incorporated by reference to the identically-numbered exhibit to LivePerson's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed March 30, 2001 (the "2000 Form 10-K"))
3.2	Second Amended and Restated Bylaws, as amended (incorporated by reference to the identically-numbered exhibit to the 2000 Form 10-K)
4.1	Specimen common stock certificate (incorporated by reference to the identically-numbered exhibit to LivePerson's Registration Statement on Form S-1, as amended (Registration No. 333-96689) ("Registration No. 333-96689"))
4.2	Second Amended and Restated Registration Rights Agreement, dated as of January 27, 2000, by and among LivePerson, the several persons and entities named on the signature pages thereto as Investors, and Robert LoCascio (incorporated by reference to the identically-numbered exhibit to Registration No. 333-96689)
10.1*	2009 Stock Incentive Plan (incorporated by reference to Exhibit 99.1 to LivePerson's Registration Statement on Form S-8 filed on June 9, 2009) and Forms of Grant Agreements under the 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to LivePerson's Quarterly Report on Form 10-Q filed on May 6, 2011)
10.2*	LivePerson, Inc. 2010 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to the LivePerson's Registration Statement on Form S-8 filed on August 19, 2010)
10.3*	Employment Agreement between LivePerson and Robert P. LoCascio, dated as of January 1, 1999 (incorporated by reference to Exhibit 10.1 to Registration No. 333-96689)
10.4(a)*	Employment Agreement between LivePerson and Timothy E. Bixby, dated as of June 23, 1999 (incorporated by reference to Exhibit 10.3 to Registration No. 333-96689)
10.4(b)*	Modification to Employment Agreement between LivePerson and Timothy E. Bixby, dated as of April 1, 2003 (incorporated by reference to Exhibit 10.2.1 to LivePerson's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and filed August 13, 2003)
10.4(c)*	Separation Agreement and General Release between LivePerson and Timothy E. Bixby, dated as of November 2, 2010 (incorporated by reference to Exhibit 10.4(c) to LivePerson's Annual Report on Form 10-K for the year ended December 31, 2010 and filed March 15, 2011)
10.5*	Agreement between LivePerson and Dan Murphy, dated as of March 27, 2011
10.6*	Form of Indemnification Agreement entered into with Executive Officers and Directors of LivePerson
10.7*	Agreement between LivePerson and Eli Campo, dated as of December 22, 2006
10.8*	Agreement between LivePerson and Monica L. Greenberg, dated as of October 25, 2006
10.9*	Agreement between LivePerson and Michael Kovach, dated as of November 6, 2009
21.1	Subsidiaries
23.1	Consent of BDO USA, LLP
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

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Number	Description
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

* Management contract or compensatory plan or arrangement

** The certifications attached as Exhibit 32.1 and Exhibit 32.2 accompany the Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed “filed” by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

† Pursuant to applicable securities laws and regulations, the Registrant is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Registrant has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.



March 27, 2011

Dan Murphy

Dear Dan:

I am pleased to offer you the position of Chief Financial Officer at LivePerson, working from New York with your approximate scheduled start date on or about May 3, 2011. This letter confirms the terms and conditions of our employment offer to you:

You will be paid salary at an annual rate of **\$300,000** U.S. dollars according to our payroll practices as they may exist from time to time (we currently pay salary on a semimonthly basis: the 15th and last day of each month).

You will be eligible to participate in the LivePerson bonus plan as it exists from time to time under terms comparable to other LivePerson employees of similar role and responsibility. Achievement of your bonus will be based upon a series of individual MBOs as well as overall Company financial performance pursuant to the Company's bonus practices as they may exist from time to time. Your target annual bonus will be **\$150,000**. Notwithstanding the foregoing, you will be paid a bonus for the 2011 fiscal year in the amount of \$120,000. For any given year in which a bonus is earned, your Bonus will be paid after the end of the applicable year in accordance with the Company's then-current bonus payment practices. Eligibility for and payment of such bonus, if any, is conditioned on your being actively employed by LivePerson as of the date the bonus, if any, is paid. LivePerson reserves the right to amend or terminate its bonus plan or any terms or criteria thereunder, and corresponding policies, at any time.

You will be granted an unvested option to purchase **100,000** shares of LivePerson common stock which grant and strike price will be subject to approval by the LivePerson Board of Directors on the first option grant date following your employment start date. This grant date is typically within 6 months of your employment start date. This option will be granted under the terms and conditions of the LivePerson 2009 Stock Incentive Plan and the Notice of Grant of Stock Option and Stock Option Agreement (the "Plan Documents"), which will be issued to you at the time of the grant. This option will vest in equal increments of 25% annually over four (4) years, beginning on the first anniversary of the grant date, subject to your continued service to the Company through each vesting date and the terms of the Plan Documents.

You will be eligible for vacation in accordance with LivePerson's vacation policy as it exists from time to time. Under the current policy, you will accrue vacation at the rate of 1.65 days vacation per month (4 weeks per full year), subject to the LivePerson vacation policy, as it may be amended from time to time.

You will be eligible to enroll in the LivePerson health and disability insurance program on the *first day of the first full calendar month of your employment* subject to the terms and conditions of the applicable plans and policies as they may exist from time to time.

You will be eligible to participate in the company's 401 (k) savings plan following your employment start date subject to the terms and conditions of the applicable plans and policies as they may exist from time to time. You will receive further orientation regarding benefits you are eligible for and company policies on or shortly after your start date.

This offer is made contingent upon your successful completion of the Company's pre-employment procedures, including reference and background verification of your prior employment and other information provided by you during the interview process, as well as proof of identity and authorization to work in the United States, as required by law.

By signing this letter you confirm that you are not subject to any agreement, with a prior employer or otherwise, which would prohibit, limit or otherwise be inconsistent with your employment at LivePerson or prevent you from performing your obligations to LivePerson. Additionally, please be advised that it is LivePerson's corporate policy not to obtain or use any confidential, proprietary information or trade secrets of its competitors or others, unless it is properly obtained from sources permitted to disclose such information. By signing this letter below, you are acknowledging that you have been advised of this policy and that you accept and will abide by it, and you are also agreeing that you will not use or disclose any confidential or proprietary information of LivePerson to any third party, including any previous or subsequent employer.

Your employment with LivePerson is at-will and may be terminated by you or LivePerson at any time with or without cause and with or without notice.

In the event that (a) your employment is terminated by the Company without Cause (as defined below), or (b) terminated by you for Good Reason (as defined below), and' (c) and provided that within sixty (60) days following your termination date you timely execute and do not revoke a separation and release agreement drafted by and satisfactory to the Company, substantially similar to the template attached hereto as Exhibit A (the "Release"), the Company will provide you with severance pay equal to six (6) months pay at your then current base salary rate, and, if your employment is terminated without Cause or for Good Reason at any time on or before the date that bonuses for the prior fiscal year are paid, a payment equal to the bonus you would have received for the prior fiscal year had you remained employed on the date bonuses for such fiscal year are paid. In the event you terminate your employment due to subparagraph "i" of the definition of Good Reason, then your severance pay shall be paid at the base salary rate immediately preceding any reduction thereof. All payments hereunder shall be payable in accordance with the payment procedures described below. For the avoidance of doubt, the foregoing severance shall not be paid in the event that your employment is terminated by reason of your voluntary resignation (other than for Good Reason).

In the event that within the 12-month period following a Change of Control (as defined below) your employment is terminated by the Company without Cause or by you for Good Reason; and provided that within sixty (60) days following your termination date you timely execute and do not revoke a Release (as defined above), the Company will provide you with (a) severance pay equal to six (6) months pay at your then-current base salary rate or, in the event you terminate your employment due to subparagraph "i" of the definition of Good Reason, the base salary rate immediately preceding any reduction thereof, payable in accordance with the payment procedures described below, (b) if your employment is terminated at any time on or before the date that bonuses for the prior fiscal year are paid, a payment equal to the bonus you would have received for the prior fiscal year had you remained employed on the date bonuses for such fiscal year are paid, payable in accordance with the payment procedures described below,, (c) with regard to any outstanding option and/or other equity awards held by you at the time of your termination, the total number of shares of common stock that would have vested in the 24-month period following your termination date if you had remained employed shall become immediately vested and exercisable on your termination date, and (d) the vested portion of any outstanding option and/or other equity awards held by you shall remain exercisable for 90 days following your date of termination, but in no event later than the original term of the option as set forth in the applicable award agreement. For purposes hereof, "Change of Control" shall be defined as, and limited to: the consummation of any transaction or group of related transactions following which the holders (or persons or entities that directly or indirectly control, are controlled by, or are under common control with, the holders) of the Company's voting power immediately prior to such transaction(s) no longer hold securities having the voting power necessary to elect a majority of the board of directors of the surviving entity or entities, or a sale of all or substantially all of the Company's assets.

Severance payments described above shall commence on the Company's first regularly scheduled payroll date that occurs as soon as practicable after the conditions set forth above are satisfied, and with respect to bonus payments, on the date bonuses are paid by the Company but in any event all severance and bonus payments hereunder shall be paid in full no later than the fifteenth (15th) day of the third (3rd) month following the end of your first tax year in which your termination of employment occurs, or, if later, the fifteenth (15th) day of the third (3rd) month following the end of the Company's first tax year in which your termination of employment occurs, as provided in Treasury Regulation Section 1.409A-1(b)(4). The parties intend that the payments and benefits provided pursuant to this letter are exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, the regulations and other guidance under and any state law of similar effect ("Section 409A") and any ambiguities herein will be interpreted to be so exempt. Each payment and benefit payable under this letter is intended to constitute separate payments for purposes of Treasury Regulation Section 1.409A-2(b)(2). Notwithstanding anything herein to the contrary, the Company shall have no liability to you or to any other person, for any taxes, penalties or otherwise, if the payments and benefits provided pursuant to this letter that are intended to be exempt from Section 409A are not so exempt.

In the event that your employment is voluntarily terminated at any time by you (other than for Good Reason as set forth herein), or by the Company for Cause, you will be entitled only to your unpaid compensation earned through the date of your termination of employment in accordance with applicable law. You will not be entitled to any other compensation or consideration that you may have received had your employment with the Company not been terminated.

For purposes hereof, "Cause" shall mean a determination by the Company (which determination shall not be arbitrary or capricious) that: (i) you materially failed to perform your specified or fundamental duties to the Company or any of its subsidiaries, (ii) you were convicted of, or pled nolo contendere to, a felony (regardless of the nature of the felony), or any other crime involving dishonesty, fraud, or moral turpitude, (iii) you engaged in or acted with gross negligence or willful misconduct (including but not limited to acts of fraud, criminal activity or professional misconduct) in connection with the performance of your duties and responsibilities to the Company or any of its subsidiaries, (iv) you failed to substantially comply with the written rules and policies of the Company or any of its subsidiaries governing employee conduct or with the lawful directives of the Board of Directors, or (v) you breached any non-disclosure, non-solicitation or other restrictive covenant obligation to the Company or any of its subsidiaries. If the Company in its reasonable discretion determines that an event or incident described in to subparagraph (i) or (iv) of the definition of Cause is curable, then in order to terminate your employment for Cause pursuant to subparagraph (i) or (iv) of the definition of Cause, the Company shall (a) provide you with written notice of the event or incident that it considers to be "Cause" within 30 calendar days following its occurrence, (b) provide you with a period of at least 15 calendar days to cure the event or incident, and (c) if the Cause persists following the cure period, terminate your employment by written termination letter any time within 60 calendar days following the date that notice to cure was delivered to you.

EXHIBIT A

TEMPLATE GENERAL RELEASE

[_____] (the "Executive") hereby enters into this General Release of All Claims (the "Release"). In consideration of the severance payments and benefits set forth in the offer letter agreement dated _____ ("Letter Agreement") and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Executive hereby forever unconditionally and irrevocably releases and discharges the Company, and each and all of its direct and indirect affiliates, parents, subsidiaries (wholly-owned or not), members, branches, divisions, business units or groups, agencies, predecessors, successors and assigns, any employee benefit plans established or maintained by any of the foregoing entities and each and all of their current and former officers, directors, employees, trustees, plan administrators, agents, attorneys, representatives, partners, advisors and shareholders (collectively and individually, the "Released Parties"), from any and all claims, demands, causes of action, complaints, agreements, promises (express or implied), contracts, undertakings, covenants, guarantees, grievances, liabilities, damages, rights, obligations, expenses, debts and demands whatsoever, in law or equity, known or unknown, whether present or future, whether known or unknown, and of whatsoever kind or nature that the Executive, his heirs, executors, administrators, representatives and assigns ever had, now have or hereafter can, shall or may have, for, upon, or by reason of any alleged or actual matter, omission, act, cause or thing from the beginning of time until the date he signs this Release, including, but not limited to, those arising out of his employment or the termination thereof.

The Executive understands and acknowledges that by signing this Release he is waiving and releasing any and all claims he may have concerning the terms and conditions of his employment and the termination of his employment including those prohibiting discrimination on the basis of age, sex, race, color, disability, religion, creed, national origin, ancestry, sexual orientation, gender expression, gender identity, handicap, marital status, citizenship or any other protected factor or characteristic, prohibiting discrimination for requesting or taking a family or medical leave, prohibiting discrimination with regard to benefits or any other terms and conditions of employment, or prohibiting retaliation in connection with any complaint or claim of alleged discrimination or harassment and that he intends to do so. As such, this release includes, but is not limited to, any claims arising under Title VII of the 1964 Civil Rights Act, 42 U. S. C. § 2000e et seq.; the Age Discrimination in Employment Act, 29 U. S. C. § 621, et seq.; the Older Workers' Benefit Protection Act, 29 U.S.C. §626(f), et seq.; the Americans with Disabilities Act, 42 U. S. C. § 12101 et seq.; the Employee Retirement and Income Security Act, 29 U. S. C. § 1001 et seq.; the Fair Labor Standards Act, as amended, 29 U.S.C. § 201 et seq.; the Family Medical Leave Act, 29 U.S.C. §§2601 et seq.; the New York State Human Rights Law, N.Y. Exec. Law § 290 et seq.; New York Equal Rights Law, N.Y. Civ. Rights Law § 40-c et seq.; New York Whistleblower Protection Law, N.Y. Lab. Law § 740 et seq.; New York Family Leave Law, N.Y. Lab. Law § 201-c; New York Equal Pay Law, N.Y. Lab. Law § 194; N.Y. Lab. Law § 215; the New York City Human Rights Law, Administrative Code of the City of New York, Section 8-101 et seq.; and any other federal or state constitutions, federal, state or local statutes, or any contract, quasi contract, common law or tort claims, whether known or unknown, suspected or unsuspected, concealed or hidden, or developed or undeveloped, up through the date of his execution of this Release. The Executive further agrees that he will not institute or authorize any other party, governmental or otherwise, to institute any administrative or legal proceeding seeking compensation or damages on his behalf against the Released Parties relating to or arising out of any aspect of his employment or termination.

The Executive acknowledges and agrees that, as of the date of this Release, Executive has been paid all compensation (including without limitation any accrued but unused vacation or paid time off) for all of Executive's service with the Company except for compensation owed to Executive pursuant to the provisions of the Letter Agreement. The Executive represents that as of the date hereof he was not denied a request for leave, or retaliated against for taking leave under the Family and Medical Leave Act, 29 U.S.C. §§2601 et seq., at any time during his employment with the Company. Executive and the Company also hereby agree that nothing contained in this Release shall constitute or be treated as an admission of liability or wrongdoing or of any violation of law by the Company or the Executive.

This Release constitutes the entire agreement between the Executive and the Company with regard to the subject matter of this Release. This Release supersedes any other agreements, representations or understandings, whether oral or written and whether express or implied, which relate to the subject matter of this Release other than the continuing obligations of Executive and Company that are set forth in _____. The Executive understands and agrees that this Release may be modified only in a written document signed by the Executive and a duly authorized officer of the Company.

This Release shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws. The Executive hereby submits to and acknowledges and recognizes the jurisdiction of the courts of the State of New York, or, if appropriate, a federal court located in New York (which courts, for purposes of this Release, are the only courts of competent jurisdiction) over any suit, action or other proceeding arising out of, under, or in connection with this Release or the subject matter hereof.

The provisions of this Release are severable. If any provision of this Release is held invalid or unenforceable, such provision shall be deemed deleted from this Release and such invalidity or unenforceability shall not affect any other provision of this Release, the balance of which will remain in and have its intended full force and effect. However that if such invalid or unenforceable provision may be modified so as to be valid and enforceable as a matter of law, such provision shall be deemed to have been modified so as to be valid and enforceable to the maximum extent permitted by law.

By signing below, the Executive acknowledges that this Release affects substantial rights and that the Executive has been advised to consult with an attorney prior to execution of this Release. The Executive further understands and acknowledges that the Executive has up to twenty-one (21) days to review this Release and to discuss it with an attorney of the Executive's own choosing, at the Executive's own expense, whether or not the Executive wishes to sign this Release. Furthermore, the Executive understands and acknowledges that the Executive has seven (7) days after the Executive signs this Release during which time the Executive may revoke this Release. If the Executive wishes to revoke this Release, the Executive may do so by delivering a letter of revocation to the Company's Human Resources Department with a copy to the Company's General Counsel, by 5 p.m. EST on the seventh (7) days after the Executive signs this Release.

Because of the revocation period, the Executive understands that this Release will not become effective or enforceable until the eighth (8th) day after the date the Executive signs this Release.

To accept this Release, the Executive must sign and date this Release and return it to the Company's Human Resources Department with a copy to the Company's General Counsel.

The Executive's agreement with the terms of this Release is signified by the Executive's signature below. Furthermore, the Executive acknowledges that the Executive has read and understands this Release and that the Executive signs this Release of all claims voluntarily, with full appreciation that at no time in the future may the Executive pursue any of the rights that the Executive has waived in this Release.

Date: _____
By: _____

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this “Agreement”) is made effective as of as of _____, between LivePerson, Inc., a Delaware corporation (the “Company,” which for the purposes of this Agreement shall include any Subsidiary, as defined herein), and the person named as Indemnitee on the signature page hereto (the “Indemnitee”).

WHEREAS, the Company desires to attract and retain highly qualified individuals, such as the Indemnitee, to serve the Company;

WHEREAS, the Company desires to retain the Indemnitee to provide services to it;

WHEREAS, the Company and the Indemnitee recognize the significant risk of personal liability for Agents (as defined herein) that arises from corporate litigation practices;

WHEREAS, the Company and the Indemnitee further recognize that liability insurance for the Company’s Agents, when available, is often available only at significant expense and provides for coverage of limited scope, and that competent and experienced persons are often unable or unwilling to serve as Agents unless they are protected by comprehensive liability insurance or indemnification;

WHEREAS, the Indemnitee is willing to serve the Company, subject to certain conditions, including execution and delivery of this Agreement by the Company, in order to furnish the Indemnitee the indemnity provided for herein;

WHEREAS, the Company’s amended and restated Certificate of Incorporation, as in effect on the date hereof (the “Charter”), and its amended and restated By-Laws, as in effect on the date hereof (the “By-laws”), do not prohibit or restrict contracts between the Company and its Agents with respect to indemnification of such Agents; and

WHEREAS, in view of such considerations, the Company desires to provide, independent from the indemnification to which the Indemnitee is otherwise entitled by law and under the Charter and By-Laws, indemnification and the Expense Advances (as defined herein) to the Indemnitee, all as set forth in this Agreement and to the maximum extent permitted by law.

NOW, THEREFORE, to induce the Indemnitee to serve the Company and in consideration of the mutual covenants and agreements set forth in this Agreement, as well as other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Indemnitee hereby agree as follows:

1. Definitions. For the purposes of this Agreement,

(a) Agent. “Agent” means any person who (i) is or was a director, officer, employee, trustee or other agent or fiduciary of the Company; (ii) is or was serving at the request, for the convenience, or to represent the interests of the Company or a Company employee benefit plan, its participants or its beneficiaries, as a director, officer, employee, trustee or other agent or fiduciary of another corporation, limited liability company, partnership, joint venture, trust or other entity (including, without limitation, any employee benefit plan); or (iii) was a director, officer, employee, trustee or other agent or fiduciary of a corporation, limited liability company, partnership, joint venture, trust or other entity which was a predecessor of the Company, or was a director, officer, employee, trustee or other agent or fiduciary of any other such entity at the request of such predecessor; it being agreed and understood that the use of the term “Agent” shall not be construed to alter the legal relationship between an Agent, as defined herein, and the Company.

(b) Change in Control. “Change in Control” means that, after the date of this Agreement, any of the following shall occur: (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Act”)), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company acting in such capacity or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the “beneficial owner” (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing more than 50% of the total voting power represented by the Company’s then outstanding voting securities; (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company (the “Board”) cease to be a majority thereof (otherwise than through death, disability or retirement in accordance with the Company’s normal retirement policies, or with the approval of the Board at the beginning of such period); (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, limited liability company, partnership, joint venture, trust or other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such a merger or consolidation; or (iv) the stockholders of the Company approve a plan of complete or substantial liquidation of the Company or an agreement for the sale or disposition by the Company of (in one transaction or a series of related transactions) all or substantially all of the Company’s assets.

(c) Claim. “Claim” means any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation, whether conducted by the Company or any other party, which the Indemnitee believes in good faith might lead to the institution of any such action, suit, proceeding, alternative dispute resolution mechanism, hearing, inquiry or investigation, whether civil, criminal, administrative, investigative or any other type whatsoever, with respect to an Indemnifiable Event.

(d) Company. “Company” means LivePerson, Inc. and any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger to which LivePerson, Inc. (or any of its wholly owned Subsidiaries) is a party which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees, trustees or other agents or fiduciaries, so that if the Indemnitee is or was a director, officer, employee, trustee or other agent or fiduciary of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee, trustee or other agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, the Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as the Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

(e) Expense Advance. “Expense Advance” means a payment to the Indemnitee of Expenses in advance of the settlement of or final judgment on any Claim.

(f) Expenses. “Expenses” means all costs and liabilities of any type or nature whatsoever (including, without limitation, all attorneys’ fees and related disbursements and other out-of-pocket costs, judgments, fines, penalties and amounts paid in settlements) paid or incurred by or imposed upon the Indemnitee in the investigation, defense, settlement or appeal of, or otherwise in connection with, a Claim (including, without limitation, being a witness) or in establishing or enforcing a right to indemnification under this Agreement, the Charter or By-Laws, Section 145 of the General Corporation Law of the State of Delaware (the “DGCL”) or otherwise, and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement.

(g) Indemnifiable Event. “Indemnifiable Event” means any event or occurrence related to the fact that the Indemnitee is or was a director, officer, employee, trustee or other agent or fiduciary of the Company, or any Subsidiary, or is or was serving at the request of the Company as a director, officer, employee, trustee or other agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action or inaction on the part of the Indemnitee while serving in such capacity.

(h) Independent Legal Counsel. “Independent Legal Counsel” means an attorney or firm of attorneys, selected in accordance with the provisions of Section 8(a) herein, whether or not in the event of a Change in Control.

(i) Potential Change in Control. “Potential Change in Control” means that after the date of this Agreement any of the following shall occur: (i) any person or entity publicly announces an intention to take or to consider taking actions which, if consummated, might result in a Change in Control or (ii) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

(j) Reviewing Party. “Reviewing Party” means the person or body appointed by the Board pursuant to Section 11(d) herein and in accordance with applicable law, which person or body shall be either members of the Board who are not interested in the particular Claim or Independent Legal Counsel; provided, however, that if there has been a Change in Control or Potential Change in Control, the Reviewing Party shall be Independent Legal Counsel.

(k) Subsidiary. “Subsidiary” means any corporation, limited liability company, partnership, joint venture, trust or other entity of which more than 50% of the outstanding voting securities are owned, directly or indirectly, by the Company, by the Company and one or more other Subsidiaries, or by one or more other Subsidiaries.

2. Agreement to Serve. The Indemnitee agrees to serve or to continue to serve the Company as an Agent, at its will (or under separate agreement if such agreement exists), in the capacity in which the Indemnitee serves or has been requested to serve by the Company, so long as the Indemnitee is duly appointed or elected and qualified in accordance with the Charter and By-Laws, or until such time as the Indemnitee tenders the Indemnitee's resignation in writing, provided, however, that nothing contained in this Agreement is intended to create any right to continued service by the Indemnitee.

3. Basic Indemnification. Subject to the terms of this Agreement:

(a) Claims Other than Derivative Claims in Favor of the Company. As to all Claims other than derivative Claims in favor of the Company, the Company shall indemnify the Indemnitee against all Expenses to the fullest extent permitted by applicable law.

(b) Derivative Claims for Judgment in Favor of the Company. As to all derivative Claims in favor of the Company, the Company shall indemnify the Indemnitee against all Expenses to the fullest extent permitted by applicable law; provided that, no indemnification shall be made as to such derivative Claim if the Indemnitee has been finally adjudged to be liable to the Company in connection with such Claim or any claim, issue or matter therein, unless and only to the extent that the Court of Chancery of Delaware or the court in which the Claim was brought shall determine that, despite the adjudication of liability but in view of all the facts and circumstances, the Indemnitee is fairly and reasonably entitled to indemnity for such Expenses which the Court of Chancery or such other court shall deem proper.

(c) Standard of Conduct Required for Entitlement to Basic Indemnification. The Indemnitee shall be entitled to indemnification under Sections 3(a) and (b) herein if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; provided that, in the case of any criminal action or proceeding, the Indemnitee had no reasonable cause to believe the Indemnitee's conduct was unlawful and, in the case of Section 3(b) hereof, subject further to the exclusion set forth therein. The termination of any Claim by judgment, order, settlement (whether with or without court approval), conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that (i) the Indemnitee did not act in good faith and in a manner which the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, (ii) the Indemnitee had reasonable cause to believe that the Indemnitee's conduct was unlawful or (iii) a court determined that indemnification is not permitted by applicable law or pursuant to Section 3(b) herein. In addition, neither the failure of any Reviewing Party to have made a determination as to whether the Indemnitee has met the standard of conduct set forth in this Section 3(c) or had any particular belief, nor an actual determination by any Reviewing Party that the Indemnitee has not met such standard of conduct or did not have such belief, shall be a defense to the Indemnitee's right to indemnification or create a presumption that the Indemnitee did not meet any particular standard of conduct or did not have any particular belief. If the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interest of the participants and beneficiaries of an employee benefit plan, the Indemnitee shall be deemed to have acted in a manner in or not opposed to the best interests of the Company.

(d) Success on the Merits. To the extent that the Indemnitee has been successful on the merits or otherwise (including, without limitation, dismissal or withdrawal of a Claim with or without prejudice) in defense of any Claim or in defense of any claim, issue or matter therein, the Company shall indemnify the Indemnitee against Expenses in connection with such Claim to the fullest extent permitted by applicable law.

4. Additional Indemnification Rights. The Company further agrees to indemnify the Indemnitee in connection with any Claim and to make Expense Advances to the Indemnitee, in each case to the fullest extent as may be provided for under the Charter, By-Laws or applicable law, vote of either the Company's stockholders or its disinterested directors, notwithstanding that any such indemnification or Expense Advance is not specifically authorized by the other provisions of this Agreement. It is the intent of the parties hereto that (i) in the event of any change, after the date of this Agreement, in any applicable law, statute or rule which expands the right of a Delaware corporation to indemnify or make Expense Advances to an Agent to a greater degree than would be afforded currently under the Charter, By-Laws, pursuant to a vote of either the Company's stockholders or its disinterested directors, and this Agreement, the Indemnitee shall enjoy by virtue of this Agreement, the greater benefits afforded by such change; (ii) in the event of any change, after the date of this Agreement, in any applicable law, statute or rule which narrows the right of a Delaware corporation to indemnify or make Expense Advances to an Agent to a greater degree than would be afforded currently under the Charter, By-Laws or applicable law, pursuant to a vote of either the Company's stockholders or its disinterested directors and this Agreement, such change, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties' rights and obligations hereunder, except as set forth in Section 5(a) herein; and (iii) this Agreement be interpreted and enforced so as to provide indemnification and Expense Advances under such circumstances as set forth in this Agreement, if any, in which the providing of indemnification or Expense Advances would otherwise be discretionary. Notwithstanding the foregoing, no Expense Advance under this Agreement shall be made in violation of Section 402 of the Sarbanes-Oxley Act of 2002.

5. Exclusions. Any other provision of this Agreement to the contrary notwithstanding, the Company shall not be obligated to indemnify or provide Expenses Advances to the Indemnitee:

(a) to the extent any such indemnification or Expense Advance would be prohibited under applicable law, statute or rule; or

(b) to the extent that the Indemnitee actually received from any other source (including an insurer) amounts otherwise payable hereunder;

(c) to the extent that Claims are initiated or brought voluntarily by the Indemnitee and not by way of defense, counterclaim or crossclaim, except (i) with respect to actions or proceedings brought to establish or enforce a right to indemnification under this Agreement or any other agreement or insurance policy or under the Charter or By-laws now or hereafter in effect relating to Claims for Indemnifiable Events, (ii) in specific cases, if the Board has approved the initiation or bringing of such Claim or (iii) as otherwise required under Section 145 of the DGCL, regardless of whether the Indemnitee ultimately is determined to be entitled to such indemnification, Expense Advances, or insurance recovery, as the case may be;

(d) to the extent that any Expenses are incurred by the Indemnitee with respect to any action instituted (i) by the Indemnitee to enforce or interpret this Agreement, if a court having jurisdiction over such action makes a final judicial determination (as to which all rights of appeal therefrom have been exhausted or have lapsed) that each of the material assertions made by the Indemnitee as a basis for such action was not made in good faith or was frivolous or (ii) by or in the name of the Company to enforce or interpret this Agreement, if a court having jurisdiction over such action makes a final judicial determination (as to which all rights of appeal therefrom have been exhausted or have lapsed) that each of the material defenses asserted by the Indemnitee in such action was made in bad faith or was frivolous;

(e) for Expenses and the payment of profits arising from the purchase and sale by the Indemnitee of securities in violation of Section 16(b) of the Act or any similar successor statute;

provided that, notwithstanding the foregoing provisions of this Section 5, the Indemnitee shall be entitled under Section 6 herein to receive Expense Advances with respect to any Claim unless and until a court having jurisdiction over such Claim shall have made a final determination (as to which all rights of appeal therefrom shall have been exhausted or lapsed) that the Indemnitee is prohibited from receiving indemnification with respect thereto.

6. Expense Advances. Within five business days of receipt by the Company of an undertaking (the "Undertaking"), substantially in the form attached hereto as Exhibit 1, by or on behalf of the Indemnitee to repay the amount of any Expense Advance with respect to any Claim if and to the extent that it shall ultimately be determined that the Indemnitee is not entitled to indemnification for such amount, the Company shall make Expense Advances to the Indemnitee to the fullest extent permitted by applicable law. The Undertaking shall be unsecured and shall bear no interest.

7. Non-Exclusivity; Continuation. The indemnification and Expense Advances pursuant to this Agreement shall not be deemed exclusive of any other rights to which the Indemnitee may be entitled under the Charter or By-Laws, pursuant to any vote of the Company's stockholders or its disinterested directors, or under any other agreement, any law or otherwise, both as to actions in the Indemnitee's official capacity and as to actions in another capacity while an Agent. All agreements and obligations of the Company contained in this Agreement shall continue as to the Indemnitee while the Indemnitee is an Agent and after the Indemnitee has ceased to be an Agent.

8. Change in Control; Potential Change in Control.

(a) The Company agrees that if there is a Change in Control, then with respect to all matters concerning the rights of the Indemnitee to indemnification and Expense Advances under this Agreement, the Charter or By-Laws, pursuant to any vote of the Company's stockholders or its disinterested directors, under any other agreement, any law or otherwise, the Company shall seek legal advice only from Independent Legal Counsel. For all purposes of this Agreement, such Independent Legal Counsel shall be such person or firm selected by the Indemnitee and approved by the Company (which approval shall not be unreasonably withheld) which has not otherwise performed services for the Company or the Indemnitee within the prior three years (other than in connection with such matters). The Independent Legal Counsel shall, among other things, render its written opinion to the Company and the Indemnitee as to whether and to what extent the Indemnitee is permitted to be indemnified and receive Expense Advances. The Company agrees to pay the reasonable fees and expenses of the Independent Legal Counsel relating to its engagement pursuant to this Agreement.

(b) In the event of a Potential Change in Control, the Company may, in its sole discretion, create a trust for the benefit of the Indemnitee and from time to time fund such trust in such amounts as the Board may determine to satisfy Expenses reasonably anticipated or proposed to be incurred or paid from time to time in connection with any Claims. The terms of any trust established pursuant hereto shall provide that upon a Change in Control (i) the trust shall not be revoked or the principal thereof invaded, without the written consent of the Indemnitee, (ii) the trustee shall advance (solely to the extent of trust assets), within two business days of a request by the Indemnitee, all Expenses to the Indemnitee (and the Indemnitee hereby agrees to reimburse the trust under the circumstances under which the Indemnitee would be required to reimburse the Company under Section 6 herein), (iii) the trustee shall promptly pay (solely to the extent of trust assets) to the Indemnitee all amounts for which the Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise and (iv) all unexpended funds in such trust shall revert to the Company upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that the Indemnitee has been fully indemnified or is not entitled to be indemnified under the terms of this Agreement as to all Claims. The trustee shall be a person or entity reasonably satisfactory to the Indemnitee. Nothing in this Section 8(b) shall relieve the Company of any of its obligations under any other provision of this Agreement.

9. Partial Indemnification. If the Indemnitee is entitled under any provision of this Agreement or otherwise to indemnification or Expense Advances by the Company for a portion, but not all, of any Expenses incurred by the Indemnitee, the Company shall indemnify or provide Expense Advances to the Indemnitee, as the case may be, for the portion thereof to which the Indemnitee is entitled.

10. Contribution. If indemnification is unavailable by reason of a court decision described in Section 11(e) herein based on grounds other than that set forth in Section 5(a) herein, then in respect of any Claim in which the Company is jointly liable with the Indemnitee (or would be if joined in such Claim), the Company shall contribute to the amount of the Indemnitee's Expenses in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand, and by the Indemnitee on the other hand, from the transaction from which such Claim arose, and (ii) the relative fault of the Company on the one hand, and of the Indemnitee on the other hand, in connection with the events which resulted in such Expenses, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand, and of the Indemnitee on the other hand, shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such Expenses. The Company agrees that it would not be just and equitable if contribution pursuant to this Section 10 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

11. Procedures.

(a) Timing of Payments. All payments of Expenses (including, without limitation, Expense Advances) by the Company to the Indemnitee pursuant to this Agreement shall be made to the fullest extent permitted by law as soon as practicable after written demand by the Indemnitee therefor is presented to the Company, but in no event later than thirty (30) business days after such written demand by the Indemnitee is presented to the Company, except in the case of Expense Advances, which shall be made no later than ten (10) business days after such written demand by the Indemnitee is presented to the Company.

(b) Notice. Promptly after receipt by the Indemnitee of notice of the commencement, or the threat of commencement, of any Claim, the Indemnitee shall, if the Indemnitee believes that indemnification or Expense Advances with respect thereto may be sought from the Company by the Indemnitee pursuant to this Agreement, notify the Company of the commencement or threat of commencement thereof, which notice may, but need not, be substantially in the form attached hereto as Exhibit 2. Any failure of the Indemnitee to provide such notice to the Company shall not, however, relieve the Company of any liability which it may have to the Indemnitee unless and to the extent such failure materially prejudices the interests of the Company. If, at the time it receives such notice from the Indemnitee, the Company has directors' and officers' liability insurance in effect, the Company shall give prompt notice of the commencement, or the threat of commencement, of such Claim to the insurers in accordance with the procedures set forth in the respective applicable insurance policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such Claim in accordance with the terms of such policies; provided that no such payments by such insurers shall relieve the Company of any liability or obligation which it may have to the Indemnitee, except as and to the extent expressly provided under this Agreement.

(c) Assumption of Defense. If the Company shall be obligated to pay Expenses arising in connection with any Claim against the Indemnitee, the Company shall be entitled to assume the defense of such Claim, with counsel approved by the Indemnitee (whose approval shall not be unreasonably withheld), upon the delivery to the Indemnitee of notice of its election to do so. After delivery of such notice, approval of such counsel by the Indemnitee and the retention of such counsel by the Company, the Company will not be liable to the Indemnitee under this Agreement for any fees and expenses of counsel subsequently incurred by the Indemnitee with respect to the same Claim; provided that (i) the Indemnitee shall have the right to employ the Indemnitee's own counsel in connection with any Claim at the Indemnitee's expense; (ii) if (A) the employment of counsel by the Indemnitee shall have been previously authorized by the Company, (B) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of such defense, or (C) the Company shall not, in fact, have employed counsel to assume the defense of such Claim, in each such case the fees and expenses of the Indemnitee's counsel shall be paid by the Company, it being agreed and understood that the Company shall only be required to pay the fees and expenses of one separate counsel (including local counsel); and (iii) the Company shall not settle any Claim in any manner which would impose any penalty, limitation or unindemnified Expense on the Indemnitee without the Indemnitee's consent.

(d) Determination of Entitlement to Indemnification. In the event of any demand by the Indemnitee for indemnification under this Agreement or otherwise, the Board shall promptly designate a Reviewing Party. The Reviewing Party shall determine that indemnification is proper if it finds that the Indemnitee has met the required standard of conduct set forth in Section 3(c) herein and that indemnification is not prohibited pursuant to Section 5 herein. If the Reviewing Party is more than one member of the Board, it shall act by a majority vote. If the Reviewing Party is Independent Legal Counsel, the determination of the Reviewing Party shall be rendered in the form of a written legal opinion. Subject to Sections 11(e) and 12 herein, any indemnification under Sections 3 and 4 herein (unless ordered by a court or pursuant to Section 3(d) herein) shall be made by the Company only as authorized in the specific case and upon the determination of the Reviewing Party that the Indemnitee is entitled to indemnification in the circumstances because the Indemnitee has met the standard of conduct set forth in Section 3(c) herein and that indemnification is not prohibited pursuant to Section 5 herein. The Indemnitee's demand for indemnification shall create a presumption that the Indemnitee is entitled to indemnification and the Reviewing Party shall have 30 days from the date of receipt of the Indemnitee's demand in which to render in writing and deliver to the Indemnitee its determination. If the Reviewing Party makes no timely determination, the Reviewing Party shall be deemed to have determined that the Indemnitee is entitled to the indemnification demanded. If the Reviewing Party determines, which determination shall be based upon clear and convincing evidence sufficient to rebut the aforesaid presumption of entitlement, that the Indemnitee is not entitled to indemnification, in whole or in part, in the circumstances because the Indemnitee has not met the standard of conduct set forth in Section 3(c) herein or because the indemnification is prohibited pursuant to Section 5 herein, the Indemnitee shall (i) be entitled to obtain a favorable determination or to appeal such negative determination in the manner provided in Sections 11(e) and 12 herein and (ii) not be required to reimburse the Company for any Expense Advances or Expenses theretofore paid to or on behalf of the Indemnitee until a final determination has been made with respect to the Indemnitee's legal entitlement to indemnification (as to which all rights of appeal therefrom shall have been exhausted or shall have lapsed).

(e) Indemnitee's Rights on Unfavorable Determination. Notwithstanding a determination by a Reviewing Party or any forum listed in Section 12 herein that the Indemnitee is not entitled to indemnification with respect to a specific Claim, or any claim, issue or matter therein, the Indemnitee shall have the right to apply to the Court of Chancery of Delaware or any other court of competent jurisdiction for the purpose of determining and enforcing the Indemnitee's right to indemnification pursuant to this Agreement or otherwise, and the Company hereby consents to service of process and agrees to appear in any such proceeding. Such court shall find that the Indemnitee is entitled to indemnification unless the Company shall prove by clear and convincing evidence that (i) the Indemnitee did not meet the applicable standard of conduct required to entitle the Indemnitee to such indemnification or that indemnification is prohibited pursuant to Section 5 herein, and (ii) the requirements of Section 3(d) herein have not been met.

12. Appeal of a Reviewing Party's Determination of No Right to Indemnification.

(a) The Indemnitee shall be entitled to select from the following alternatives a forum in which the validity of a Reviewing Party's determination that the Indemnitee is not entitled to indemnification will be heard, which forum shall determine that the Indemnitee is entitled to such indemnification unless such forum determines that there is clear and convincing evidence that (i) the Indemnitee did not meet the applicable standard of conduct required to entitle the Indemnitee to such indemnification or that indemnification is prohibited pursuant to Section 5 herein, and (ii) the requirements of Section 3(d) herein have not been met:

(A) those members of the Board who are disinterested parties with respect to the Claim, acting by a majority vote;

(B) Independent Legal Counsel, in the form of a written opinion; or

(C) those stockholders of the Company who are disinterested parties with respect to the Claim, acting by a majority vote.

(b) As soon as practicable, and in no event later than 30 days after notice of the Indemnitee's choice of forum pursuant to Section 12(a) herein, the Company shall, at its own expense, submit to the selected forum in such manner as the Indemnitee or the Indemnitee's counsel may reasonably request, the basis for the determination that the Indemnitee is not entitled to indemnification, and the Company shall act in good faith to assure the Indemnitee a complete opportunity to defend against and appeal such determination.

13. Binding Effect; Successors and Assigns. This Agreement shall bind and inure to the benefit of the successors, heirs, personal and legal representatives and assigns of the parties hereto, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all, substantially all or a substantial part of the business or assets of the Company. The Company shall require and cause any successor (whether direct or indirect, and whether by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part of the business or assets of the Company, by written agreement in form and substance satisfactory to the Indemnitee (acting reasonably), expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

14. Expenses and Expense Advances to Enforce the Agreement. It is the intent of the Company that the Indemnitee shall not be required to incur any Expenses arising from any effort to enforce the Indemnitee's rights under this Agreement, because incurring such Expenses would substantially detract from the benefits intended to be extended to the Indemnitee hereunder. Accordingly, if it should appear to the Indemnitee, that the Company has failed to comply with any of its obligations under this Agreement or if the Company or any other person or entity (other than the Court of Chancery of Delaware or any other court of competent jurisdiction in a final determination, as which all rights of appeal therefrom shall have been exhausted or shall have lapsed) takes any action to declare this Agreement or any provision hereof void or unenforceable, or institutes any action, suit or proceeding designed (or having the effect of being designed) to deny or recover from the Indemnitee the benefits intended to be provided to the Indemnitee hereunder, the Company hereby irrevocably authorizes the Indemnitee from time to time to retain counsel of the Indemnitee's choice to represent the Indemnitee in connection with the enforcement of the Indemnitee's rights under this Agreement. If the Indemnitee is successful in whole or in part in enforcing the Indemnitee's rights under this Agreement, the Company shall pay and be solely responsible for any and all costs and liabilities (including, without limitation, all reasonable attorneys' fees and expenses incurred by the Indemnitee in connection therewith).

15. Insurance; Other Indemnification.

(a) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise for which such person serves at the request of the Company, Indemnitee shall be an insured under such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies.

(b) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable (or for which advancement is provided hereunder) hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, the Charter, the By-laws, contract, agreement or otherwise.

(c) The Company's obligation to indemnify or make an Expense Advance hereunder to Indemnitee who is or was serving at the request of the Company as a director, officer, employee or agent of any other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of expenses from such other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise.

16. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) when delivered by hand or (ii) if mailed by certified or registered mail with postage prepaid, on the third business day after the mailing date. Addresses for notice to either party shall be as shown on the signature page of this Agreement or as subsequently modified by the addressee by such written notice.

17. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (i) the validity, legality and enforceability of the remaining provisions of the Agreement (including, without limitation, all portions of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, (ii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, all portions of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable and (iii) to the fullest extent possible, any such provision held to be invalid, illegal or unenforceable shall be reformed so as to be valid, legal and enforceable and to give effect to the intent manifested by such provision.

18. Modifications, Amendments, and Waivers. No modification or amendment of this Agreement, or waiver of any of the provisions hereof, shall be binding unless executed in writing by both of the parties hereto, in the case of a modification or amendment, or by the waiving party, in the case of a waiver. No waiver of any such provision shall be deemed to constitute a waiver of such provision on any other occasion or a waiver of any other provision.

19. Consent to Jurisdiction. The Company and the Indemnitee each hereby irrevocably consent to the non-exclusive jurisdiction of any New York State Court or any United States federal court sitting in the Borough of Manhattan in the City of New York for any purpose in connection with any action or proceeding which arises out of or relates to this Agreement.

20. Governing Law. This Agreement shall be construed in accordance with, and this Agreement and all matters arising out of or relating in any way whatsoever to this Agreement (whether in contract, tort or otherwise) shall be governed by, the law of the State of Delaware.

21. Subrogation. In the event of payment by the Company under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who agrees, at the sole expense of the Company, to execute all papers reasonably required and to do all other acts and things that may be reasonably necessary on the part of the Indemnitee to secure such rights, including, without limitation, the execution of documents necessary to enable the Company to bring suit to enforce such rights.

22. Integration and Entire Agreement. This Agreement sets forth the entire understanding between the parties hereto and supersedes and merges all previous written and oral negotiations, commitments, understandings and agreements relating to the subject matter hereof; provided that, in the event the Indemnitee has entered into a separate agreement with respect to employment with the Company, the rights granted hereunder shall be in addition to the rights granted under any such employment agreement and in the event of any inconsistency between the terms of this Agreement and the terms of any such employment agreement with respect to the subject matter hereof, the terms hereof shall control.

23. No Construction as Employment Agreement. In the case of any Indemnitee who is an employee of the Company, nothing contained in this Agreement shall be construed as giving the Indemnitee any right to be retained in the employ of the Company or affiliated entities.

24. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

LIVEPERSON, INC.

INDEMNITEE

By: _____

Name:

Name:

Title:

Address:

475 10th Avenue, 5th Floor
New York, NY 10018

UNDERTAKING

1. This Undertaking is submitted pursuant to the Indemnification Agreement dated as of _____, between LivePerson, Inc., a Delaware corporation (the "Company"), and the undersigned (the "Agreement"). Capitalized terms used but not defined herein shall have the respective meanings set forth in the Agreement.
2. I am requesting certain Expense Advances in connection with a Claim.
3. I hereby undertake to repay such Expense Advances if it shall ultimately be determined that I am not entitled to be indemnified by the Company therefor under the Agreement or otherwise.
4. The Expense Advances are, in general, all related to (attach additional pages if necessary):

Signed: _____
Dated: _____

NOTICE AND DEMAND FOR INDEMNIFICATION

1. This Notice and Demand for Indemnification is submitted pursuant to the Indemnification Agreement dated as of _____, between LivePerson, Inc., a Delaware corporation (the "Company"), and the undersigned (the "Agreement"). Capitalized terms used but not defined herein shall have the respective meanings set forth in the Agreement.

2. I am notifying the Company as to the following Claim (attach additional pages if necessary):

3. I am requesting indemnification and Expense Advances with respect to such Claim to the full extent provided for in the Agreement or to which I may otherwise be entitled.

Signed: _____

Dated: _____

December 21, 2006

Eli Campo

Dear Eli:

I am pleased to offer you the position of Executive Vice President, General Manager, Israel in our Ra'anana office with a scheduled start date on or about February 15, 2007 as mutually agreed between you and LivePerson. This letter shall confirm the terms and conditions of our employment offer to you:

- You will be paid base salary at a monthly rate of 72,000 NIS (seventy-two thousand New Israeli Shekels) according to current payroll practices in the Israel office.
- You will report directly to the Chief Executive Officer.
- You will be provided with company car benefits in accordance with LivePerson's existing standard practices and policies.
- You will be eligible to participate in the LivePerson bonus plan, as it exists from time to time under terms comparable to other LivePerson employees of similar role and responsibility. Currently, the executive bonus program contemplates milestones and objectives set in advance on at least an annual basis as well as metrics related to overall company performance. Your target annual bonus for the 2007 calendar year will be 215,000 NIS. Your target bonus in subsequent years will be determined in the sole discretion of LivePerson but in no event will the amount of any target bonus be set at less than 25% of your then-current annual base salary. Your actual 2007 bonus payout will be determined in the sole discretion of LivePerson based on the profitability of the company as compared to Plan, your individual bonus target (prorated for the portion of 2007 that you are employed at LivePerson if you are hired after January 1, 2007), and your personal contribution to the company's efforts and the successful attainment of the agreed upon milestones and objectives, as determined by your manager(s) in their sole discretion. Eligibility for and payment of such bonus, if any, is conditioned on your being actively employed by LivePerson as of the date the bonus, if any, is paid. Your actual bonus payment is likely to be either greater or less than your target amount based on these criteria. In any year, LivePerson may determine not to pay any bonus based on the above criteria. LivePerson reserves the right to amend or terminate its bonus plan at any time.

Your initial objectives and milestones will relate to the general areas described below, with specific goals, metrics and other requirements to be determined following the start date of your employment and from time to time thereafter by the company's Chief Executive Officer, President and/or Board of Directors:

462 Seventh Avenue, 3rd Floor, New York, NY 10018

t212.609.4200

f212.609.4201

www.liveperson.com

v Management and oversight of the operations and personnel of the Ra'anana office in accordance with company policies, procedures, fiscal plans and any other corporate directives that may issue from time to time;

v Management and oversight of the company's hosting, production and support environments with a focus on improving existing system uptime and achieving the company's desired levels of system uptime, stability and scalability consistent with the demands of the company's current business as well as future business, strategic and fiscal plans, as same may be updated by the company from time to time; and

v Management and oversight of the company's research and development function including responsibility for the delivery of all currently planned and future software code releases in coordination with the company's product marketing function and in accordance with the company's overall product roadmap, strategy, business and fiscal plans as same may be updated by the company from time to time.

You will be granted an unvested option to purchase 300,000 shares of LivePerson common stock at a strike price determined by the LivePerson Board of Directors. We currently anticipate that there will be an option grant date on or before February 15th, 2007. In the event that your first day of employment is subsequent to the option grant date, the option grant date for your specific option grant will be your first day of employment, and the strike price of the options granted to you shall be the market price at the time of the grant. This option will be granted under the terms and conditions of the LivePerson Incentive Stock Option Plan and the Notice of Grant of Stock Option, which will be issued to you at the time of the grant. Unvested options vest in equal increments of 25% annually over four (4) years, beginning on the first anniversary of the grant date. Options issued to you will be "102 capital gain track" options to the extent that such classification is within the company's reasonable control. Following termination of your employment, you will have the ability to exercise options as specified in this letter and pursuant to the LivePerson Incentive Stock Option Plan.

The Employee shall be entitled to annual Recreation Pay per year according to the then prevailing applicable law. Furthermore, you will be eligible for vacation in accordance with LivePerson's vacation policy as it exists from time to time. Under the current policy, you will accrue vacation at the rate of 20 days per year, accruing pro-rata on a monthly basis following the start date of your employment. Annual vacations may be accumulated and/or redeemed as provided under the laws of the State of Israel. Unused vacation in any given year will be carried forward pursuant to the company's vacation policy as it may exist from time to time and in accordance with the laws of the State of Israel.

- The company will pay, at its sole cost and expense, a sum equal to 7 1/2 % (seven and one-half percent) of the Employee's monthly current salary on behalf of the Employee to the Advanced Study Fund in which the Company participates. The Employee will pay a sum equal to 2 1/2 % (two and one-half percent) of his/her monthly current salary, at his/her expense, into said fund as is standard practice. In addition, the company will make payments toward an executive insurance fund, and toward disability insurance in accordance with the laws of the State of Israel. Upon termination of employment, the company will transfer and release to you all accrued and unpaid funds held by the company for executive insurance and the Advance Study Fund in accordance with the requirements of the laws of the State of Israel. The details of the foregoing payments will be further specified in the employment agreement between you and the company to be executed upon the start date of your employment.
 - You will receive further orientation regarding benefits you are eligible for and company policies on or shortly after your start date.
 - This offer is made contingent upon your successful completion of the Company's pre-employment procedures, which may include reference and background verification of your prior employment and other information provided by you during the interview process.
 - By signing this letter you confirm that to the best of your knowledge following diligent inquiry and investigation you are not subject to any agreement, with a prior employer or otherwise, which would prohibit, limit or otherwise be inconsistent with your employment at LivePerson or prevent you from performing your obligations to LivePerson. Additionally, please be advised that it is LivePerson's corporate policy not to obtain or use any confidential, proprietary information or trade secrets of its competitors or others, unless it is properly obtained from sources permitted to disclose such information. By signing this letter below, you are acknowledging that you have been advised of this policy and that you accept and will abide by it, and you are also agreeing that you will not use or disclose any confidential or proprietary information of LivePerson to any third party, including any previous or subsequent employer.
 - This letter is not an Employment Agreement. Employment with LivePerson will not take effect until an Employment Agreement with LivePerson, or any subsidiary of LivePerson, has been executed by both you and a representative of the Company.
 - In the event of any voluntary termination of your employment, you will provide the company with no less than six (6) months advance notice of such voluntary termination and, if requested by the company, you will assist and cooperate with the company to find, recruit and hire a replacement for your position, and you will provide assistance as requested by the company for the purpose of effecting an orderly transition of your responsibilities to such replacement. Should your full time employment continue with the company during the six (6) month period following your notice of voluntary termination, you will receive the following benefits: (i) within thirty (30) days following termination, pro-rated payment of your then-current target annual bonus, proportional to the percentage of the relevant fiscal year actually served by you prior to your termination; and (ii) subject to the terms of the Option Plan, any unvested options to purchase LivePerson stock held by you that would have vested within the six (6) month period immediately following the date of your termination will automatically and immediately vest and become exercisable upon your date of termination and remain exercisable for a period of up to one year following such termination, but in no event beyond the expiration of the option term.
-

In the event that your employment is involuntarily terminated by LivePerson or any successor entity Without Cause or Constructively Terminated, whether in the event of a Change of Control or otherwise (as such capitalized terms are defined below), you will be eligible to receive the following severance benefits: (i) severance in an amount equal to your then current base salary for a period of six (6) months payable in the form of a lump-sum, cash payment due within thirty (30) days of your date of termination; (ii) subject to the terms of the Option Plan, any unvested options to purchase LivePerson stock held by you that would have vested within the 12 month period immediately following your termination will automatically and immediately vest and become exercisable upon such termination and remain exercisable for a period of up to one year following such termination, but in no event beyond the expiration of the option term, and (iii) within thirty (30) days following termination, pro-rated payment of your then-current target annual bonus, proportional to the percentage of the relevant fiscal year actually served by you prior to your termination. The foregoing severance benefits will be conditioned upon your execution and non-revocation of a general release of claims in favor of LivePerson and its subsidiaries in a reasonable form to be provided by LivePerson.

A termination **Without Cause** shall be defined as termination of employment other than for death, disability, termination for Cause or any resignation by you. **Cause** shall be defined as: (i) your failure to substantially perform your duties to LivePerson or any of its subsidiaries provided that the company has previously made you aware of such failure, (ii) your conviction of, or plea of nolo contendere to, a felony (regardless of the nature of the felony) or any other crime involving dishonesty, fraud, or moral turpitude, (iii) your gross negligence or willful misconduct (including but not limited to acts of fraud, criminal activity or professional misconduct) in connection with the performance of your duties and responsibilities to LivePerson or any of its subsidiaries, (iv) your failure to substantially comply with the rules and policies of LivePerson or any of its subsidiaries governing employee conduct or with the lawful directives of the Board of Directors of LivePerson, or (v) your breach of any non-disclosure, non-solicitation, non-competition or other restrictive covenant obligations to LivePerson or any of its subsidiaries.

Constructively Terminated shall be defined as resignation by you as a result of a material diminution of your job responsibilities, level of authority, title and/or base salary without your consent; provided, however, that: (1) a change in your title by the company resulting from a change or restructuring of titles applied to company personnel in your peer level shall not be deemed a material diminution in title or a Constructive Termination for purposes of this agreement; and (2) you shall give LivePerson written notice within thirty (30) days of the occurrence of such circumstances constituting Constructive Termination and you shall be deemed Constructively Terminated only if LivePerson has not cured such circumstances within twenty (20) business days following its receipt of such notice.

Change of Control shall be defined as any transaction or group of related transactions following which the holders of LivePerson's voting power immediately prior to such transaction(s) no longer hold publicly-traded securities having the voting power necessary to elect a majority of the board of directors of the surviving entity or entities.

Please indicate your acceptance of this offer by signing below and returning one copy to our office. LivePerson is a dynamic organization with tremendous growth opportunities. We look forward to you joining us and hope that you share our excitement for the opportunity it presents to everyone on the team.

Sincerely,

/s/ Tim Bixby
Tim Bixby
President/CFO

Accepted by:

/s/ Eli Campo
Eli Campo

Dec, 22, 2006
Date

2/21/2007
EMPLOYMENT AGREEMENT

Made and entered into in Raanana, Israel, as of the Effective Date (as defined below) by and between HumanClick Ltd., a corporation organized and existing under the laws of the State of Israel, having its principal place of business at Raanana, Israel, (hereinafter the "Company") of the first part and the Employee (As defined below) of the second part;

Personal Information	
ELI CAMPO	
Name	ID. Number

Address		
Street	City	Zip Code

Telephone	Facsimile	E-mail
-----------	-----------	--------

Terms of Employment	
Effective Date:	2/21/2007
Position:	General Manager, Tel Aviv
Compensation:	72,000 NIS Per month
Car Expenses Allowance:	No, see section 6 of the agreement Per month
Executive's Insurance:	100%
Advance Study Fund:	100%
Annual Vacation:	20 days per year with full salary
Termination Notice Period:	See Offer Letter Dated December 21, 2006

/s/ Tim Bixby

HumanClick Ltd.

/s/ Eli Campo

The Employee

By Tim Bixby

General Terms

- A. The following General Terms shall apply to the Employee, subject to the specific Terms of Employment set forth above. To avoid any doubt, in the event the Terms of Employment do not grant Employee any of the terms set forth in this General Terms, notwithstanding anything stated in this General Terms the Employees shall not be entitled to such terms.
- B. Unless the context clearly implies or indicates otherwise, the meaning of words and terms defined in the above Terms of Employment shall apply to this General Terms.
- C. Reference to statutes or statutory provisions include reference to any orders or regulations made thereunder and reference to any statute, provision, order or regulation as amended, modified, re-enacted or replaced from time to time whether before or after the date hereof (subject to as otherwise expressly provided herein) and to any previous statute, statutory provision, order or regulation amended, modified, re-enacted or replaced by such statute, provision, order or regulation.
- D. The terms described in the offer letter dated December 21, 2006 from the Company to Employee (the "Offer Letter") are incorporated into this Agreement by reference. In the event of any conflict between the terms of the Offer Letter and the terms of this Agreement, the terms of the Offer Letter will govern, except to the extent that such terms are invalid under applicable local law.

1. Employment

The Company hereby employs the Employee in the Position, and the Employee agrees to perform services and be employed by the Company in said position in accordance with the terms and conditions set forth in this Agreement.

2. Term of Agreement

- 2.1. The term of this Agreement shall commence on the Effective Date and shall continue until a written notice of termination is given, as provided in this Agreement subject to the Termination Notice Period (the "Term").

3. Obligations of the Employee

- 3.1. During the entire Term, the Employee shall discharge his\her office and his\her obligations under the Position in accordance with directives received from the General manager of the company and shall report to the General manager of the Company.
- 3.2. During the entire Term, the Employee will devote, subject to the provisions of this Agreement, all of his\her working time toward fulfilling his\her obligations and duties to the Company and will carry out his\her job faithfully and devotedly, in accordance with the objectives of the Company, as they are defined by the Company's Board of Directors, from time to time.
- 3.3. The Employee shall notify the Company immediately of every matter or transaction in which he\she has a significant personal interest and\or which might create a conflict of interest with his\her position in the Company.

4. Place of Employment

The Employee's regular place of employment shall be in Israel, and will include travel and periods of stay abroad according to the requirements of the work to be performed for the Company as determined by the Company's management.

5. Compensation

5.1. As base compensation for the Employee's services to the Company, the Company will pay the Employee the Compensation. The Compensation will be adjusted to the cost of living in accordance with the then applicable law.

5.2. Employee agrees that his\her position pursuant to Section 3 above is one that requires a special measure of personal trust as defined in the Work and Rest Hours Law, 5711-1951, and therefore, the provisions of such law shall not apply to the Employee and the Employee shall not be entitled to compensation for working more than 45 (forty five) hours per week, beyond the Compensation set forth in Sub-Section 5.1 above.

6. Car Expenses

During the Term, the Company shall extend to the Employee's use a leased. The Employee will bear any tax applicable on use of the car by Employee according to the then applicable law.

7. Executive's Insurance

7.1. The Company will pay on the Employee's behalf at the Company's sole cost and expense a sum equal to 13 1/3% (thirteen and one-third percent) of the Employee's current Compensation each month for executives' insurance which will be allocated as follows:

(One) 8 1/3% (eight and one third percent) for a severance pay fund;

(Two) 5% (five percent) for a provident fund;

(Three) In addition the company will pay for an "employment disability" insurance;

7.2 The Employee will contribute a sum equal to 5% (five percent) of his\her monthly current Compensation for each month for the insurance for the provident fund in accordance with custom and practice.

7.3 All payments provided for in this Section 7 will be made in such amounts and in such timely fashion as to guarantee the Employee the full rights and benefits of such insurance at all times during the Term and thereafter in accordance with law and practice.

7.4 During the Term, ownership of all accounts and insurance policies provided for in this Section 7 shall be in the name of the Company.

7.5 Subject to section 7.6 hereto, if the employee-employer relationship is terminated for any reason by:

- 7.5.1 the Company, the accounts and/or policies provided for in this Section 7, including the provident and severance pay funds, will be released to the Employee and transferred to his\her sole name, effective as of the date of such termination. The amount of severance pay which the Employee shall be entitled shall be the greater of (a) the amount accumulated in the policy account for severance pay; and (b) the amount required by law; or,
- 7.5.2 the Employees, the accounts and/or policies provided for in this Section 7, including the provident and severance pay funds, will be released to the Employee and transferred to his\her sole name, effective as of the date of such termination. The amount of severance pay which the Employee shall be entitled shall be the amount accumulated in the policy account for severance pay.
- 7.6 Notwithstanding the provisions of Sub-Section 7.5, the Employee shall not be entitled to the release of the severance policy to him/her if the Employee has, of his\her own and sole initiative, terminated his\her employment in the Company without having given prior notice of his\her resignation at least 30 (thirty) days in advance, except as a result of a termination due to circumstances beyond the Employee's control, or the employment is terminated as a result of circumstances under which according to any law and/or employment agreement and/or judicial decision (from a court of competent jurisdiction) the Employee is not entitled to the full amount of discharge compensation that would otherwise be payable under the Discharge Compensation Law, 5723-1963.

8. Advance Study Fund

The company will pay, at its sole cost and expense, a sum equal to 7½% (seven and one-half percent) of the Employee's monthly current Compensation on behalf of the Employee to the Advanced Study Fund in which the Company participates. The Employee will pay a sum equal to 2½% (two and one-half percent) of his\her monthly current Compensation, at his\her expense, into said fund as is standard practice.

9. Recreation Pay

The Employee shall be entitled to an annual Recreation Pay per year according to the then prevailing applicable law.

10. Vacations

- 10.1. The Employee shall be entitled to an annual vacation of the number of days stated in the Terms of Employment above per year with full salary. Annual vacations may be accumulated and/or redeemed as provided under the law.
- 10.2. The Employee shall be entitled to Sick Leave according to the then prevailing applicable law.

11. Termination of Agreement

- 11.1. The Company and the employee shall both have the right to terminate the Employee's employment with the Company at any time during a Term upon giving a prior written notice in compliance with the Termination Notice Period. During the Termination Notice Period, the Employee will continue to discharge his/her office and cooperate with his/her replacement unless the Company terminates the employer-employee relationship prior to the end of the Termination Notice Period. During the Termination Notice Period, the Company will continue to pay the Employee all payments and honor all commitments owed to the Employee in accordance with this Agreement. Further, subject to Section 7.6 above, the Company will pay the Employee the full severance pay compensation required by law for an employee who is terminated from his/her position, and will transfer to the Employee's name all of the executives' insurance policies described in Section 7 above.
- 11.2. At the end of the employment, the Employee shall transfer his/her position to his/her replacement in an orderly fashion and shall deliver to the Company all documents, information and all other materials in his/her possession or that were prepared by him/her relating to his/her work up to the date that he/she ceases to be employed by the Company.

12. Confidentiality and Proprietary Information

- 12.1. During the Term and thereafter the Employee shall preserve the confidentiality of all information related to the business and activities of the Company, including all information relating to its technology, products, suppliers and clients, and shall not reveal any such information to a third party of any kind.
- 12.2. All right, title and interest in and to any of the products, materials, methods, processes, techniques, know-how, data, information and other results whatsoever, discovered or occurring in the course of or arising from the performance of the work of the Employee under the Agreement, and for a period of 6 (six) months following the termination of the employment under this Agreement, and any rights in respect thereof, either registered title and copyrights or not, and all said rights the extent they derive from the work of the employee under this Agreement, and in and to any drawings, plans, diagrams, specifications, and other documents containing any said information, shall vest in the Company exclusively.

13. Non-competition

- 13.1. Employee agrees that during the term of this Agreement and any extensions hereof and for a period of one (1) year after he/she ceases to be employed by the Company he/she will not, for his own account or as an employee, officer, director, partner, joint venture, shareholder, investor, consultant or otherwise (except as an investor in a corporation whose stock is publicly traded and in which Employee holds less than 5% of the outstanding shares) interest himself in or engage in any competitive activity anywhere in the world. For the purpose of this clause, "competitive activity" shall mean the development, production, sales and/or marketing of any products that competes with any product developed and/or produced by the company, or is in the process of being developed and/or produced by the company, during Employee's employment.

- 13.2. Employee agrees that during a period of one year from termination of this Agreement or any extension hereof he shall not employ directly or indirectly any individual then employed by the Company.
- 13.3. Employee acknowledges that the restricted period of time and geographical area specified under paragraph 13.1 hereof are reasonable, in view of the nature of the business in which the Company is engaged, the Employee's knowledge of the Company's Business and products and the Compensation he/she receives.
- 13.4. Notwithstanding anything contained in paragraph 13 to the contrary, if the period of time or the geographical area specified under paragraph 13.1 and 13.2 hereof should be determined to be unreasonable in any judicial proceeding, then the period of time and area of the restriction shall be reduced so that this Agreement may be enforced in such area and during such period of time as shall be determined to be reasonable by such judicial proceeding.
- 13.5. The Employee acknowledge that the Compensation he/she receives hereunder paid, inter alia, as consideration for his undertaking contained in this Section 13.

14. Miscellaneous

- 14.1. The Employee shall not have the right to transfer his\her rights and obligations under this Agreement to any third party whatsoever.
- 14.2. All of the Employee's Compensation and other payments owing to him/her in accordance with this Agreement, as they exist at the time of his/her death, will be paid, in the event of his\her death, God forbid, to his\her heirs, executors, administrators and/or assigns.
- 14.3. The Employee represents that he\she has read all of the clauses and paragraphs of this Agreement carefully, that the words and terms of the Agreement are clear to him and that he\she accepts them in full.
- 14.4. This Agreement represents the entire agreement of the parties and may be amended only by a written amendment executed by both parties.
- 14.5. This Agreement shall be governed by the law of the state of Israel.
- 14.6. This Agreement shall become effective and binding upon the parties as of the date first stated above.

In WITNESS WHEREOF, the parties have signed this Agreement on the date set forth above.

/s/ Tim Bixby
HumanClick Ltd.

/s/ Eli Campo
The Employee

By Tim Bixby Its Director

October 25, 2006

Monica L. Greenberg

Dear Monica:

I am pleased to offer you the position of Senior Vice President of Business Affairs & General Counsel of LivePerson, Inc. ("LivePerson") commencing November 13, 2006. This letter confirms the terms and conditions of our employment offer to you:

- You will be paid base salary at an annual rate of \$215,000 (two hundred fifteen thousand U.S. dollars) according to our payroll practices. (we currently pay base salary on a semimonthly basis: the 15th and last day of each month).
 - You will be eligible to participate in the LivePerson bonus plan, as it exists from time to time under terms comparable to other LivePerson employees of similar role and responsibility. Your target annual bonus for 2006 will be \$60,000. Your actual 2006 bonus payout will be determined in the sole discretion of LivePerson based on the profitability of the company as compared to Plan, your individual bonus target (**prorated for the portion of 2006 that you are employed at LivePerson as you were hired after January 1, 2006**), and your personal contribution to LivePerson's efforts as determined by your manager(s) in their sole discretion. Eligibility for and payment of such bonus, if any, is conditioned on your being actively employed by LivePerson as of the date the bonus, if any, is paid. Your actual bonus payment is likely to be either greater or less than your target amount based on these criteria. In any year, LivePerson may determine not to pay any bonus based on the above criteria. LivePerson reserves the right to amend or terminate its bonus plan at any time in its sole discretion.
 - You will be granted an Unvested option to purchase 50,000 shares of LivePerson common stock at a strike price determined by the LivePerson Board of Directors. This option will be granted under the terms and conditions of the LivePerson Incentive Stock Option Plan (the "Option Plan") and the Notice of Grant of Stock Option, which will be issued to you at the time of the grant. Unvested options vest in equal increments of 25% annually over four (4) years, beginning on the first anniversary of the grant date.
-

- You will be eligible for vacation in accordance with LivePerson's vacation policy as it exists from time to time. You will accrue vacation at the rate of 1.25 days vacation per month, (3 weeks per year), prorated for the portion of the year during which you are employed.
- You will be eligible to enroll in the LivePerson health and disability insurance program on the first day of the month on or following your employment start date subject to the terms and conditions of the applicable plans and policies.
- You will be eligible to participate in Live Person's 401(k) savings plan following your employment start date subject to the terms and conditions of the plan.
- You will receive further orientation regarding benefits you are eligible for and company policies on or shortly after your start date.
- **This offer is made contingent upon your successful completion of LivePerson's pre-employment procedures; including reference checks, background checks and verification of your prior employment and educational history and other information provided by you during the interview process, as well as proof of identity and authorization to work in the United States, as required by law.**
- By signing this letter you confirm that you are not subject to any agreement, with a prior employer or otherwise, which would prohibit, limit or otherwise be inconsistent with your employment at LivePerson or prevent you from performing your obligations to LivePerson. Additionally, please be advised that it is LivePerson's corporate policy not to obtain or use any confidential, proprietary information or trade secrets of its competitors or others, unless it is properly obtained from sources permitted to disclose such information. By signing this letter below, you are acknowledging that you have been advised of this policy and that you accept and will abide by it, and you are also agreeing that you will not use or disclose any confidential or proprietary information of LivePerson to any third party, including any previous or subsequent employer.
- To the extent permitted by law, LivePerson will defend, indemnify and hold you harmless from and against any and all liabilities, damages, expenses (including reasonable attorneys' fees and costs), actions or legal proceedings arising directly or indirectly from your performance of your duties as an employee and/or officer of the Company; provided, however, in no event shall LivePerson be required to indemnify or hold you harmless in connection with any actions which relate to or arise out of your recklessness or gross negligence or willful or wanton misconduct. This indemnification is additional to any right of indemnification to which you may

be entitled under LivePerson's Articles of Incorporation and By-laws and any insurance policies that may be maintained by LivePerson.

Your employment with LivePerson is at-will and may be terminated by you or LivePerson at any time with or without cause and with or without notice.

In the event that your employment is involuntarily terminated by LivePerson or any successor entity Without Cause or Constructively Terminated (as such capitalized terms are defined below), you will be eligible to receive the following severance benefits: (i) severance in an amount equal to your then current base salary for a period of six (6) months payable in the form of a lump-sum, cash payment due within thirty (30) days of your date of termination; (ii) pursuant to the terms of the Option Plan, all unvested options to purchase LivePerson stock held by you will automatically and immediately vest and become exercisable upon such termination and remain exercisable for a period ending on the earlier of the one year anniversary of such termination or the expiration of the option term; and (iii) provided you timely elect and are eligible for COBRA; continued enrollment in any health benefits in place at the time of such termination for six (6) months following such termination at the same cost as for active employees. Your entitlement to COBRA will run concurrently with such severance, and accordingly, the six (6) months of continued health benefits will count against the applicable time period for COBRA. The foregoing severance benefits will be conditioned upon your execution and non-revocation of a general release of claims in favor of LivePerson and its subsidiaries in a reasonable form to be provided by LivePerson.

Following a Change of Control (as defined below), in the event that your employment is involuntarily terminated by LivePerson or the surviving entity Without Cause or Constructively Terminated (as such capitalized terms are defined below) within one (1) year following the date of such Change of Control, you will be eligible to receive the following severance benefits: (i) severance in an amount equal to your then current base salary for a period of nine (9) months payable in the form of a lump-sum, cash payment due within thirty (30) days of your date of termination; (ii) pursuant to the terms of the Option Plan, all unvested options to purchase LivePerson stock held by you will automatically and immediately vest and become exercisable upon such termination and remain exercisable for a period ending on the earlier of the one year anniversary of such termination or the expiration of the option term; and (iii) provided you timely elect and are eligible for COBRA, continued enrollment in any health benefits in place at the time of such termination for six (6) months following such termination at the same cost as for active employees of the surviving entity. Your entitlement to COBRA will run concurrently with such severance, and accordingly, the six (6) months of continued health benefits will count against the applicable time period for COBRA. The

foregoing severance benefits will be conditioned upon your execution and non-revocation of a general release of claims in favor of LivePerson and its subsidiaries in a reasonable form to be provided by LivePerson.

A termination **Without Cause** shall be defined as termination of employment other than for death, disability, termination for Cause or any resignation by you. **Cause** shall be defined as: (i) your failure to substantially perform your duties to LivePerson or any of its subsidiaries, (ii) your conviction of, or plea of nolo contendere to, a felony (regardless of the nature of the felony) or any other crime involving dishonesty, fraud, or moral turpitude, (iii) your gross negligence or willful misconduct (including but not limited to acts of fraud, criminal activity or professional misconduct) in connection with the performance of your duties and responsibilities to LivePerson or any of its subsidiaries, (iv) your failure to substantially comply with the rules and policies of LivePerson or any of its subsidiaries governing employee conduct or with the lawful directives of the Board of Directors of LivePerson, or (v) your breach of any non-disclosure, non-solicitation, non-competition or other restrictive covenant obligations to LivePerson or any of its subsidiaries. **Constructively Terminated** shall be defined as resignation by you as a result of (a) relocation of LivePerson's primary offices outside a radius that is forty (40) miles from LivePerson's current offices located at 462 Seventh Avenue, New York, New York 10018; or (b) a material diminution of your job responsibilities (including, but not limited to a reduction in your duties such that you are no longer the most senior level legal officer of LivePerson or a successor entity) or level of authority or base salary without your consent provided you shall give LivePerson written notice within thirty (30) days of the circumstances constituting Constructive Termination and you shall be deemed Constructively Terminated only if LivePerson has not cured such circumstances within twenty (20) business days following its receipt of such notice. **Change of Control** shall be defined as any transaction or group of related transactions following which the holders. (or persons or entities that directly or indirectly control, are controlled by, or are under common control with, the holders) of LivePerson's voting power immediately prior to such transaction(s) no longer hold securities having the voting power necessary to elect a majority of the board of directors of the surviving entity or entities.

Please indicate your acceptance of this offer by signing below and returning one copy to our office. Enclosed is some additional information about LivePerson as well as some forms and documents that you must complete prior to your start date. Your employment is contingent upon the return of the requested material. If you have any questions, please do not hesitate to contact me.

LivePerson is a dynamic organization with tremendous growth opportunities. We look forward to you joining us and hope that you share our excitement for the opportunity it presents to everyone on the team.

Sincerely,

/s/ Tim Bixby

Tim Bixby

President/CFO

Accepted by: /s/ Monica L. Greenberg

10.25.06

Monica L. Greenberg

Date

Michael I. Kovach

Dear Michael:

On behalf of LivePerson, Inc. (the “Company”) I am pleased to provide you with the following terms and conditions regarding your employment with the Company:

1. **Employment.** In your role as the Company’s Senior Vice President, Corporate Controller, you agree to devote your full business time, best efforts, skill, knowledge, attention and energies to the advancement of the Company’s business and interests and to the performance of your duties and responsibilities as an employee of the Company. Nothing herein, however, shall prohibit you from engaging in civic and charitable activities, provided that such activities do not interfere with the performance of your duties and are not undertaken during business time without prior managerial approval. Any service on the board of directors of a for-profit entity must be approved in advance by the President or CEO of the Company and will be subject to such conditions as the President or CEO of the Company may establish. You agree to abide by the rules, regulations, instructions, personnel practices and policies of the Company and any changes therein that may be adopted from time to time by the Company.
 2. **Base Salary.** Your current, annualized base salary is set at \$220,500, less all applicable taxes and withholdings, payable in installments in accordance with the Company’s regular payroll practices. This base salary may be adjusted from time to time in the sole discretion of the Company, but will not be materially reduced except as part of a programmatic reduction that applies to similarly situated employees.
 3. **Annual Discretionary Bonus.** Following the end of each fiscal year, you may be eligible to receive a retention and performance bonus. Any bonus amount you may receive for a given fiscal year (the “Annual Discretionary Bonus”) will be as determined by the Company in its sole discretion and pursuant to its bonus practices and policies as they may exist from time to time. You must be an active employee of the Company on the date any Annual Discretionary Bonus is distributed in order to be eligible for and to earn any such bonus award, as it also serves as an incentive to remain employed by the Company.
 4. **Benefits.** You may continue to participate in any and all benefit programs that the Company establishes and makes available to its employees from time to time, provided that you are eligible under (and subject to all provisions of) the plan documents that govern those programs. Benefits are subject to change at any time in the Company’s sole discretion, provided that such changes also apply to similarly situated employees.
-

5. **Vacation and Days Off.** You will continue to be eligible for a maximum of three (3) weeks of paid vacation per calendar year to be taken at such times as may be approved in advance by the Company. The number of vacation days for which you are eligible shall accrue at the rate of 1.25 days per month that you are employed during such calendar year. Except as otherwise provided herein, vacation time shall be used and accrued in accordance with the Company's then current policies and practices. You will also be eligible for sick and personal days in accordance with the Company's then current policies and practices.
6. **Proprietary Information, Developments, and Non-Competition.** You hereby confirm and reaffirm your obligations to the Company as set forth in the Proprietary Information, Developments, and Non-Competition Agreement you previously executed for the benefit of the Company, a copy of which is attached for your ease of reference.
7. **Termination Without Cause.** In the event that (a) your employment is terminated by the Company without Cause (as defined below), (b) such termination does not occur in the 12-month period following a Change of Control (as defined below), and (c) within sixty (60) days following your termination date you timely execute and do not revoke a separation and release agreement drafted by and satisfactory to the Company (the "Separation Agreement"), the Company will provide you with the following payments (the "Severance Payments"):
 - a. Severance pay equal to nine (9) months of your then current base salary, payable in accordance with the Company's standard payroll practices, and commencing on the Payment Commencement Date (as defined below);
 - b. To the extent it has not already been paid, the Annual Discretionary Bonus you would have received for the prior fiscal year had you remained employed by the Company on the date such bonus was distributed (which shall be payable in a lump sum on the Payment Commencement Date);
 - c. A pro-rated amount of your target Annual Discretionary Bonus for the fiscal year in which your employment is terminated (or if your target Annual Discretionary Bonus has not yet been determined by the Company, a pro-rated amount of your Annual Discretionary Bonus for the prior fiscal year), based on the number of days you have worked during the fiscal year in which your employment is terminated, and payable in a lump sum on the Payment Commencement Date; and
 - d. Should you be eligible for and timely elect to continue receiving group medical insurance pursuant to the federal "COBRA" law, 29 U.S.C. § 1161 *et seq.*, the Company will, for nine (9) months immediately following your termination date, reimburse you for the percentage of the coverage premium that the Company then pays on behalf of similarly situated, active employees. The remaining balance of any premium costs shall be paid by you. Reimbursement will be made by the Company in response to an expense report or other evidence of COBRA payments needed by the Company in detail reasonably sufficient for the Company to validate the information.

The Severance Payments shall be paid or commence, as applicable, on the first payroll period after the Separation Agreement becomes binding, but no earlier than 30 days following your date of termination; provided, however, that if the 60th day following your date of termination occurs in the calendar year following your termination, then the severance pay shall commence no earlier than January 1 of such subsequent calendar year (the "Payment Commencement Date"). All Severance Payments shall be subject to the terms and conditions set forth in Paragraph 13 below.

For purposes hereof, "Cause" shall mean a determination by the Company (which determination shall not be arbitrary or capricious) that: (i) you materially failed to perform your specified or fundamental duties to the Company or any of its subsidiaries, (ii) you were convicted of, or pled nolo contendere to, a felony (regardless of the nature of the felony), or any other crime involving dishonesty, fraud, or moral turpitude, (iii) you engaged in or acted with gross negligence or willful misconduct (including but not limited to acts of fraud, criminal activity or professional misconduct) in connection with the performance of your duties and responsibilities to the Company or any of its subsidiaries, (iv) you failed to substantially comply with the rules and policies of the Company or any of its subsidiaries governing employee conduct or with the lawful directives of the Board of Directors, or (v) you breached any non-disclosure, non-solicitation or other restrictive covenant obligation to the Company or any of its subsidiaries.

8. **Termination Without Cause or For Good Reason Within 12 Months Following a Change of Control.** In the event that your employment is terminated by the Company without Cause or by you for Good Reason (as defined below), in each case within the 12-month period following a Change of Control (as defined below), and provided that within sixty (60) days following your termination date you timely execute and do not revoke a Separation Agreement, the Company will provide you with the following payments and benefits (the "Change of Control Benefits"):
- a. Severance pay equal to nine (9) months of your then current base salary, payable in accordance with the Company's standard payroll practices, and commencing on the Payment Commencement Date;
 - b. To the extent it has not already been paid, the Annual Discretionary Bonus you would have received for the prior fiscal year had you remained employed by the Company on the date such bonus was distributed (which shall be payable in a lump sum on the Payment Commencement Date);
 - c. A pro-rated amount of your target Annual Discretionary Bonus for the fiscal year in which your employment is terminated (or if your target Annual Discretionary Bonus has not yet been determined by the Company, a pro-rated amount of your Annual Discretionary Bonus for the prior fiscal year), based on the number of days you have worked during the fiscal year in which your employment is terminated, and payable in a lump sum on the Payment Commencement Date;
 - d. With regard to option and/or other equity awards held by you, the following number of shares shall become immediately vested: the total number of shares of common stock subject to such award that would have vested in the 12-month period following your date of termination had you remained employed by the Company during such period. In addition, the vested portion of your option and/or other equity awards shall remain exercisable for 12 months following the date of termination, but in no event later than the original term of the option as set forth in the applicable award agreement; and

- e. Should you be eligible for and timely elect to continue receiving group medical insurance pursuant to the federal “COBRA” law, 29 U.S.C. § 1161 et seq., the Company will, for nine (9) months immediately following your termination date, reimburse you for the percentage of the coverage premium that the Company then pays on behalf of similarly situated, active employees. The remaining balance of any premium costs shall be paid by you. Reimbursement will be made by the Company in response to an expense report or other evidence of COBRA payments needed by the Company in detail reasonably sufficient for the Company to validate the information.

The Change of Control Benefits shall be paid or commence, as applicable, on the Payment Commencement Date. All Change of Control Benefits shall be subject to the terms and conditions set forth in Paragraph 13 below.

For purposes hereof, “Change of Control” shall be defined as, and limited to: any transaction or group of related transactions following which the holders (or persons or entities that directly or indirectly control, are controlled by, or are under common control with, the holders) of the Company’s voting power immediately prior to such transaction(s) no longer hold securities having the voting power necessary to elect a majority of the board of directors of the surviving entity or entities.

For purposes hereof, the term “Good Reason” shall mean one or more of the following conditions arising without your consent: (i) a material reduction in your base salary, other than as part of an across-the-board reduction applicable to other similarly situated employees; (ii) a material diminution in your duties and responsibilities; or (iii) a relocation of the Company’s principal office to a location more than 50 miles from its location on the date hereof (or from such other location to which you have consented after the date hereof). To be entitled to terminate your employment for Good Reason, you must (i) provide written notice to the Company of the event or change you consider constitutes “Good Reason” within 30 calendar days following its occurrence, (ii) provide the Company with a period of at least 30 calendar days to cure the event or change, and (iii) if the Good Reason persists following the cure period, actually resign by written resignation letter within 90 calendar days following the event or change.

- 9. **Termination Due to Death or Disability.** In the event that your employment is terminated by the Company due to your death or Disability (as defined below), you or your estate, as applicable, shall be entitled to the following payments and benefits:

- (i) Your unpaid base salary through the date of your termination of employment, payable on the regular payday immediately following such termination date; and

(ii) To the extent you are eligible and it has not already been paid, the Annual Discretionary Bonus you would have received for the prior fiscal year had you remained employed by the Company on the date such bonus was distributed, payable in a lump sum 60 days following your termination of employment due to death or Disability, and subject to the terms and conditions set forth in paragraph 13; and

(iii) To the extent you were eligible to receive an Annual Discretionary Bonus for the fiscal year in which your employment is terminated due to death or Disability, a bonus for such year equal to a pro-rated amount of the Annual Discretionary Bonus you earned the prior fiscal year based on the number of days you worked during the fiscal year of your termination, or such other bonus amount as may be determined by the Board of Directors. Any such bonus shall be payable in a lump sum 60 days following your termination of employment due to death or Disability, subject to the terms and conditions set forth in paragraph 13.

For purposes hereof, "Disability" shall be defined as your inability to perform your job duties by virtue of illness or physical or mental incapacity or disability (from any cause or causes whatsoever) in substantially the manner and to the extent required prior to the commencement of such disability for periods aggregating to 180 days or more, whether or not continuous, within any continuous period of two (2) years.

10. **Termination At Any Time For Cause or Without Good Reason.** In the event that your employment is terminated at any time by the Company for Cause or by you without Good Reason, you will be entitled only to your unpaid base salary through the date of your termination of employment, which shall be paid on the regular payday immediately following your termination date. You will not be entitled to any other compensation or consideration, including any bonus not yet paid, that you may have received had your employment with the Company not ceased.
11. **No Conflict.** You represent that you are not bound by any employment contract, restrictive covenant or other restriction preventing you from carrying out your responsibilities for the Company, or which is in any way inconsistent with the terms of this letter. You further represent that you will not disclose to the Company or induce the Company to use any confidential or proprietary information or material belonging to any previous employer or others.
12. **At-Will Employment.** This letter shall not be construed as an agreement, either express or implied, to employ you for any stated term, and shall in no way alter the Company's policy of employment at-will, under which both the Company, and you remain free to end the employment relationship for any reason, at any time, with or without cause or notice. Although your job duties, title, compensation and benefits, as well as the Company's personnel policies and procedures, may change from time to time, the "at-will" nature of your employment may only be changed by a written agreement signed by you and the Chief Executive Officer of the Company that expressly states the intention to modify the at-will nature of your employment.

Similarly, other than as set forth in Paragraphs 7, 8 and 9 above, nothing in this letter shall be construed as an agreement, either express or implied, to pay you any compensation or grant you any benefit beyond the end of your employment with the Company. Notwithstanding the foregoing, following your termination of employment with the Company you will be reimbursed for all reimbursable expenses reasonably incurred in the course of your work for the Company and documented in accordance with the Company's then current expense reimbursement policies and practices. Any such reimbursements shall be subject to Paragraph 13(e) below.

13. **Section 409A.** Subject to the provisions in this paragraph, any payments provided to you pursuant to Paragraphs 7, 8 or 9 above shall begin only upon the date of your "separation from service" (determined as set forth below), which occurs on or after the date of your termination of employment. The following rules shall apply with respect to distribution of the payments, if any, to be provided to you pursuant to Paragraphs 7, 8 or 9.
 - a. It is intended that each installment of the payments provided pursuant to Paragraphs 7, 8 or 9 shall be treated as a separate "payment" for purposes of Section 409A of the Internal Revenue Code of 1986, as amended, and the guidance issued thereunder ("Section 409A"). Neither you nor the Company shall have the right to accelerate or defer the delivery of any such payments or benefits except to the extent specifically permitted or required by Section 409A.
 - b. If, as of the date of your "separation from service" from the Company, you are not a "specified employee" (within the meaning of Section 409A), then each installment of the payments shall be made on the dates and terms set forth in Paragraphs 7, 8 or 9 as applicable.
 - c. If, as of the date of your "separation from service" from the Company, you are a "specified employee" (within the meaning of Section 409A), then:
 - i. Each installment of the payments due pursuant to Paragraphs 7, 8 or 9 that, in accordance with the dates and terms set forth herein, will in all circumstances, regardless of when the separation from service occurs, be paid within the short-term deferral period (as defined in Section 409A) shall be treated as a short-term deferral within the meaning of Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent permissible under Section 409A; and

- ii. Each installment of the payments due pursuant to Paragraphs 7, 8 or 9 that is not described in subparagraph (c)(1) above and that would, absent this subsection, be paid within the six-month period following your “separation,from service” from the Company shall not be paid until the date that is six months and one day after such separation from service (or, if earlier, your death), with any such installments that are required to be delayed being accumulated during the six-month period and paid in a lump sum on the date that is six months and one day following your separation from service and any subsequent installments, if any, being paid in accordance with the dates and terms set forth herein; provided, however, that the preceding provisions of this sentence shall not apply to any installment of severance payments and benefits if and to the maximum extent that such installment is deemed to be paid under a separation pay plan that does not provide for a deferral of compensation by reason of the application of Treasury Regulation 1.409A-1(b)(9)(iii) (relating to separation pay upon an involuntary separation from service). Any installments that qualify for the exception under Treasury Regulation Section 1.409A-1(b)(9)(iii) must be paid no later than the last day of the second taxable year following the taxable year in which the separation from service occurs.
 - d. The determination of whether and when your separation from service from the Company has occurred shall be made in a manner consistent with, and based on the presumptions set forth in, Treasury Regulation Section 1.409A-1(h). Solely for purposes of this subparagraph (d), “Company” shall include all persons with whom the Company would be considered a single employer as determined under Treasury Regulation Section 1.409A-1(h)(3).
 - e. All reimbursements and in-kind benefits provided for in this letter shall be made or provided in accordance with the requirements of Section 409A to the extent that such reimbursements or in-kind benefits are subject to Section 409A, including, where applicable, the requirements that (i) any reimbursement is for expenses incurred during your lifetime (or during a shorter period of time specified in this Agreement), (ii) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred and (iv) the right to reimbursement is not subject to set off or liquidation or exchange for any other benefit.
 - f. Notwithstanding anything herein to the contrary, the Company shall have no liability to you or to any other person if the payments and benefits provided pursuant to this letter that are intended to be exempt from or compliant with Section 409A are not so exempt or compliant.
14. **Entire Understanding.** This letter supersedes all prior understandings and agreements, whether written or oral, relating to the terms of your employment.

If this letter correctly sets forth the terms of your continued employment with the Company, please sign the enclosed duplicate of this letter in the space provided below and return it to me. This letter will take effect as of November 6, 2009.

Sincerely,

By: /s/ Timothy Bixby
Timothy Bixby
President, Chief Financial Officer

The foregoing correctly sets forth the terms of my continued at-will employment with LivePerson, Inc. I am not relying on any representations other than those set forth above.

/s/ Michael I. Kovach
Michael I. Kovach

SUBSIDIARIES OF LIVEPERSON, INC.

LivePerson Ltd. (formerly HumanClick Ltd.) — Israel

Proficient Systems, Inc. — Georgia

Kasamba Inc. — Delaware

NuConomy Ltd. — Israel

Consent of Independent Registered Public Accounting Firm

LivePerson, Inc.
New York, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-112019, 333-112018, 333-136249 and 333-147929) and Form S-8 (No. 333-34230, 333-147572 and 333-159850) of LivePerson, Inc. of our reports dated March 13, 2012, relating to the consolidated financial statements and the effectiveness of LivePerson, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP
New York, New York
March 13, 2012

CERTIFICATIONS

I, Robert P. LoCascio, certify that:

1. I have reviewed this Annual Report on Form 10-K of LivePerson, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2012

By: /s/ ROBERT P. LOCASCIO

Name: Robert P. LoCascio

Title: Chief Executive Officer

(principal executive officer)

CERTIFICATIONS

I, Daniel R. Murphy, certify that:

1. I have reviewed this Annual Report on Form 10-K of LivePerson, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2012

By: /s/ DANIEL R. MURPHY

Name: Daniel R. Murphy

Title: Chief Financial Officer

(principal financial and accounting officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert P. LoCascio, Chief Executive Officer of LivePerson, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Annual Report of the Company on Form 10-K for the period ended December 31, 2011, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 13, 2012

By: /s/ ROBERT P. LOCASCIO

Name: Robert P. LoCascio

Title: Chief Executive Officer

(principal executive officer)

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel R. Murphy, Chief Financial Officer of LivePerson, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Annual Report of the Company on Form 10-K for the period ended December 31, 2011, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 13, 2012

By: /s/ DANIEL R. MURPHY

Name: Daniel R. Murphy

Title: Chief Financial Officer

(principal financial and accounting officer)

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference.
