

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

FORM 10-Q  
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 000-30141

**LIVEPERSON, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**13-3861628**

(IRS Employer Identification No.)

**475 Tenth Avenue, 5th Floor  
New York, New York**

(Address of Principal Executive Offices)

**10018**

(Zip Code)

**(212) 609-4200**

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On July 27, 2018, 62,408,378 shares of the registrant's common stock were outstanding.

**LIVEPERSON, INC.**  
**June 30, 2018**  
**FORM 10-Q**  
**INDEX**

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## FORWARD-LOOKING STATEMENTS

STATEMENTS IN THIS REPORT ABOUT LIVEPERSON, INC. THAT ARE NOT HISTORICAL FACTS ARE FORWARD-LOOKING STATEMENTS BASED ON OUR CURRENT EXPECTATIONS, ASSUMPTIONS, ESTIMATES AND PROJECTIONS ABOUT LIVEPERSON AND OUR INDUSTRY. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL FUTURE EVENTS OR RESULTS TO DIFFER MATERIALLY FROM SUCH STATEMENTS. ANY SUCH FORWARD-LOOKING STATEMENTS ARE MADE PURSUANT TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. IT IS ROUTINE FOR OUR INTERNAL PROJECTIONS AND EXPECTATIONS TO CHANGE AS THE YEAR OR EACH QUARTER IN THE YEAR PROGRESSES, AND THEREFORE IT SHOULD BE CLEARLY UNDERSTOOD THAT THE INTERNAL PROJECTIONS AND BELIEFS UPON WHICH WE BASE OUR EXPECTATIONS MAY CHANGE PRIOR TO THE END OF EACH QUARTER OR THE YEAR. ALTHOUGH THESE EXPECTATIONS MAY CHANGE, WE ARE UNDER NO OBLIGATION TO INFORM YOU IF THEY DO. OUR COMPANY POLICY IS GENERALLY TO PROVIDE OUR EXPECTATIONS ONLY ONCE PER QUARTER, AND NOT TO UPDATE THAT INFORMATION UNTIL THE NEXT QUARTER. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN THE PROJECTIONS OR FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE THOSE DISCUSSED IN PART II, ITEM 1A, "RISK FACTORS."

Part I. Financial Information

Item 1. Financial Statements

LIVEPERSON, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (IN THOUSANDS)  
 (UNAUDITED)

	June 30, 2018	December 31, 2017
		(Note 1)
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 69,747	\$ 56,115
Cash held as collateral	216	1,451
Accounts receivable, net of allowance for doubtful accounts of \$1,672 and \$1,318 as of June 30, 2018 and December 31, 2017, respectively	38,109	37,926
Prepaid expenses and other current assets	16,885	7,352
Total current assets	124,957	102,844
Property and equipment, net	38,066	34,705
Intangibles, net	12,321	12,366
Goodwill	80,473	80,531
Deferred tax assets	817	753
Other assets	1,787	1,600
Total assets	\$ 258,421	\$ 232,799
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,207	\$ 5,481
Accrued expenses and other current liabilities	39,252	48,011
Deferred revenue	47,375	35,563
Total current liabilities	92,834	89,055
Deferred revenue	2,131	—
Other liabilities	2,584	2,766
Deferred tax liability	1,020	915
Total liabilities	98,569	92,736
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Common stock	62	60
Additional paid-in capital	337,238	305,676
Treasury stock	(3)	(3)
Accumulated deficit	(173,983)	(163,135)
Accumulated other comprehensive loss	(3,462)	(2,535)
Total stockholders' equity	159,852	140,063
Total liabilities and stockholders' equity	\$ 258,421	\$ 232,799

See Notes to Condensed Consolidated Financial Statements (unaudited).

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue	\$ 61,660	\$ 54,074	\$ 119,901	\$ 104,993
Costs and expenses <sup>(1) (2)</sup>				
Cost of revenue <sup>(3)</sup>	16,036	15,134	29,990	28,915
Sales and marketing	25,392	23,392	49,523	45,092
General and administrative	11,499	10,437	21,622	20,130
Product development	14,219	9,326	27,471	19,285
Restructuring costs	1,906	2,076	2,084	2,315
Amortization of purchased intangibles	424	470	848	942
Total costs and expenses	69,476	60,835	131,538	116,679
Loss from operations	(7,816)	(6,761)	(11,637)	(11,686)
Other income (expense), net	31	(99)	160	221
Loss before provision for income taxes	(7,785)	(6,860)	(11,477)	(11,465)
Provision for income taxes	536	673	47	1,744
Net loss	\$ (8,321)	\$ (7,533)	\$ (11,524)	\$ (13,209)
Net loss per share of common stock:				
Basic	\$ (0.14)	\$ (0.13)	\$ (0.20)	\$ (0.24)
Diluted	\$ (0.14)	\$ (0.13)	\$ (0.20)	\$ (0.24)
Weighted-average shares used to compute net loss per share:				
Basic	58,648,195	55,954,158	57,982,648	55,964,568
Diluted	58,648,195	55,954,158	57,982,648	55,964,568

<sup>(1)</sup> Amounts include stock-based compensation expense, as follows:

Cost of revenue	\$ 230	\$ 117	\$ 384	\$ 193
Sales and marketing	1,373	754	2,259	1,408
General and administrative	1,182	774	2,022	1,436
Product development	1,041	702	1,599	1,223

<sup>(2)</sup> Amounts include depreciation expense, as follows:

Cost of revenue	\$ 1,931	\$ 1,870	\$ 3,847	\$ 3,635
Sales and marketing	371	408	727	789
General and administrative	274	340	520	590
Product development	852	427	1,692	824

<sup>(3)</sup> Amounts include amortization of purchased intangibles, as follows:

Cost of revenue	\$ 287	\$ 959	\$ 574	\$ 1,918
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See Notes to Condensed Consolidated Financial Statements (unaudited).

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

	Three Months Ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net loss	\$ (8,321)	\$ (7,533)	\$ (11,524)	\$ (13,209)
Foreign currency translation adjustment	1,486	(1,220)	927	(4,618)
Comprehensive loss	<u>\$ (6,835)</u>	<u>\$ (8,753)</u>	<u>\$ (10,597)</u>	<u>\$ (17,827)</u>

See Notes to Condensed Consolidated Financial Statements (unaudited).

LIVEPERSON, INC.

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

	Six Months Ended	
	June 30,	
	2018	2017
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (11,524)	\$ (13,209)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Stock-based compensation expense	6,264	4,260
Depreciation	6,786	5,838
Amortization of purchased intangibles	1,422	2,860
Amortization of tenant allowance	(83)	(83)
Deferred income taxes	41	(13)
Provision for doubtful accounts, net	862	958
Changes in operating assets and liabilities:		
Accounts receivable	(1,045)	6,011
Prepaid expenses and other current assets	(9,531)	(3,864)
Other assets	(187)	(31)
Accounts payable	34	(3,881)
Accrued expenses and other current liabilities	(8,771)	(3,204)
Deferred revenue	13,943	9,477
Other liabilities	(218)	245
Net cash (used in) provided by operating activities	<u>(2,007)</u>	<u>5,364</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment, including capitalized software	(9,664)	(7,011)
Cash held as collateral for foreign exchange forward contracts	1,235	205
Payments for acquisitions and intangible assets, net of cash acquired	(392)	(239)
Net cash used in investing activities	<u>(8,821)</u>	<u>(7,045)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock in connection with the exercise of options	25,667	2,588
Repurchase of common stock	(1,345)	(1,781)
Net cash provided by financing activities	<u>24,322</u>	<u>807</u>
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	138	4,350
CHANGE IN CASH AND CASH EQUIVALENTS	13,632	3,476
CASH AND CASH EQUIVALENTS - Beginning of the period	56,115	50,889
CASH AND CASH EQUIVALENTS - End of the period	<u>\$ 69,747</u>	<u>\$ 54,365</u>
<b>SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$ 5,553	\$ 659
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Purchase of property and equipment recorded in accounts payable	\$ 774	\$ 41
Issuance of 85,861 shares of common stock in connection with the BotCentral transaction on January 24, 2018	\$ 1,000	\$ —

See Notes to Condensed Consolidated Financial Statements (unaudited).

LIVEPERSON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

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

LivePerson, Inc. (the “Company” or “LivePerson”) was incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced in November 1998. In April 2000, the Company completed an initial public offering and is currently traded on the NASDAQ Global Select Market and the Tel Aviv Stock Exchange. LivePerson is headquartered in New York City with U.S. offices in Alpharetta (Georgia), Mountain View (California) and Seattle (Washington), and international offices in Amsterdam (Netherlands), Berlin (Germany), London (United Kingdom), Mannheim (Germany), Melbourne (Australia), Milan (Italy), Paris (France), Ra'anana (Israel), Reading (United Kingdom), Tel Aviv (Israel), and Tokyo (Japan).

LivePerson provides mobile and online business messaging solutions that power digital communication between brands and consumers. LiveEngage, the Company’s enterprise-class, cloud-based platform, enables businesses and consumers to connect through conversational interfaces, such as in-app and mobile messaging, while leveraging bots and artificial intelligence (AI) to increase efficiency. As consumers have reoriented their digital lives around the smartphone, messaging apps have become their preferred communication channel to connect with each other. LivePerson allows brands to align with this new consumer preference, and deploy messaging at scale for customer care, marketing, and sales, instead of requiring that consumers use email or call a 1-800 number.

LiveEngage was designed to securely deploy messaging, coupled with bots and AI, at scale for brands with tens of millions of customers and many thousands of customer care agents. LiveEngage powers conversations across each of a brand’s primary digital channels, including mobile apps, mobile and desktop web browsers, short message services (SMS), social media and third-party consumer messaging platforms. Brands can also use LiveEngage to message consumers when they dial a 1-800 number instead of having them navigate interactive voice response systems (IVR) and wait on hold. The platform seamlessly integrates with third-party bots, enabling brands to manage both AI- based agents and human agents from a single console.

LivePerson optimizes campaign outcomes for sales and service transactions by combining website visitor data with other historical, behavioral, and operational information to develop insights into each step of a consumer’s journey. LivePerson’s products, coupled with its domain knowledge, industry expertise and consulting services, have been proven to maximize the effectiveness of consumer engagement.

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

**Basis of Presentation**

The accompanying condensed consolidated financial statements as of June 30, 2018 and for the three and six months ended June 30, 2018 and 2017 are unaudited. In the opinion of management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the consolidated financial position of LivePerson as of June 30, 2018, and the consolidated results of operations, comprehensive loss and cash flows for the interim periods ended June 30, 2018 and 2017. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results of operations for any interim period are not necessarily indicative of the results of operations for any other future interim period or for a full fiscal year. The condensed consolidated balance sheet at December 31, 2017 has been derived from audited consolidated financial statements at that date.

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2017 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 15, 2018.

**Principles of Consolidation**

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



## Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from management's estimates.

## Recently Issued Accounting Standards

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No.2018-07 "Compensation — Stock Compensation (Topic 718) —Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"). This new standard expands the scope of Topic 718, Compensation—Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to non-employees for goods or services. Consequently, the accounting for share-based payments to non-employees and employees will be substantially aligned. ASU 2018-05 is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company is currently evaluating the impact of this updated standard, but does not believe this update will have a significant impact on its consolidated financial statements.

In March 2018, the FASB issued ASU No.2018-05 "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118" ("ASU 2018-05"). This new standard adds SEC paragraphs pursuant to the SEC Staff Accounting Bulletin No. 118, which expresses the view of the staff regarding application of Topic 740, Income Taxes, in the reporting period that includes December 22, 2017 - the date on which the Tax Cuts and Jobs Act (H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018) was signed into law. ASU 2018-05 is effective upon inclusion in the FASB Codification. The Company is currently evaluating the impact of this updated standard, but does not believe this update will have a significant impact on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02 "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). This new standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The amendments in ASU 2018-02 affects any entity that is required to apply the provisions of Topic 220 and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. The Company is currently evaluating the impact of this updated standard, but does not believe this update will have a significant impact on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12 "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"). This new standard refines and expands hedge accounting for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes, for investors and analysts. ASU 2017-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, for public companies. Early adoption is permitted in any interim period or fiscal years before the effective date of the standard. The Company does not expect the adoption of ASU 2017-12 to have a material effect on its financial position, results of operations or cash flows.

In January 2017, FASB issued ASU No. 2017-04, "Intangibles —Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). This update addresses concerns over the cost and complexity of the two-step goodwill impairment test. The amendments in this update remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. ASU 2017-04 is effective for financial statements issued for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The Company does not expect the adoption of ASU 2017-04 to have a material effect on its financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, "Revenue from Contracts with Customers". The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest

comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2018. The Company is currently assessing the provisions of this guidance and evaluating the timing and impact the guidance will have on its consolidated financial statements and related disclosures. The Company is also in the process of aggregating lease documentation for review. The adoption of this ASU primarily impacts the balance sheet through the recognition of a right-of-use asset and a lease liability for all leases with terms in excess of twelve months. This guidance is effective January 1, 2019 using a modified retrospective transition approach with early adoption permitted.

### **Recently Adopted Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("Topic 606"). Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition" ("Topic 605"), and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the considerations to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, "Other Assets and Deferred Costs - Contracts with Customers", which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, the Company refers to Topic 606 and Subtopic 340-40 as the "new standard."

The Company adopted the requirements of the new standard as of January 1, 2018, utilizing the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for the reporting periods beginning after January 1, 2018 are presented under the new standard, while prior period amounts are not adjusted and continue to be reported in accordance with its historic accounting under Topic 605.

The impact of adopting the new standard as of January 1, 2018 on revenues was not material. The primary impact of adopting the new standard relates to the deferral of incremental commission costs of obtaining subscription contracts. The Company recorded an addition to opening retained earnings of \$0.7 million as of January 1, 2018 due to the impact of adopting the new standard, with the impact related to the deferral of incremental commission costs. Under Topic 605, the Company deferred only direct and incremental commission costs to obtain a contract and amortized those costs on a straight-line basis over the term of the related subscription contract, which was generally one year. Under the new standard, the Company defers all incremental commission costs to obtain the contract. The prepaid commission balance as of June 30, 2018 is \$7.9 million. The Company amortizes these costs over the related period of benefit using the customer expected life that the Company determined to be three to five years which is consistent with the transfer to the customer of the services to which the asset relates.

## **2. Revenue Recognition**

The majority of the Company's revenue is generated from monthly service revenues and related professional services from the sale of the LivePerson services. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

Total revenue of \$61.7 million and \$119.9 million recognized during the three months and six months ended June 30, 2018, under Topic 606, was not materially different from what would have been recognized under Topic 605.

### *Hosted Services- Business Revenue*

Hosted Services Business revenue is reported at the amount that reflects the ultimate consideration expected to be received and primarily consist of fees that provide customers access to LiveEngage, the Company's enterprise-class, cloud-based platform. The Company has determined such access represents a stand-ready service provided continually throughout the contract term. As such, control and satisfaction of this stand-ready performance obligation is deemed to occur over time. The Company recognizes this revenue over time on a ratable basis over the contract term, beginning on the date that access to the LiveEngage platform is made available to the customer. The passage of time is deemed to be the most faithful depiction of the transfer of control of the services as the customer simultaneously receives and consumes the benefit provided by the Company's performance. Subscription contracts are generally one year or longer in length, billed, monthly, quarterly or annually in advance. There is no significant

variable consideration related to these arrangements. Additionally, for certain of the Company's larger customers, the Company may provide call center labor through an arrangement with one or more of several qualified vendors. For most of these customers, the Company passes the fee it incurs with the labor provider and its fee for the hosted services through to its customers in the form of a fixed fee for each order placed via the Company's online engagement solutions. For these Pay for Performance ("PFP") arrangements in accordance with ASC-606, "Principal Agent Considerations", the Company acts as a principal in a transaction if it controls the specified goods or services before they are transferred to the customer.

#### *Professional Services Revenues*

Professional services revenue primarily consists of fees for deployment and optimization services, as well as training delivered on an on-demand basis which is deemed to represent a distinct stand-ready performance obligation. Professional Services Revenues are reported at the amount that reflects the ultimate consideration the Company expects to receive in exchange for such services. Control for the majority of the Company's Professional Services contracts passes over time to the customer and is recognized ratably over the contracted period, as the passage of time is deemed to be the most faithful depiction of the transfer of control. For certain deployment services, which are not deemed to represent a distinct performance obligation, revenue will be recognized in the same manner as the fee for access to the LiveEngage platform, and as such will be recognized on a straight-line basis over the contract term. For services billed on a fixed price basis, revenue is recognized over time based on the proportion performed using inputs as the measure of progress toward complete satisfaction of the performance obligation. Professional service contracts are generally one year or longer in length, billed, monthly, quarterly or annually in advance. There is no significant variable consideration related to these arrangements.

#### *Contracts with Multiple Performance Obligations*

Some of the Company's contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determines the standalone selling prices based on its overall pricing objectives, taking into consideration market conditions and other factors, including the value of its contracts, the cloud applications sold, and the number and types of users within its contracts.

#### *Hosted Services- Consumer Revenue*

For revenue from the Company's Consumer segment generated from online transactions between Experts and Users, revenue is recognized at an amount net of Expert fees in accordance with ASC 606, "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 consumer and retains a portion of the fee, and then remit the balance to the Expert. Revenue from these transactions is recognized at the point in time when the transaction is complete and no significant performance obligations remain.

#### *Deferred Revenues*

The Company records deferred revenues when cash payments are received or due in advance of its performance. The increase in the deferred revenue balance for the six months ended June 30, 2018 is primarily driven by cash payments received or due in advance of satisfying its performance obligations, partially offset by \$26.2 million of revenues recognized that were included in the deferred revenue balance as of December 31, 2017. The following table presents deferred revenue by revenue source (amounts in thousands):

	Deferred Revenue	
	As of June 30, 2018	As of December 31, 2017
Hosted services – Business	\$ 38,063	\$ 27,011
Hosted services – Consumer	—	—
Professional services	11,443	8,552
<b>Total deferred revenue</b>	<b>\$ 49,506</b>	<b>\$ 35,563</b>

## Disaggregated Revenue

The following table presents the Company's revenues disaggregated by revenue source (amounts in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017 <sup>(1)</sup>	2018	2017 <sup>(1)</sup>
Revenue:				
Hosted services – Business	\$ 48,331	\$ 43,927	\$ 95,759	\$ 85,420
Hosted services – Consumer	4,952	4,460	9,632	8,630
Professional services	8,377	5,687	14,510	10,943
Total revenue	\$ 61,660	\$ 54,074	\$ 119,901	\$ 104,993

<sup>(1)</sup> As noted above, prior period amounts have not been adjusted under the modified retrospective method.

## Revenue by Geographic Location

The following table presents the Company's revenues attributable to domestic and foreign operations for the periods presented (amounts in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
United States	\$ 35,572	\$ 34,078	\$ 69,643	\$ 65,763
Other Americas <sup>(1)</sup>	2,547	1,968	3,806	3,940
Total Americas	38,119	36,046	73,449	69,703
EMEA <sup>(2) (4)</sup>	17,519	13,953	34,438	27,465
APAC <sup>(3)</sup>	6,022	4,075	12,014	7,825
Total revenue	\$ 61,660	\$ 54,074	\$ 119,901	\$ 104,993

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

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

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

<sup>(4)</sup> Includes revenues from the United Kingdom of \$11.9 million and \$9.1 million for the three months ended June 30, 2018 and 2017, respectively, and \$23.5 million and \$18.2 million six months ended June 30, 2018 and 2017, respectively.

## Information about Contract Balances

Amounts collected in advance of services being provided are accounted for as deferred revenue. Nearly all of the Company's deferred revenue balance is related to *Hosted Services- Business Revenue*.

In some arrangements, the Company allows customers to pay for access to LiveEngage over the term of the software license. The Company refers to these as subscription transactions. Amounts recognized as revenue in excess of amounts billed are recorded as unbilled receivables. Unbilled receivables, anticipated to be invoiced in the next twelve months, are included in accounts receivable on the consolidated balance sheet. The opening and closing balances of the Company's accounts receivable, unbilled receivables, and deferred revenues are as follows (amounts in thousands):

	Accounts Receivable	Unbilled Receivable	Deferred Revenue (current)	Deferred Revenue (long term)
Opening Balance as of December 31, 2017	\$ 30,342	\$ 7,584	\$ 35,563	\$ —
Increase (decrease), net	(640)	823	11,812	2,131
Ending Balance as of June 30, 2018	\$ 29,702	\$ 8,407	\$ 47,375	\$ 2,131

As of June 30, 2018, the Company expects to recognize the long term performance obligations in 2019.

### 3. Net Loss Per Share

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

Diluted net loss per common share for the three and six months ended June 30, 2018 does not include the effect of 9,784,690 outstanding common stock awards, as the effect of their inclusion is anti-dilutive. Diluted net loss per common share for the three and six months ended June 30, 2017 does not include the effect of 9,423,000 outstanding common stock awards, as the effect of their inclusion is anti-dilutive.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Basic	58,648,195	55,954,158	57,982,648	55,964,568
Effect of assumed exercised options	—	—	—	—
Diluted	58,648,195	55,954,158	57,982,648	55,964,568

### 4. Segment Information

The Company accounts for its segment information in accordance with the provisions of ASC 280-10, “Segment Reporting.” ASC 280-10 establishes annual and interim reporting standards for operating segments of a company. ASC 280-10 requires disclosures of selected segment-related financial information about products, major customers, and geographic areas based on the Company’s internal accounting methods. The Company is organized into two operating segments for purposes of making operating decisions and assessing performance. The Business segment enables brands to leverage LiveEngage’s sophisticated intelligence engine to connect with consumers through an integrated suite of mobile and online business messaging technologies. The Consumer segment facilitates online transactions between independent service providers (“Experts”) and individual consumers (“Users”) seeking information and knowledge for a fee via mobile and online messaging. Both segments currently generate their revenue primarily in the United States. The chief operating decision maker, who is the chief executive officer, evaluates performance, makes operating decisions, and allocates resources based on the operating income of each segment. The reporting segments follow the same accounting policies used in the preparation of the Company’s condensed consolidated financial statements which are described in the summary of significant accounting policies. The Company allocates cost of revenue, sales and marketing and amortization of purchased intangibles to the segments, but it does not allocate product development expenses, general and administrative expenses, restructuring costs and income tax expense because management does not use this information to measure performance of the operating segments. There are currently no inter-segment sales.

Summarized financial information by segment for the three months ended June 30, 2018, based on the Company’s internal financial reporting system utilized by the Company’s chief operating decision maker, follows (amounts in thousands):

	Business	Consumer	Corporate	Consolidated
Revenue:				
Hosted services – Business	\$ 48,331	\$ —	\$ —	\$ 48,331
Hosted services – Consumer	—	4,952	—	4,952
Professional services	8,377	—	—	8,377
Total revenue	56,708	4,952	—	61,660
Cost of revenue	15,086	950	—	16,036
Sales and marketing	23,339	2,053	—	25,392
Amortization of purchased intangibles	424	—	—	424
Unallocated corporate expenses	—	—	27,624	27,624
Operating income (loss)	\$ 17,859	\$ 1,949	\$ (27,624)	\$ (7,816)

Summarized financial information by segment for the three months ended June 30, 2017, based on the Company's internal financial reporting system utilized by the Company's chief operating decision maker, follows (amounts in thousands):

	Business	Consumer	Corporate	Consolidated
<b>Revenue:</b>				
Hosted services – Business	\$ 43,927	\$ —	\$ —	\$ 43,927
Hosted services – Consumer	—	4,460	—	4,460
Professional services	5,687	—	—	5,687
<b>Total revenue</b>	<b>49,614</b>	<b>4,460</b>	<b>—</b>	<b>54,074</b>
Cost of revenue	14,206	928	—	15,134
Sales and marketing	21,242	2,150	—	23,392
Amortization of purchased intangibles	470	—	—	470
Unallocated corporate expenses	—	—	21,839	21,839
<b>Operating income (loss)</b>	<b>\$ 13,696</b>	<b>\$ 1,382</b>	<b>\$ (21,839)</b>	<b>\$ (6,761)</b>

Summarized financial information by segment for the six months ended June 30, 2018, based on the Company's internal financial reporting system utilized by the Company's chief operating decision maker, follows (amounts in thousands):

	Business	Consumer	Corporate	Consolidated
<b>Revenue:</b>				
Hosted services – Business	\$ 95,759	\$ —	\$ —	\$ 95,759
Hosted services – Consumer	—	9,632	—	9,632
Professional services	14,510	—	—	14,510
<b>Total revenue</b>	<b>110,269</b>	<b>9,632</b>	<b>—</b>	<b>119,901</b>
Cost of revenue	28,004	1,986	—	29,990
Sales and marketing	45,062	4,461	—	49,523
Amortization of purchased intangibles	848	—	—	848
Unallocated corporate expenses	—	—	51,177	51,177
<b>Operating income (loss)</b>	<b>\$ 36,355</b>	<b>\$ 3,185</b>	<b>\$ (51,177)</b>	<b>\$ (11,637)</b>

Summarized financial information by segment for the six months ended June 30, 2017, based on the Company's internal financial reporting system utilized by the Company's chief operating decision maker, follows (amounts in thousands):

	Business	Consumer	Corporate	Consolidated
<b>Revenue:</b>				
Hosted services – Business	\$ 85,420	\$ —	\$ —	\$ 85,420
Hosted services – Consumer	—	8,630	—	8,630
Professional services	10,943	—	—	10,943
<b>Total revenue</b>	<b>96,363</b>	<b>8,630</b>	<b>—</b>	<b>104,993</b>
Cost of revenue	27,112	1,803	—	28,915
Sales and marketing	40,785	4,307	—	45,092
Amortization of purchased intangibles	942	—	—	942
Unallocated corporate expenses	—	—	41,730	41,730
<b>Operating income (loss)</b>	<b>\$ 27,524</b>	<b>\$ 2,520</b>	<b>\$ (41,730)</b>	<b>\$ (11,686)</b>

## Geographic Information

The Company is domiciled in the United States and has international operations in the Israel, United Kingdom, Asia-Pacific, Latin America and Western Europe, particularly France and Germany. The following table presents the Company's long-lived assets by geographic region as of the dates presented (amounts in thousands):

	June 30, 2018	December 31, 2017
United States	\$ 99,307	\$ 95,716
Israel	13,597	13,079
Australia	9,134	9,504
Netherlands	7,992	8,363
Other <sup>(1)</sup>	3,434	3,293
Total long-lived assets	<u>\$ 133,464</u>	<u>\$ 129,955</u>

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

No individual customer accounted for 10% or more of consolidated revenue for any of the periods presented. No individual customer accounted for 10% or more of accounts receivable as of June 30, 2018 and December 31, 2017.

## 5. Goodwill and Intangible Assets

### Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2018 are as follows (amounts in thousands):

	Business	Consumer	Consolidated
Balance as of December 31, 2017	\$ 72,507	\$ 8,024	\$ 80,531
Adjustments to goodwill:			
Foreign exchange adjustment	(58)	—	(58)
Balance as of June 30, 2018	<u>\$ 72,449</u>	<u>\$ 8,024</u>	<u>\$ 80,473</u>

### Intangible Assets

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

	As of June 30, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Amortization Period
Amortizing intangible assets:				
Technology	\$ 29,040	\$ (22,879)	\$ 6,161	5.3 years
Customer relationships	15,973	(11,110)	4,863	8.0 years
Trade names	1,287	(1,287)	—	2.1 years
Non-compete agreements	1,437	(1,437)	—	2.3 years
Patents	1,832	(562)	1,270	13.3 years
Other	262	(235)	27	2.7 years
Total	<u>\$ 49,831</u>	<u>\$ (37,510)</u>	<u>\$ 12,321</u>	

	As of December 31, 2017			Weighted Average Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
<b>Amortizing intangible assets:</b>				
Technology	\$ 27,882	\$ (22,197)	\$ 5,685	5.3 years
Customer relationships	15,978	(10,457)	5,521	8.0 years
Trade names	1,289	(1,283)	6	2.1 years
Non-compete agreements	1,439	(1,439)	—	2.3 years
Patents	1,620	(493)	1,127	13.1 years
Other	262	(235)	27	2.7 years
Total	<u>\$ 48,470</u>	<u>\$ (36,104)</u>	<u>\$ 12,366</u>	

Amortization expense is calculated over the estimated useful life of the asset. Aggregate amortization expense for intangible assets was \$0.7 million and \$1.4 million for the three months ended June 30, 2018 and 2017, respectively, and \$1.4 million and \$2.9 million for the six months ended June 30, 2018 and 2017, respectively. For the three and six months ended June 30, 2018 and 2017, respectively, a portion of this amortization is included in cost of revenue. Estimated amortization expense for the next five years is as follows (amounts in thousands):

	Estimated Amortization Expense
2018	\$ 1,422
2019	2,641
2020	2,452
2021	2,240
2022	1,893
Thereafter	1,673
Total	<u>\$ 12,321</u>

### **BotCentral**

In January 2018, the Company acquired the employees and technology assets of BotCentral, a Silicon Valley based startup, for an approximate purchase price of \$1.0 million in common stock of the Company. The Company incurred an additional \$0.2 million related to acquisition costs. This transaction was accounted for as an asset purchase. The aggregate amount of approximately \$1.2 million is included in "Intangibles, net" on the Company's June 30, 2018 condensed consolidated balance sheet. While an active participant in the LiveEngage for Bots partner program, the BotCentral team created a number of bot solutions for major brands in banking, insurance, and travel, running on LivePerson's conversational platform. With the team's expertise and knowledge of the LiveEngage platform, the team is bringing valuable insight for LivePerson's customers and partners, and enabling the company to more rapidly optimize its bot deployment capabilities, and grow the ecosystem.

## **6. Property and Equipment**

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

	June 30, 2018	December 31, 2017
Computer equipment and software	\$ 109,885	\$ 100,392
Furniture, equipment and building improvements	13,691	13,546
	<u>123,576</u>	<u>113,938</u>
Less: accumulated depreciation	(85,510)	(79,233)
Total	<u>\$ 38,066</u>	<u>\$ 34,705</u>



## 7. Accrued Expenses and Other Current Liabilities

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

	June 30, 2018	December 31, 2017
Payroll and other employee related costs	\$ 13,357	\$ 16,431
Professional services and consulting and other vendor fees	16,318	15,674
Unrecognized tax benefits	2,277	4,924
Sales commissions	4,147	5,259
Restructuring (see Note 11)	2,577	2,338
Other	576	3,385
<b>Total</b>	<b>\$ 39,252</b>	<b>\$ 48,011</b>

## 8. Fair Value Measurements

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

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Inputs reflect: quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Unobservable inputs reflecting the Company's assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

### Financial Assets and Liabilities

The carrying amount of cash, accounts receivable, and accounts payable approximate their fair value due to their short-term nature. The Company's assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy as of June 30, 2018 and December 31, 2017, are summarized as follows (amounts in thousands). The Company's restricted cash balance of \$0.2 million at June 30, 2018 and \$1.5 million at December 31, 2017 is not held in a money market account and is not included in the following table.

	June 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
<b>Cash equivalents:</b>								
Money market funds	\$ 2,817	\$ —	\$ —	\$ 2,817	\$ 2,806	\$ —	\$ —	\$ 2,806
Foreign currency derivative contracts	—	—	—	—	—	65	—	65
<b>Total assets</b>	<b>\$ 2,817</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,817</b>	<b>\$ 2,806</b>	<b>\$ 65</b>	<b>\$ —</b>	<b>\$ 2,871</b>
<b>Liabilities:</b>								
Foreign currency derivative contracts	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ 2
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ 2</b>

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of

fair value. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions based on the best information available.

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

#### **Derivative Financial Instruments**

The Company is exposed to foreign exchange risks that in part are managed by using derivative financial instruments. The Company entered into foreign currency forward contracts related to risks associated with foreign operations. The Company does not use derivatives for trading purposes. Derivatives are recorded at their estimated fair values based upon Level 2 inputs. Derivatives designated and effective as cash flow hedges are reported as a component of other comprehensive income and reclassified to earnings in the same periods in which the hedged transactions impact earnings. Gains and losses related to derivatives not meeting the requirements of hedge accounting and the portion of derivatives related to hedge ineffectiveness are recognized in current earnings.

In accordance with the foreign currency forward contracts, the Company was required to pledge cash as collateral security to be maintained at the bank. The collateral shall remain in control of the lender, and these funds can be used to satisfy the outstanding obligation. Accordingly, the Company had cash at the bank of approximately \$0.2 million at June 30, 2018 and \$1.5 million at December 31, 2017, which is recorded as cash held as collateral in current assets.

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

	As of June 30, 2018	As of December 31, 2017
Notional amount of foreign currency derivative contracts	\$ —	\$ 2,866
Fair value of foreign currency derivatives contracts	\$ —	\$ 63

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

	Balance Sheet Location	Fair Value of Derivative Instruments	
		As of June 30, 2018	As of December 31, 2017
<b>Derivative Assets</b>			
Derivatives not designated as hedging instruments:			
Foreign currency derivatives contracts	Prepaid expenses and other current assets	\$ —	\$ 65
<b>Derivative Liabilities</b>			
Derivatives not designated as hedging instruments:			
Foreign currency derivatives contracts	Accrued expenses and other liabilities	\$ —	\$ 2

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

		Gain (losses) on Derivative Instruments Recognized in Statements of Operations			
		Three Months Ended June 30,		Six Months Ended June 30,	
Location		2018	2017	2018	2017
Foreign currency derivatives contracts	Other (income) expense	\$ —	\$ 38	\$ (50)	\$ 213

## 9. Commitments and Contingencies

### ***Contractual Obligations***

The Company leases facilities and certain equipment under agreements accounted for as operating leases. These leases generally require the Company to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the three months ended June 30, 2018 and 2017 was approximately \$2.3 million. Rental expense for operating leases for the six months ended June 30, 2018 and 2017 was approximately \$4.6 million.

### ***Employee Benefit Plans***

The Company has a 401(k) defined contribution plan covering all eligible employees. The Company provides for employer matching contributions equal to 50% of employee contributions, up to the lesser of 5% of eligible compensation or \$6,000. Matching contributions are deposited into the employee's 401(k) account and are subject to 5 year graded vesting. Salaries and related expenses include \$0.4 million of employer matching contributions for both the three months ended June 30, 2018 and 2017. Salaries and related expenses include \$0.9 million and \$0.8 million of employer matching contributions for the six months ended June 30, 2018 and 2017, respectively.

### ***Letters of Credit***

As of June 30, 2018, the Company has a \$1.9 million letter of credit outstanding substantially in favor of a certain landlord for office space. In addition, the Company has a letter of credit totaling \$0.1 million as a security deposit for the due performance by the Company of the terms and conditions of a supply contract. There were no draws against these letters of credit during the six months ended June 30, 2018.

## 10. Stockholders' Equity

### ***Common Stock***

As of June 30, 2018, there were 100,000,000 shares of common stock authorized, and 62,366,602 shares issued and outstanding. As of December 31, 2017, there were 100,000,000 shares of common stock authorized, and 59,663,969 shares issued and outstanding. The par value for common shares is \$0.001.

### ***Preferred Stock***

As of June 30, 2018 and December 31, 2017, there were 5,000,000 shares of preferred stock authorized, and zero shares issued and outstanding. The par value for preferred shares is \$0.001.

### ***Stock Repurchase Program***

On December 10, 2012, the Company's Board of Directors approved a stock repurchase program through June 30, 2014. Under the stock repurchase program, the Company is authorized to repurchase shares of its common stock, in the open market or privately negotiated transactions, at times and prices considered appropriate by the Board of Directors depending upon prevailing market conditions and other corporate considerations. On March 13, 2014, the Company's Board of Directors increased the aggregate purchase price of the stock repurchase program from \$30.0 million to \$40.0 million. On July 23, 2014, the Company's Board of Directors increased the aggregate purchase price of the stock repurchase program from \$40.0 million to \$50.0 million. On February 16, 2016, the Company's Board of Directors increased the aggregate purchase price of the total stock repurchase program by an additional \$14.0 million. On November 21, 2016, the Company's Board of Directors increased the aggregate purchase price of the stock repurchase program from \$64.0 million to \$74.0 million and extended the expiration date of the program out to December 31, 2017. On May 7, 2018, the Company's Board of Directors ratified the extension to December 31, 2018 of the repurchase program, effective as of January 1, 2018. There were 93,750 shares repurchased under this program during the six months ended June 30, 2018, which were recorded in treasury stock at par on the condensed consolidated balance sheets as of June 30, 2018. As of June 30, 2018, approximately \$17.1 million remained available for purchase under the program.

### ***Stock-Based Compensation***

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

The per share weighted average fair value of stock options granted was \$8.15 and \$3.55 during the three months ended June 30, 2018 and 2017, respectively, and \$6.26 and \$3.50 during the six months ended June 30, 2018 and 2017, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	2.6% - 2.8%	1.7% - 1.9%	2.5% - 2.8%	1.7% - 1.9%
Expected life (in years)	5	5	5	5
Historical volatility	43.7% - 48.4%	46.6% - 47.6%	43.7% - 48.4%	46.6% - 47.6%

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

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

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

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

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

### **Stock Option Plans**

During 1998, the Company established the Stock Option and Restricted Stock Purchase Plan (the “1998 Plan”). Under the 1998 Plan, the Board of Directors could issue incentive stock options or nonqualified stock options or other equity-based awards in respect of up to 5,850,000 shares of common stock. The 2000 Stock Incentive Plan (the “2000 Plan”) succeeded the 1998 Plan. Under the 2000 Plan, the options which had been outstanding under the 1998 Plan were incorporated in the 2000 Plan increasing the number of shares available for issuance under the plan by approximately 4,150,000, thereby reserving for issuance 10,000,000 shares of common stock in the aggregate.

The Company established the 2009 Stock Incentive Plan (as amended and restated, the “2009 Plan”) as a successor to the 2000 Plan. Under the 2009 Plan, the options which had been outstanding under the 2000 Plan were incorporated into the 2009 Plan and the Company increased the number of shares available for issuance under the plan by 6,000,000. The Company amended the 2009 Plan (the “Amended 2009 Plan”) effective June 7, 2012. The Amended 2009 Plan increased the number of shares authorized for issuance under the plan by an additional 4,250,000.

On June 2, 2017, the Company's Board of Directors amended and restated the Amended 2009 Plan effective April 30, 2017. The amended and restated plan increased the number of shares authorized for issuance under the plan by an additional 4,000,000, thereby reserving for issuance 27,817,744 shares of common stock in the aggregate. Options to acquire common stock granted thereunder have 10-year terms. As of June 30, 2018, approximately 2.2 million shares of common stock were reserved for issuance under the Amended 2009 Plan (taking into account all option exercises and other equity award settlements through June 30, 2018).

### **Employee Stock Purchase Plan**

In June 2010, the Company's stockholders approved the 2010 Employee Stock Purchase Plan with 1,000,000 shares of common stock initially reserved for issuance. Subject to stockholder approval, which was obtained on June 2, 2017, the Company's Board of Directors amended and restated the 2010 Employee Stock Purchase Plan effective April 30, 2017. The amended and restated plan increased the number of shares authorized for issuance under the plan by an additional 1,000,000, thereby reserving for issuance 2,000,000 shares of common stock in the aggregate. As of June 30, 2018, approximately 0.9 million shares of common stock were reserved for issuance under the Employee Stock Purchase Plan (taking into account all share purchases through June 30, 2018).

### **Inducement Plan**

During January 2018, the Company established the Inducement Plan (the “2018 Plan”). Under the 2018 Plan, the Board of Directors can issue incentive stock options or nonqualified stock options or other equity-based awards in respect of up to 1,500,000 shares of common stock. On April 25, 2018, the Company's Board of Directors amended and restated the 2018 Plan (the “Amended 2018 Plan”). The Amended 2018 Plan increased the number of shares authorized for issuance under the plan by

an additional 500,000 shares, thereby reserving for issuance 2,000,000 shares of common stock in the aggregate. As of June 30, 2018, approximately 0.6 million shares of common stock were reserved for issuance under the Amended 2018 Plan (taking into account all option exercises and other equity award settlements through June 30, 2018).

### Stock Option Activity

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

	Stock Option Activity		Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
	Options (in thousands)	Weighted Average Exercise Price		
Balance outstanding at December 31, 2017	7,959	\$ 10.71		
Granted	1,765	14.10		
Exercised	(2,273)	10.73		
Cancelled or expired	(274)	9.49		
Balance outstanding at June 30, 2018	7,177	\$ 11.58	7.03	\$ 68,433
Options vested and expected to vest	6,189	\$ 11.46	6.66	\$ 59,773
Options exercisable at June 30, 2018	3,658	\$ 11.04	4.99	\$ 36,802

The total fair value of stock options exercised during the six months ended June 30, 2018 was approximately \$12.1 million. As of June 30, 2018, there was approximately \$17.2 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 3.0 years.

The following table summarizes information about outstanding and vested stock options as of June 30, 2018:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding (in thousands)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares (in thousands)	Weighted-Average Exercise Price
\$1.79 - \$7.45	708	5.26	\$ 6.33	485	\$ 6.01
\$7.60 - \$7.60	748	8.39	7.60	214	7.60
\$7.95 - \$9.55	830	6.59	9.20	583	9.21
\$9.90 - \$10.13	727	6.03	10.09	650	10.09
\$10.31 - \$11.95	726	7.50	11.23	377	10.84
\$11.96 - \$12.32	87	3.04	12.12	88	12.12
\$12.45 - \$12.45	930	9.63	12.45	—	—
\$12.46 - \$13.59	810	4.07	13.28	747	13.26
\$14.30 - \$15.85	726	9.33	14.60	16	15.77
\$15.96 - \$21.75	885	6.60	17.87	498	17.27
	7,177	7.03	\$ 11.58	3,658	\$ 11.04

## Restricted Stock Unit Activity

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

	Restricted Stock Unit Activity		
	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (Per Share)	Aggregate Fair Value (in thousands)
Balance outstanding at December 31, 2017	1,123	\$ 9.03	\$ —
Awarded	1,843	15.13	—
Released	(251)	9.05	—
Forfeited	(107)	8.02	—
Non-vested and outstanding at June 30, 2018	2,608	\$ 13.38	\$ 55,026
Expected to vest	1,798	\$ 12.80	\$ 37,936

RSUs granted to employees generally vest over a four-year period or upon achievement of certain performance conditions. In accordance with ASU 2017-09, as of June 30, 2018, total unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested RSUs was approximately \$33.4 million and the weighted-average remaining vesting period was 3 years.

## 11. Restructuring

The Company's restructuring costs related to wind-down and severance costs associated with re-prioritizing and reallocating resources to focus on areas showing high growth potential. The expense associated with this restructuring was approximately \$1.9 million and \$2.1 million during the three months ended June 30, 2018 and 2017, respectively and approximately \$2.1 million and \$2.3 million during the six months ended June 30, 2018 and 2017, respectively. The restructuring liability was approximately \$2.6 million as of June 30, 2018 and \$2.3 million as of December 31, 2017. It is classified as accrued expenses and other current liabilities on the condensed consolidated balance sheets.

The following table presents the detail of the liability for the Company's restructuring charges for the periods presented (amounts in thousands):

	June 30, 2018	December 31, 2017
Balance, Beginning of the year	\$ 2,338	\$ 2,551
Severance and other associated costs	2,084	648
Cash payments	(1,845)	(2,807)
Wind down cost legacy platform	—	1,946
Balance, End of period	\$ 2,577	\$ 2,338

The following table presents the detail of expenses for the Company's restructuring charges for the three months ended June 30, 2018 (amounts in thousands):

	June 30, 2018	June 30, 2017
Severance and other associated costs	\$ 1,906	\$ 289
Wind down cost legacy platform	—	1,787
Total restructuring costs	\$ 1,906	\$ 2,076

The following table presents the detail of expenses for the Company's restructuring charges for the six months ended June 30, 2018 (amounts in thousands):

	June 30, 2018	June 30, 2017
Severance and other associated costs	\$ 2,084	\$ 399
Wind down cost legacy platform	—	1,916
Total restructuring costs	\$ 2,084	\$ 2,315

## 12. Legal Matters

The Company previously filed an intellectual property suit against [24]7 Customer, Inc. in the Southern District of New York on March 6, 2014 seeking damages on the grounds that [24]7 reverse engineered and misappropriated the Company's technology to develop competing products and misused the Company's business information. On June 22, 2015, [24]7 Customer, Inc. filed suit against the Company in the Northern District of California alleging patent infringement. On December 7, 2015, [24]7 Customer Inc. filed a second patent infringement suit against the Company, also in the Northern District of California. On March 16, 2017, the New York case was voluntarily transferred and consolidated with the two California cases in the Northern District of California for all pre-trial purposes. Recent rulings by both the Court and the United States Patent Office in the Company's favor have invalidated the majority of [24]7 patents that were asserted in the patent cases. Trial for the Company's intellectual property and other claims asserted against [24]7 in the original litigation is currently set for April 2019. The Company believes the claims filed by [24]7 are without merit and intends to defend them vigorously.

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

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

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

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

### General

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

### Overview

LivePerson was incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced in November 1998. LivePerson makes life easier by transforming how people communicate with brands. LiveEngage, the Company's enterprise-class, cloud-based platform, enables businesses and consumers to connect through conversational interfaces, such as in-app and mobile messaging, while leveraging bots and Artificial Intelligence (AI) to increase efficiency. As consumers have reoriented their digital lives around the smartphone, messaging apps have become their preferred communication channel to connect with each other. LivePerson allows brands to align with this new consumer preference, and deploy messaging at scale for customer care, marketing and sales, instead of requiring that consumers use email or call a 1-800 number. More than 18,000 businesses, including Adobe, Citibank, EE, HSBC, IBM, L'Oreal, Orange, PNC, and The Home Depot employ our technology to keep pace with rising customer service expectations and to align with preferences for digital communication channels.

We are organized into two operating segments: Business and Consumer. The Business segment enables brands to leverage LiveEngage's sophisticated intelligence engine to connect with consumers through an integrated suite of mobile and online business messaging technologies. The Consumer segment facilitates online transactions between independent service providers ("Experts") and individual consumers ("Users") seeking information and knowledge for a fee via mobile and online messaging.

In order to sustain growth in these segments, our strategy is to expand our position as the leading provider of online and mobile messaging solutions that transform how people communicate with brands. To accomplish this, we are focused on the following current initiatives:

***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 installed base. We will continue to focus primarily on key target markets: automotive, financial services, retail, technology, telecommunications, and travel/hospitality within both our enterprise and mid-market sectors, as well as the small business (SMB) sector. Healthcare, insurance, real estate and energy utilities are new target industries and natural extensions of our primary target markets. We plan to leverage our LiveEngage platform to replace a portion of calls traditionally made to 1-800 numbers with text and mobile messaging, and to increase adoption of real-time, campaign-based messaging across our customer's online properties. We intend to collaborate with our large installed customer base to optimize the value and effectiveness that brands derive from our services. We are also focused on strengthening our recurring revenue stream by signing larger, long-term, and more strategic deals.

One of the key ways we are developing our market position is by hosting customer summits for executive level attendees from our targeted enterprise customer base and prospects. These customer summits feature existing customers that have demonstrated strong success with messaging and bots on LiveEngage. We believe that scaled reference customers advocating the adoption of messaging on LiveEngage to targeted peer groups will be a key driver of our growth. In 2017, we increased the pacing and scale of these summits, a pattern that we have continued in 2018.

***Fuel Increased Usage by Expanding Messaging Channels, Use Cases and Interaction Types.*** LiveEngage currently supports numerous messaging endpoints including branded mobile apps, mobile and desktop web browsers, IVRs, SMS, Facebook Messenger and LINE. We intend to increase the number of endpoints supported by the LiveEngage platform to include additional third-party social apps and device-based systems. We also intend to broaden the use cases of LiveEngage across our customer base, to support care, sales, marketing and retail footprints. In addition, LivePerson continues to expand the breadth of interaction types available to customers on the platform. For example, in addition to our broad suite of messaging and real-time chat



technologies, customers have access to content delivery, analytics, cobrowse, and PCI compliance, as well as proprietary and third-party bot offerings. LivePerson offers a platform pricing model, which provides businesses access to our entire suite of messaging technologies across their entire agent pool for a pre-negotiated cost per interaction. We believe this model will lead to growth opportunities for LivePerson as customers adopt new messaging channels, use cases and interaction types.

**Leverage Partners to Enhance our Offering.** In addition to developing our own applications, we continue to cultivate a partner ecosystem capable of offering additional applications and services to our customers. The pace of our ecosystem expansion has accelerated in 2018, as we built on our existing integrations with Facebook Messenger and LINE, by adding integrations to Apple Business Chat, Google Rich Business Messenger, WhatsApp, Alexa and Google Home. These popular conversational interfaces enable brands the opportunity to connect to millions of consumers, which in turn can increase traffic on our platform.

Our offering is vendor agnostic, empowering our customers to manage a mix of different bots, human agents and technologies from one control panel, thereby optimizing contact center efficiency. In 2017, LivePerson launched the LiveEngage for Bots program and we have subsequently integrated LiveEngage with multiple artificial intelligence/bots vendors, including IBM Watson. LivePerson's proprietary and third-party AI/bots enable brands to partially or fully automate communications with their customers. In addition, we have opened up access to our platform and our products with application programming interfaces (APIs) that allow third parties to develop on top of our platform. Customers and partners can utilize these APIs to build our capabilities into their own applications and to enhance our applications with their services. In 2017, we allocated additional resources to supporting partners and we expect this investment to increase as our partner network expands.

**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. In order to better support our customers and to attract the best talent, LivePerson is globalizing research and development. We now have tech centers in Israel; Mannheim, Germany; New York; Atlanta; Mountain View, California; and Seattle. 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.

**International Presence.** LivePerson is focused on expanding its international revenue contribution, which increased to 37% of total revenue in 2017, from 34% in 2016 and 33% in 2015. LivePerson generated positive results from previous investments in direct sales and services personnel in the United Kingdom and Western Europe. We also continued to focus on expanding our presence in the Asia Pacific region, leveraging our relationships with partners.

**Continuing to Build Brand Recognition.** As a pioneer of brand-to-consumer digital messaging, LivePerson enjoys strong brand recognition and credibility. We continue to develop relationships with the media, industry analysts and relevant business associations to enhance awareness of our leadership within the care, sales, tech and marketing industries. With a vision of becoming the leader in messaging, we've hosted several private executive events for our customers and prospects, highlighting our expertise and the breadth of our services. These private executive events have led us to close several high-profile deals and we are continuing them throughout 2018. Our focus on connecting large enterprise businesses and their millions of consumers securely and at scale is a primary differentiator for LivePerson and a key component of our marketing strategy. We strategically target decision makers and influencers within several key vertical markets, leveraging customer successes to generate increased awareness and demand for brand-to-consumer messaging. In addition, our brand name may also be visible to both business users and consumers on a brand's website, within the dialog messaging window. We also engage in digital marketing campaigns that promote our brand on web searches and third-party sites.

**Increasing the Value of Our Service to Our Customers.** Leveraging LiveEngage to shift communication between consumers and brands from 1-800 number calls to AI and human-powered messaging is the most important initiative in LivePerson's history. We believe that adoption of LiveEngage will align brands with consumer communication preferences, improve the customer experience and reduce contact center costs. Our platform strategy makes available the full suite of LivePerson's capabilities through a single solution. In addition, the open architecture of LiveEngage will enable LivePerson to rapidly add new capabilities either directly or through partners. For example, we see opportunities for additional efficiencies in the contact center through the integration of artificial intelligence and bots. 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. Our strategy is to continue to enhance the LiveEngage messaging platform and to leverage the substantial amount of mobile and online consumer data we collect, with the aim of increasing agent efficiency, decreasing customer care costs, improving the customer experience and increasing customer lifetime value.

**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 transactions 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 transactions.

## Key Metrics

Financial overview of the three months ended June 30, 2018 compared to the three months ended June 30, 2017:

- Total revenue increased 14% to \$61.7 million from \$54.1 million
- Revenue from our Business segment increased 14% to \$56.7 million from \$49.6 million.
- Gross profit margin increased to 74% from 72%.
- Cost and expenses increased 14% to \$69.5 million from \$60.8 million.
- Net loss increased to \$8.3 million from net loss of \$7.5 million.
- Average annual revenue per enterprise and mid-market customer was greater than \$255,000 over the trailing twelve months ended June 30, 2018, as compared to greater than \$205,000 for the trailing twelve months ended June 30, 2017.
- The revenue retention rate for full service customers on LiveEngage was greater than 100% over the trailing twelve months ended June 30, 2018, continuing the trend of 100% plus revenue retention that we reported in 2017. Revenue retention rate measures the percentage of revenue retained at quarter end, from full service customers that were on LiveEngage at the same period a year ago.

## Adjusted EBITDA and Adjusted Net Income

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

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

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

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA does not consider the potentially dilutive impact of restructuring cost;
- adjusted EBITDA does not consider the potentially dilutive impact of other non-recurring costs;
- adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>Reconciliation of Adjusted EBITDA</b>				
GAAP net loss	\$ (8,321)	\$ (7,533)	\$ (11,524)	\$ (13,209)
Amortization of purchased intangibles	711	1,429	1,422	2,860
Stock-based compensation	3,826	2,347	6,264	4,260
Depreciation	3,428	3,045	6,786	5,838
Other non-recurring costs	1,768 <sup>(1)</sup>	1,534 <sup>(2)</sup>	3,038 <sup>(3)</sup>	3,358 <sup>(2)</sup>
Restructuring costs	1,906 <sup>(4)</sup>	2,075 <sup>(5)</sup>	2,084 <sup>(4)</sup>	2,315 <sup>(6)</sup>
Provision for income taxes	536	673	47	1,744
Other income, net	(31)	99	(160)	(221)
Adjusted EBITDA	<u>\$ 3,823</u>	<u>\$ 3,669</u>	<u>\$ 7,957</u>	<u>\$ 6,945</u>

<sup>(1)</sup> Includes litigation costs of \$1.2 million, consulting costs of \$0.4 million, and executive relocation costs of \$0.2 million for the three months ended June 30, 2018.

<sup>(2)</sup> Includes litigation costs of \$1.5 million and \$3.4 million for the three and six months ended June 30, 2017.

<sup>(3)</sup> Includes litigation costs of \$2.1 million, consulting costs of \$0.4 million, executive recruitment costs of \$0.3 million, and executive relocation costs of \$0.2 million for the six months ended June 30, 2018.

<sup>(4)</sup> Includes severance costs of \$1.9 million and \$2.1 million for the three and six months ended June 30, 2018.

<sup>(5)</sup> Includes wind down costs of legacy platform of \$1.8 million and severance costs of \$0.3 million for the three months ended June 30, 2017.

<sup>(6)</sup> Includes wind down costs of legacy platform of \$1.9 million and severance costs of \$0.4 million for the six months ended June 30, 2017.

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

- although amortization is a non-cash charge, the assets being amortized may have to be replaced in the future, and adjusted net income does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted net income does not consider the potentially dilutive impact of equity-based compensation;
- adjusted net income does not consider the potentially dilutive impact of restructuring cost;
- adjusted net income does not consider the potentially dilutive impact of other non-recurring costs;
- adjusted net income does not consider the potentially dilutive impact of deferred tax asset valuation allowance; and
- other companies, including companies in our industry, may calculate adjusted net income differently, which reduces its usefulness as a comparative measure.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Reconciliation of Adjusted Net Income</b>				
Pre-tax GAAP loss	\$ (7,785)	\$ (6,860)	\$ (11,477)	\$ (11,465)
Amortization of purchased intangibles	711	1,429	1,422	2,860
Stock-based compensation	3,826	2,347	6,264	4,260
Other non-recurring costs	1,768 <sup>(1)</sup>	1,534 <sup>(2)</sup>	3,038 <sup>(3)</sup>	3,358 <sup>(2)</sup>
Restructuring costs	1,906 <sup>(4)</sup>	2,075 <sup>(5)</sup>	2,084 <sup>(4)</sup>	2,315 <sup>(6)</sup>
Pre-tax adjusted net income	426	525	1,331	1,328
Income tax effect of non-GAAP items <sup>(7)</sup>	(107)	(184)	(333)	(465)
Adjusted net income	\$ 319	\$ 341	\$ 998	\$ 863

<sup>(1)</sup> Includes litigation costs of \$1.2 million, consulting costs of \$0.4 million, and executive relocation costs of \$0.2 million for the three months ended June 30, 2018.

<sup>(2)</sup> Includes litigation costs of \$1.5 million and \$3.4 million for the three and six months ended June 30, 2017.

<sup>(3)</sup> Includes litigation costs of \$2.1 million, consulting costs of \$0.4 million, executive recruitment costs of \$0.3 million, and executive relocation costs of \$0.2 million for the six months ended June 30, 2018.

<sup>(4)</sup> Includes severance costs of \$1.9 million and \$2.1 million for the three and six months ended June 30, 2018.

<sup>(5)</sup> Includes wind down costs of legacy platform of \$1.8 million and severance costs of \$0.3 million for the three months ended June 30, 2017.

<sup>(6)</sup> Includes wind down costs of legacy platform of \$1.9 million and severance costs of \$0.4 million for the six months ended June 30, 2017.

<sup>(7)</sup> The Company applies a standardized tax rate of 25% for the three and six months ended June 30, 2018. The Company applied a standardized tax rate of 35% for the three and six months ended June 30, 2017.

## Critical Accounting Policies and Estimates

Our condensed consolidated financial statements 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.

We believe that the assumptions and estimates associated with revenue recognition, depreciation, stock-based compensation, accounts receivable, the valuation of goodwill and intangible assets, income taxes and legal contingencies have the greatest potential impact on our consolidated financial statements. We evaluate these estimates on an ongoing basis. Actual results could differ from those estimates under different assumptions or conditions, and any differences could be material. The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating the reported consolidated financial results include the following:

### Revenue Recognition

The majority of the Company's revenue is generated from monthly service revenues and related professional services from the sale of the LivePerson services. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

The Company determines revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

Total revenue of \$61.7 million and \$119.9 million recognized during the three months and six months ended June 30, 2018, respectively, under Topic 606, was not materially different from what would have been recognized under Topic 605.

#### *Hosted Services- Business Revenue*

Hosted Services Business revenue is reported at the amount that reflects the ultimate consideration expected to be received and primarily consist of fees that provide customers access to LiveEngage, our enterprise-class, cloud-based platform. We have determined such access represents a stand-ready service provided continually throughout the contract term. As such, control and satisfaction of this stand-ready performance obligation is deemed to occur over time. We recognize this revenue over time on a ratable basis over the contract term, beginning on the date that access to the LiveEngage platform is made available to the customer. The passage of time is deemed to be the most faithful depiction of the transfer of control of the services as the customer simultaneously receives and consumes the benefit provided by the our performance. Subscription contracts are generally one year or longer in length, billed, monthly, quarterly or annually in advance. There is no significant variable consideration related to these arrangements. Additionally, for certain of the 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 the 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 in accordance with ASC-606, "Principal Agent Considerations", we act as a principal in a transaction if it controls the specified goods or services before they are transferred to the customer.

#### *Professional Services Revenues*

Professional services revenue primarily consists of fees for deployment and optimization services, as well as training delivered on an on-demand basis which is deemed to represent a distinct stand-ready performance obligation. Professional Services Revenues are reported at the amount that reflects the ultimate consideration we expect to receive in exchange for such services. Control for the majority of our Professional Services contracts passes over time to the customer and is recognized ratably over the contracted period, as the passage of time is deemed to be the most faithful depiction of the transfer of control. For certain deployment services, which are not deemed to represent a distinct performance obligation, revenue will be recognized in the same manner as the fee for access to the LiveEngage platform and as such will be recognized on a straight-line basis over the contract term. For services billed on a fixed price basis, revenue is recognized over time based on the proportion performed using inputs as the measure of progress toward complete satisfaction of the performance obligation. Professional service contracts are generally one year or longer in length, billed, monthly, quarterly or annually in advance. There is no significant variable consideration related to these arrangements.

#### *Contracts with Multiple Performance Obligations*

Some of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing objectives, taking into consideration market conditions and other factors, including the value of our contracts, the cloud applications sold, and the number and types of users within our contracts.

#### *Hosted Services- Consumer Revenue*

For revenue from our Consumer segment generated from online transactions between Experts and Users, revenue is recognized at an amount net of Expert fees in accordance with ASC 606, "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 retains a portion of the fee, and then remit the balance to the Expert. Revenue from these transactions is recognized at the point in time when the transaction is complete and no significant performance obligations remain.

#### *Deferred Revenues*

We record deferred revenues when cash payments are received or due in advance of our performance. The increase in the deferred revenue balance for the six months ended June 30, 2018 is primarily driven by cash payments received or due in advance of satisfying our performance obligations, partially offset by \$26.2 million of revenues recognized that were included in the deferred revenue balance as of December 31, 2017.

### **Stock-Based Compensation**

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

As of June 30, 2018, there was approximately \$17.2 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted average period of approximately 3.0 years. As of June 30, 2018, there was approximately \$33.4 million of total unrecognized compensation cost related to nonvested restricted stock units. That cost is expected to be recognized over a weighted average period of approximately 3.0 years.

### **Accounts Receivable**

Our customers are located primarily in the United States. We perform ongoing credit evaluations of our customers' financial condition (except for customers who purchase the LivePerson services by credit card via Internet download) and have established an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information that we believe to be reasonable, although they may change in the future. If there is a deterioration of a customer's credit worthiness or actual write-offs are higher than our historical experience, our estimates of recoverability for these receivables could be adversely affected. Although our large number of customers limits our concentration of credit risk we do have several large customers. If we experience a significant write-off from one of these large customers, it could have a material adverse impact on our condensed consolidated financial statements. No single customer accounted for or exceeded 10% of our total revenue in the three and six months ended June 30, 2018 and 2017. No customer accounted for approximately 10% of accounts receivable as of June 30, 2018 and December 31, 2017.

A large proportion of our 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. Receivables are written-off and charged against its recorded allowance when we have exhausted collection efforts without success. We adjust our allowance for doubtful accounts when accounts previously reserved have been collected. During the six months ended June 30, 2018, our allowance for doubtful accounts increased by \$0.4 million to approximately \$1.6 million. During 2017, we decreased our allowance for doubtful accounts by \$0.4 million to approximately \$1.3 million.

### **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, 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 analysis and consider other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions including projected future cash flows (including timing), discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to such comparables.

We evaluate for goodwill impairment annually at September 30<sup>th</sup>. At the end of the third quarter of 2017, we determined that it was not more-likely than the fair value of the reporting units are less than their carrying amount. Accordingly, we did not perform the two-step goodwill impairment test.

### **Impairment of Long-Lived Assets**

In accordance with ASC 360-10, "Accounting for the Impairment or Disposal of Long-lived Assets," long-lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The amount of any impairment

is measured as the difference between the carrying value and the fair value of the impaired asset. We do not have any long-lived assets, including intangible assets, which we consider to be impaired.

### ***Legal Contingencies***

We are subject to legal proceedings and litigation arising in the ordinary course of business. Periodically, we evaluate the status of each legal matter and assess our potential financial exposure. If the potential loss from any legal proceeding or litigation is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required to determine the probability of a loss and whether the amount of the loss is reasonably estimable. The outcome of any proceeding is not determinable in advance. As a result, the assessment of a potential liability and the amount of accruals recorded are based only on the information available at the time. As additional information becomes available, we reassess the potential liability related to the legal proceeding or litigation, and may revise our estimates. Any revisions could have a material effect on our results of operations. See Note 12, Legal Matters, of the Notes to the Condensed Consolidated Financial Statements for additional information on our legal proceedings and litigation.

### ***Recently Issued Accounting Standards***

See Note 1 of the Notes to Condensed Consolidated Financial Statements for a full description of recently issued accounting standards.

### ***Recently Adopted Accounting Pronouncements***

See Note 1 of the Notes to Condensed Consolidated Financial Statements for a full description of recently adopted accounting pronouncements.

### ***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, quarterly or annual fee, which varies by service and customer usage. The majority of our larger customers also pay a professional services fee related to implementation and ongoing optimization services. 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. Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

Revenue from our Business segment accounted for 92% of total revenue for the three and six months ended June 30, 2018 and 2017. Revenue attributable to our monthly hosted Business services accounted for 85% and 87% of total Business revenue for the three and six months ended June 30, 2018, respectively. Revenue attributable to our monthly hosted Business services accounted for 89% of total Business revenue for the three and six months ended June 30, 2017. Our service agreements typically have twelve month terms and, in some cases, are terminable or may terminate upon 30 to 90 days' notice without penalty. Given the time required to schedule training for our customers' operators and our customers' resource constraints, we have historically experienced a lag between signing a customer contract and recognizing revenue from that customer. Although this lag typically ranges from 30 to 90 days, it may take more or less time between contract signing and recognizing revenue in certain situations.

Revenue from our Consumer segment is generated from online transactions between Experts and Users and is recognized net of Expert fees and accounted for approximately 8% of total revenue for the three and six months ended June 30, 2018 and 2017.

We also have entered into contractual arrangements that complement our direct sales force and online sales efforts. These are primarily with call center service companies, pursuant to which LivePerson is paid a commission based on revenue generated by these service companies from our referrals. To date, revenue from such commissions has not been material.

### ***Costs and Expenses***

Our cost of revenue consists of:

- compensation costs relating to employees who provide customer support and implementation services to our customers;
- outside labor provider costs;
- compensation costs relating to our network support staff;
- depreciation of certain hardware and software;

- allocated occupancy costs and related overhead;
- the cost of supporting our infrastructure, including expenses related to server leases, infrastructure support costs and Internet connectivity;
- the credit card fees and related payment processing costs associated with consumer and self-service customers; and
- amortization of certain intangibles.

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

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

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

#### **Non-Cash Compensation Expense**

The net non-cash compensation amounts are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Stock-based compensation expense	\$ 3,826	\$ 2,347	\$ 6,264	\$ 4,260

#### **Results of Operations**

We are organized into two operating segments for purposes of making operating decisions and assessing performance. The Business segment enables brands to leverage LiveEngage’s sophisticated intelligence engine to connect with consumers through an integrated suite of mobile and online business messaging technologies. The Consumer segment facilitates online transactions between independent service providers (“Experts”) and individual consumers (“Users”) seeking information and knowledge for a fee via mobile and online messaging.

#### **Comparison of the Three and Six Months Ended June 30, 2018 and 2017**

##### **Revenue**

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(in thousands)			(in thousands)		
Revenue by Segment:						
Business	\$ 56,708	\$ 49,614	14%	\$ 110,269	\$ 96,363	14%
Consumer	4,952	4,460	11%	9,632	8,630	12%
Total	\$ 61,660	\$ 54,074	14%	\$ 119,901	\$ 104,993	14%

Business revenue increased by 14% to \$56.7 million and \$110.3 million in the three and six months ended June 30, 2018, respectively, from \$49.6 million and \$96.4 million in the comparable periods in 2017. This variance was primarily attributable to the increase in revenue from professional services of approximately \$3.0 million and \$3.7 million, in revenue from existing customers of approximately \$2.2 million and \$4.9 million, in revenue from new customers of approximately \$1.3 million and \$4.2 million, and in revenue that is variable principally based on pay for performance of approximately \$0.6 million and \$1.2 million, respectively.



In 2017, we had notified the majority of our customers about the end of life on the legacy offering, and not every legacy customer elected to move to LiveEngage. After we finished the migration of current customers from our old platform to our new LiveEngage platform, our focus shifted back to selling and expanding our base of messaging customers. We continued to see a decrease in existing customer cancellations quarter over quarter. During the fourth quarter 2017, we returned to year over year revenue growth. This trend continued into the first and second quarters of 2018.

Consumer revenue increased by 11% and 12% to \$5.0 million and \$9.6 million in the three and six months ended June 30, 2018, respectively, from \$4.5 million and \$8.6 million in the comparable periods in 2017. This variance is driven by an increase in price per minute and in volume of chat minutes.

#### **Cost of Revenue - Business**

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(\$ in thousands)			(\$ in thousands)		
Cost of revenue - business	\$ 15,086	\$ 14,206	6%	\$ 28,004	\$ 27,112	3%
Percentage of total revenue	24%	26%		23%	26%	
Headcount (at period end):	234	229	2%	234	229	2%

Cost of revenue increased by 6% to \$15.1 million in the three months ended June 30, 2018, from \$14.2 million in the comparable period in 2017. This variance was primarily attributable to increases in outsourced labor and other business services of approximately \$1.0 million and in total compensation and related costs for customer service and network operations personnel of approximately \$0.7 million. This was partially offset by decreases in amortization expense of approximately \$0.7 million and in primary and backup server facilities and allocated overhead related to costs supporting our server and network infrastructure of approximately \$0.2 million.

Cost of revenue increased by 3% to \$28.0 million in the six months ended June 30, 2018, from \$27.1 million in the comparable period in 2017. This variance was primarily attributable to increases in outsourced labor and other business services of approximately \$1.4 million and in total compensation and related costs for customer service and network operations personnel of approximately \$1.0 million. This was partially offset by decreases in amortization expense of approximately \$1.3 million and in primary and backup server facilities and allocated overhead related to costs supporting our server and network infrastructure of approximately \$0.3 million.

Gross margin for our business segment increased to 73% and 75% in the three and six months ended June 30, 2018, respectively, from 71% and 72% in the comparable periods in 2017. The increase in gross margin was tied to our ability to operationalize cost savings by moving brands off of our legacy platform and realigning our go-to-market strategy around LiveEngage.

#### **Cost of Revenue - Consumer**

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(\$ in thousands)			(\$ in thousands)		
Cost of revenue - consumer	\$ 950	\$ 928	2%	\$ 1,986	\$ 1,803	10%
Percentage of total revenue	2%	2%		2%	2%	
Headcount (at period end)	17	20	(15)%	17	20	(15)%

Cost of revenue remained relatively flat in the three months ended June 30, 2018, from the comparable period in 2017. This variance was primarily attributable to increases in depreciation expense and credit card processing fees offset by decreases in backup server facilities and allocated occupancy costs and overhead.

Cost of revenue increased by 10% to \$2.0 million in the six months ended June 30, 2018, from \$1.8 million the comparable period in 2017. This variance was primarily attributable to increases in depreciation expense, salary and related employee expenses, and credit card processing fees partially offset by decreases in backup server facilities and allocated occupancy costs and overhead.

### **Sales and Marketing - Business**

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(\$ in thousands)			(\$ in thousands)		
Sales and marketing - business	\$ 23,339	\$ 21,242	10%	\$ 45,062	\$ 40,785	10%
Percentage of total revenue	38%	39%		38%	39%	
Headcount (at period end):	315	287	10%	315	287	10%

Sales and marketing expenses increased by 10% to \$23.3 million in the three months ended June 30, 2018 from \$21.2 million in the comparable period in 2017. This variance was primarily attributable to increases in salaries and related costs for sales and marketing personnel of approximately \$1.2 million, outsourced labor and other business services of approximately \$0.8 million, and in recruiting expenses of approximately \$0.5 million. This was partially offset by decreases in marketing events, advertising, public relations, and tradeshow exhibit expenses of approximately \$0.4 million.

Sales and marketing expenses increased by 10% to \$45.1 million in the six months ended June 30, 2018 from \$40.8 million in the comparable period in 2017. This variance was primarily attributable to increases in outsourced labor and other business services of approximately \$1.8 million, in recruiting expenses of approximately \$1.2 million, in salaries and related costs for sales and marketing personnel of approximately \$0.7 million and in marketing events, advertising, public relations, and tradeshow exhibit expenses of approximately \$0.6 million.

We have realigned our go-to-market strategy around LiveEngage 2.0. Our outreach efforts are primarily focused on fostering a community of thought and industry leadership by targeting a few hundred of the world's largest brands through conference calls and events.

### **Sales and Marketing - Consumer**

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(\$ in thousands)			(\$ in thousands)		
Sales and marketing - consumer	\$ 2,053	\$ 2,150	(5)%	\$ 4,461	\$ 4,307	4%
Percentage of total revenue	3%	4%		4%	4%	
Headcount (at period end):	12	12	— %	12	12	— %

Sales and marketing expenses decreased by 5% to \$2.1 million in the three months ended June 30, 2018 from \$2.2 million in the comparable periods in 2017. This variance was primarily attributable to decreases in advertising and online expenses, partially offset by increases in salaries and related costs for sales and marketing personnel.

Sales and marketing expenses increased by 4% to \$4.5 million in the six months ended June 30, 2018 from \$4.3 million in the comparable periods in 2017. This variance was primarily attributable to increases in salaries and related costs for sales and marketing personnel partially offset by decreases in advertising and online expenses.

### General and Administrative

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(\$ in thousands)			(\$ in thousands)		
General and administrative	\$ 11,499	\$ 10,437	10%	\$ 21,622	\$ 20,130	7%
Percentage of total revenue	19%	19%		18%	19%	
Headcount (at period end):	114	107	7%	114	107	7%

General and administrative expenses increased by 10% to \$11.5 million in the three months ended June 30, 2018 from \$10.4 million in the comparable period in 2017. This variance was primarily attributable to increases in total compensation and related employee expenses of approximately \$0.7 million, in business services and outsourced labor of approximately \$0.3 million, and a net increase in non-recurring costs of approximately \$0.3 million. This was partially offset by decreases in allocated occupancy costs, related overhead, information technology and other general corporate expenses of approximately \$0.3 million. Non-recurring costs consisted of approximately \$0.4 million in consulting fees and executive relocation costs of approximately \$0.2 million, partially offset by a decrease in litigation costs of approximately \$0.3 million. Consulting fees related to pricing and cost efficiency analysis.

General and administrative expenses increased by 7% to \$21.6 million in the six months ended June 30, 2018 from \$20.1 million in the comparable period in 2017. This variance was primarily attributable to increases in total compensation and related employee expenses of approximately \$1.1 million, in business services and outsourced labor of approximately \$0.6 million, and in allocated occupancy costs, related overhead, information technology and other general corporate expenses of approximately \$0.2 million. This was partially offset by a net decrease in non-recurring costs of approximately \$0.4 million. Non-recurring costs consisted of a decrease in litigation costs of approximately \$1.3 million, partially offset by \$0.4 million in consulting fees, executive recruitment costs of \$0.3 million and executive relocation costs of approximately \$0.2 million. Consulting fees related to pricing and cost efficiency analysis.

### Product Development

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(\$ in thousands)			(\$ in thousands)		
Product development	\$ 14,219	\$ 9,326	52%	\$ 27,471	\$ 19,285	42%
Percentage of total revenue	23%	17%		23%	18%	
Headcount (at period end):	367	296	24%	367	296	24%

Product development costs increased by 52% and 42% to \$14.2 million and \$27.5 million in the three and six months ended June 30, 2018 from \$9.3 million and \$19.3 million in the comparable periods in 2017. This variance was primarily attributable to increases in total compensation, outside labor, recruiting expense and associated costs for existing product development personnel of approximately \$4.0 million and \$6.4 million, respectively, and in depreciation expense and backup server facilities and allocated overhead related to costs of supporting our server and network infrastructure of approximately \$0.9 and \$1.8 million, respectively.

We continue to invest in new product development efforts to expand the capability of LiveEngage. We recognize that every brand is unique and employs an individualized and complex approach to managing their users. In accordance with ASC 350-40 - "Internal- Use Software", as new projects are initiated that provide functionality to the LiveEngage platform, the associated development and employee costs will be capitalized. Upon completion, the project costs will be depreciated over five years. In the three and six months ended June 30, 2018, \$2.4 million and \$5.1 million was capitalized, respectively. In the three and six months ended June 30, 2017, \$2.3 million and \$4.0 was capitalized, respectively.

### Restructuring Costs

Restructuring costs consist of reprioritizing and reallocating resources to focus on areas showing high growth potential.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(\$ in thousands)			(\$ in thousands)		
Restructuring costs	\$ 1,906	\$ 2,076	(8)%	\$ 2,084	\$ 2,315	(10)%
Percentage of total revenue	3%	4%		2%	2%	

Restructuring costs incurred decreased by 8% and 10% to approximately \$1.9 million and \$2.1 million during the three and six months ended June 30, 2018, respectively, from \$2.1 million and \$2.3 million in the comparable periods in 2017. This variance was primarily attributable to wind-down costs of our legacy platform of \$1.8 million and \$1.9 million during three and six months ended 2017. This was partially offset by increases in severance costs of \$1.6 million and \$1.7 million during three and six months ended June 30, 2018 from the comparable periods in 2017.

#### **Amortization of Purchased Intangibles**

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(\$ in thousands)			(\$ in thousands)		
Amortization of purchased intangibles	\$ 424	\$ 470	(10)%	\$ 848	\$ 942	(10)%
Percentage of total revenues	1%	1%		1%	1%	

Amortization expense for purchased intangibles decreased by 10% to \$0.4 million and \$0.8 million in the three and six months ended June 30, 2018, respectively, from \$0.5 million and \$0.9 million in the comparable periods in 2017. This variance was primarily attributable to a decrease in amortization of CAO! and Synchronite intangible assets. This was partially offset by amortization of the 2018 Bot Central assets acquired.

Additional amortization expense in the amount of \$0.3 million and \$1.0 million in the three months ended June 30, 2018 and 2017, respectively, and \$0.6 million and \$1.9 million in the six months ended June 30, 2018 and 2017, respectively, is included in cost of revenue. The decrease is primarily attributable to the full amortization of Amadesa during the third quarter of 2017.

#### **Other Income, net**

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(\$ in thousands)			(\$ in thousands)		
Other income (expense), net	\$ 31	\$ (99)	(131)%	\$ 160	\$ 221	(28)%

Other income (expense), net increased 131% in the three months ended June 30, 2018 from the comparable period in 2017 due to a gain on foreign exchange of approximately \$0.1 million and an increase in other financial income of approximately \$0.1 million. This was partially offset by a decrease in hedging income.

Other income (expense), net decreased 28% in the six months ended June 30, 2018 from the comparable period in 2017 due to a decrease in finance hedging income of approximately \$0.3 million. This was partially offset by a gain on foreign exchange of approximately \$0.1 million and an increase in other financial income of approximately \$0.1 million.

#### **Provision For Income Taxes**

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
	(\$ in thousands)			(\$ in thousands)		
Provision for income taxes	\$ 536	\$ 673	(20)%	\$ 47	\$ 1,744	(97)%

Provision for income taxes decreased by 20% and 97% to \$0.5 million and \$47,000 for the three and six months ended June 30, 2018 from \$0.7 million and \$1.7 million in the comparable periods in 2017. Our consolidated effective tax rate was impacted by the statutory income tax rates applicable to each of the jurisdictions in which we operate.

**Net Loss**

We had a net loss of \$8.3 million in the three months ended June 30, 2018 compared to a net loss of \$7.5 million for the three months ended June 30, 2017. During the three months ended June 30, 2018, there were increases in revenue of approximately \$7.6 million, increases in other income (expense), net of approximately \$0.1 million, and decreases in provision for income taxes of approximately \$0.1 million. This was partially offset by increases in operating expenses of approximately \$8.6 million.

We had a net loss of \$11.5 million in the six months ended June 30, 2018 compared to a net loss of \$13.2 million for the six months ended June 30, 2017. During the six months ended June 30, 2018, there were increases in revenue of approximately \$14.9 million and decreases in provision for income taxes by \$1.7 million. This was partially offset by increases in operating expenses of approximately \$14.9 million and decreases in other income (expense), net of approximately \$0.1 million.

## Liquidity and Capital Resources

	Six Months Ended	
	June 30,	
	2018	2017
	(in thousands)	
<b>Consolidated Statements of Cash Flows Data:</b>		
Cash flows (used) in provided by operating activities	\$ (2,007)	\$ 5,364
Cash flows used in investing activities	(8,821)	(7,045)
Cash flows provided by financing activities	24,322	807

As of June 30, 2018, we had approximately \$69.7 million in cash and cash equivalents, an increase of approximately \$13.6 million from December 31, 2017. The increase is primarily attributable to cash provided by financing activities relating to issuance of common stock net cash, deferred revenue, and non-cash expenses. This was partially offset by cash flows used in investing relating to purchases of fixed assets for our co-location facilities and capitalization of internally developed software, increases in prepaid expenses and other current assets and decreases in accrued expenses.

Net cash used in operating activities was \$2.0 million for the six months ended June 30, 2018 and consisted primarily of net loss and increases in prepaid expenses and other current assets and accounts receivable and decreases in accrued expenses. This was partially offset by increases in deferred revenue and non-cash expenses related to depreciation, stock compensation, and amortization of purchased intangibles. The increase in accounts receivable and deferred revenue was primarily related to changes in our billing terms for some of our larger customers. Net cash provided by operating activities was \$5.4 million for the six months ended June 30, 2017 and consisted primarily of increases in deferred revenue, decreases in accounts receivable, and non-cash expenses related to depreciation, stock compensation, and amortization of purchased intangibles. This was partially offset by net loss, increases in prepaid expenses and other current assets, and decreases in accounts payable and accrued expenses.

Net cash used in investing activities was \$8.8 million in the six months ended June 30, 2018 and was due primarily to the purchase of fixed assets for our co-location facilities and capitalization of internally developed software and the BotCentral assets acquired, partially offset by a release of restricted cash used with foreign currency forward contracts. Net cash used in investing activities was \$7.0 million in the six months ended June 30, 2017 and was due primarily to the purchase of fixed assets for our co-location facilities.

Net cash provided by financing activities was \$24.3 million and \$0.8 million in the six months ended June 30, 2018 and 2017, respectively. This was due primarily to proceeds from the issuance of common stock in connection with the exercise of stock options by employees, partially offset by repurchase of our 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 purchased intangible assets, as well as non-cash compensation costs. Historically, we have incurred net losses and negative cash flows for various quarterly and annual periods since our inception, including during numerous quarters and annual periods in the past several years. As of June 30, 2018, we had an accumulated deficit of approximately \$174.0 million.

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

### Contractual Obligations and Commitments

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

We lease facilities and certain equipment under agreements accounted for as operating leases. These leases generally require us to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the three and six months ended June 30, 2018 and 2017 was approximately \$2.3 million and \$4.6 million, respectively.

As of June 30, 2018, our principal commitments were approximately \$27.1 million under various operating leases, of which approximately \$4.8 million is due in 2018. We currently expect that our principal commitments for the year ending December 31, 2018 will not exceed \$15.5 million in the aggregate.

Our contractual obligations at June 30, 2018 are summarized as follows:

Contractual Obligations	Payments due by period				
	(in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	\$ 27,076	\$ 8,535	\$ 11,676	\$ 5,613	\$ 1,252

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

#### Foreign Currency Exchange Risks

Our Israeli operations have currency rate fluctuation risk associated with the exchange rate movement of the U.S. dollar against the New Israeli Shekel (“NIS”). During the three months ended June 30, 2018, the U.S. dollar appreciated by approximately 1% as compared to the NIS. During the six months ended June 30, 2018, the U.S. dollar depreciated by approximately 2% as compared to the NIS. During the three and six months ended June 30, 2018, expenses generated by our Israeli operations totaled approximately \$16.9 million and \$34.5 million, respectively. During 2018, we hedged our foreign currency risk exposure relating to the NIS. We actively monitor the movement of the U.S. dollar against the NIS, Pound Sterling, Euro, AUS dollar and Japanese Yen and have considered the use of financial instruments, including but not limited to derivative financial instruments, which could mitigate such risk. If we determine that our risk of exposure materially exceeds the potential cost of derivative financial instruments, we may 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; the functional currency of our operations in the United Kingdom is the British Pound; the functional currency of our operations in the Netherlands, Germany, Italy and France is the Euro; the functional currency of our operations in Australia is the Australian Dollar; and the functional currency of our operations in Japan is the Japanese Yen.

#### Collection Risk

Our accounts receivable are subject, in the normal course of business, to collection risks. We regularly assess these risks and have established policies and business practices to protect against the adverse effects of collection risks. During the six months ended June 30, 2018, our allowance for doubtful accounts increased by \$0.4 million to approximately \$1.7 million. During 2017, we decreased our allowance for doubtful accounts from \$1.7 million to approximately \$1.3 million. A large proportion of our 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. Receivables are written-off and charged against its recorded allowance when we have exhausted collection efforts without success. We adjust our allowance for doubtful accounts when accounts previously reserved have been collected.

#### Interest Rate Risk

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

#### Inflation Risk

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

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of June 30, 2018. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2018 to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, and

to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Limitations of the Effectiveness of Internal Control

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

## Part II. Other Information

### Item 1. Legal Proceedings

We previously filed an intellectual property suit against [24]7 Customer, Inc. in the Southern District of New York on March 6, 2014 seeking damages on the grounds that [24]7 reverse engineered and misappropriated our technology to develop competing products and misused our business information. On June 22, 2015, [24]7 Customer, Inc. filed suit against us in the Northern District of California alleging patent infringement. On December 7, 2015, [24]7 Customer Inc. filed a second patent infringement suit against us, also in the Northern District of California. On March 16, 2017, the New York case was voluntarily transferred and consolidated with the two California cases in the Northern District of California for all pre-trial purposes. Recent rulings by both the Court and the United States Patent Office in our favor have invalidated the majority of [24]7 patents that were asserted in the patent cases. Trial for our intellectual property and other claims asserted against [24]7 in the original litigation is currently set for April 2019. We believe the claims filed by [24]7 are without merit and intend to defend them vigorously.

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

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

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



## Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, filed on March 15, 2018, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. There have been no material changes to the risk factors described in our most recent Annual Report on Form 10-K.

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

### Unregistered Sales of Equity Securities

None.

### Purchase of Equity Securities by the Issuer

A summary of our repurchase activity for the three months ended June 30, 2018 appears below:

Period	Total Number of Shares Purchased <sup>(1) (2)</sup>	Average Price Paid per Share <sup>(1) (2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1) (2)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1) (2) (3)</sup>
4/1/2018 – 4/30/2018	—	\$ —	—	\$ 17,050,059
5/1/2018 – 5/31/2018	—	—	—	17,050,059
6/1/2018 – 6/30/2018	—	—	—	17,050,059
Total	—	\$ —	—	\$ 17,050,059

- (1) On December 10, 2012, we announced that our Board of Directors approved a share repurchase program through June 30, 2014. Under the stock repurchase program, we were authorized to repurchase shares of the our common stock, in the open market or privately negotiated transactions, at times and prices considered appropriate by the Board of Directors depending upon prevailing market conditions and other corporate considerations.
- (2) As of June 30, 2014, approximately \$1.1 million remained available for purchases under the program as in effect at that time. On July 23, 2014, our Board of Directors extended the expiration date of the program out to December 31, 2014 and also increased the aggregate purchase price of the stock repurchase program from \$40.0 million to \$50.0 million. On March 5, 2015, our Board of Directors extended the expiration date of the program out to December 31, 2016. On February 16, 2016, our Board of Directors increased the aggregate purchase price of the total stock repurchase program by an additional \$14.0 million. On November 21, 2016, our Board of Directors increased the aggregate purchase price of the stock repurchase program from \$64.0 million to \$74.0 million and extended the expiration date of the program out to December 31, 2017. On May 7, 2018, the Company’s Board of Directors ratified the extension to December 31, 2018 of the repurchase program, effective as of January 1, 2018. As of June 30, 2018, approximately \$17.1 million remained available for purchases under the program.
- (3) Transaction fees related to the share purchases are deducted from the total remaining allowable expenditure amount.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

None.

## Item 5. Other Information

On July 31, 2018, the Compensation Committee (the “Compensation Committee”) of the Company adopted the Long Term Incentive Plan of LivePerson, Inc. (the “LTIP Plan”). The LTIP Plan encompasses two long-term bonus programs, the Accelerated Growth Plan (the “AGP Component”) and the Three-Year Plan Achieves Rule of 40 for SAAS Program (the “Rule of 40 Component”), each of which provides for the funding of a bonus pool upon the Company’s achievement of certain financial

goals and the subsequent granting of restricted stock units to participants in the AGP Component and Rule of 40 Component, as applicable, that will be subject to certain continued vested requirements. In respect of the AGP Component, if the Company achieves certain Company revenue goals for the fiscal year 2020, such goals to be determined by the Board, a bonus pool will be funded in April 2021 with a value equal to 2% of the incremental difference between the Company's market cap at December 31, 2020 less the Company's market cap at December 31, 2017 (of \$636.1 million) (the "Incremental Difference"). In respect of the Rule of 40 Component, if the Company achieves certain annual revenue and annual Adjusted EBITDA goals, to be set by the Board, in any fiscal year on or before December 31, 2020, a bonus pool will be funded on April 1, 2021 with a value equal to 0.5% of the Incremental Difference, and if 90% of such goals are achieved, the bonus pool will be funded with a value equal to 0.25% of the Incremental Difference. Following the creation of the bonus pools, if any, participants in the applicable Plan component will be granted restricted stock units, as described more fully below.

The Company's Chief Executive Officer, executive officers and other senior officers as designated by the Compensation Committee shall be participants in one or both of the LTIP Plan components. The AGP Component is intended to be for a single three-year performance period of January 1, 2018 - December 31, 2020. The Rule of 40 Component has been established with an initial three-year performance period (also January 1, 2018 - December 31, 2020), and may, in the discretion of the Compensation Committee, be utilized for additional three-year performance cycles in which case the Compensation Committee shall determine the applicable performance metrics and funding thresholds. Participants in each of the AGP Component and Rule of 40 Component will be designated by the Committee and under the terms of the Plan as a member of one of three tiers. If the bonus pool is funded for a particular component, Tier 1 participants, consisting of the Company's CEO, will be allocated 14% of the applicable bonus pool, Tier 2 participants will be allocated 49% of the applicable bonus pool, and Tier 3 participants will be allocated 37% of the applicable bonus pool. In each case, each member of the Tier will be entitled to a bonus award of an equal portion of that Tier's allocation, in the form of restricted stock units. In addition to participation by the Company's CEO, the Company's other named executive officers may be participants one or both of the LTIP Plan components.

For each eligible participant, fifty percent (50%) of the restricted stock units granted to the participant as a result of the funding of the AGP Component bonus pool will be vested upon grant (on April 1, 2021), 25% will vest on January 1, 2022 and 25% will vest on January 1, 2023, in each case subject to continued employment of the participant through the vesting date unless otherwise determined by the Compensation Committee for a particular participant. For each eligible participant, one hundred (100%) of the restricted stock units granted to the participant as a result of the funding of the Rule of 40 Component bonus pool will be vested upon grant (on April 1, 2021), conditioned on the continued employment of the participant through the vesting date unless otherwise determined by the Compensation Committee for a particular participant. Restricted Stock Unit Awards will be settled promptly following vesting, subject to a participant's election to defer settlement in connection with, and pursuant to the terms of the Company's non-qualified deferred compensation plan and in compliance with Section 409A of the Internal Revenue Code of 1986, as amended.

It is intended that the bonus pools will be funded in shares of the Company's common stock, with shares that have, prior to the bonus pools' funding, been approved for the issuance to employees by our stockholders, either as part of the shares reserved for issuance under the Company's 2009 Stock Incentive Plan (or equivalent successor plan) or as may be separately approved as a stand-alone share pool specifically for the LTIP Plan. If the bonus pools are funded in stock, the RSUs granted to participants will settle in stock. Under the terms of the LTIP Plan, the Compensation Committee reserves the right to fund the all or a portion of the bonus pools in cash and issue cash settled RSUs. Notwithstanding anything to the contrary, in the event of a reorganization event (as defined in the Plan), the bonus pools will be funded if the performance targets that would have triggered the bonus pool funding at the end of the performance period have been met as a result of the reorganization event (even though the full performance period has not run) and fully vested RSUs will be granted to the applicable participants.

The foregoing description of the LTIP Plan is intended only as a summary and is qualified in its entirety by reference to the actual terms of the LTIP Plan, which is attached as Exhibit 10.1 hereto and is incorporated by reference herein.

## ITEM 6. EXHIBITS

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

10.1*	Long Term Incentive Plan dated July 31, 2018
10.2*	Separation Agreement General Release between LivePerson and Eran Vanounou, dated as of April 30, 2018
31.1	Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

\* Management contract or compensatory plan or arrangement.

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

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

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**LIVEPERSON, INC.**

(Registrant)

Date: August 6, 2018

By: /s/ ROBERT P. LOCASCIO

Name: Robert P. LoCascio

Title: Chief Executive Officer (principal executive officer)

Date: August 6, 2018

By: /s/ CHRISTOPHER E. GREINER

Name: Christopher E. Greiner

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

**EXHIBIT INDEX**

<b>Number</b>	<b>Description</b>
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Long-Term Incentive Plan of LivePerson, Inc.  
Effective July 31, 2018

## SECTION 1. PURPOSE

The purpose of the Long-Term Performance Incentive Plan of LivePerson, Inc. (the "Plan") is to advance the interests of LivePerson, Inc. (the "Company") by providing a competitive level of incentive for eligible senior executives, which will encourage them to more closely identify with share-owner interests and to achieve financial results consistent with the Company's long range business plans. It will also enhance the Company's ability to attract and retain key executives who are responsible for moving the business forward.

The Plan consists of two (2) award components, as follows:

- (1) the Accelerated Growth Plan, a non-recurring program, (the "AGP Component"); and
- (2) the Three Year Plan Achieves Rule of 40 for SAAS<sup>1</sup>, an annual program, (the "Rule of 40 Component").

## SECTION 2. ADMINISTRATION

The Plan will be administered by the Compensation Committee of the Board of Directors of the Company or a subcommittee thereof (the "Committee") consisting of not less than two independent members of the Board of Directors of the Company (the "Board"); provided however, with respect to a Long-Term Incentive Award granted to a Participant (as defined herein) who is subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Committee shall consist solely of two or more "nonemployee" directors for purposes of the Exchange Act. The Committee will determine which of the eligible key employees of the Company and its Related Companies (as defined herein) to whom, and the time or times at which, an award under the AGP Component and/or the Rule of 40 Component (each award, a "Long-Term Incentive Award") will be granted under the Plan, and the other terms and conditions of the grant of a Long-Term Incentive Award. The terms and conditions of each grant of a Long-Term Incentive Award need not be the same with respect to each grantee or with respect to each type of Long-Term Incentive Award under the AGP Component or Rule of 40 Component.

The Committee will, subject to the provisions of the Plan, establish such rules and regulations as it deems necessary or advisable for the proper administration of the Plan, and will make determinations and will take such other action in connection with or in relation to accomplishing the objectives of the Plan as it deems necessary or advisable. Each determination or other action made or taken pursuant to the Plan, including interpretation of the Plan and the specific conditions and provisions of the Long-Term Incentive Awards granted hereunder by the Committee will be final and conclusive for all purposes and upon all

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<sup>1</sup> The rule of 40%: The "rule of 40%" is notion by investors and the stock market participants to analyze the health of a software/SaaS business. It takes into consideration two of the most important metrics for a software/SaaS company: growth and profit (Adjusted EBITDA). The rule of 40% states that a company's growth rate plus its profit should add up to 40%.

persons including, but without limitation, the Company, its Related Companies, the Committee, the Board, officers, the affected employees of the Company and/or its Related Companies, and any participant or former participant under the Plan, as well as their respective successors in interest. The Committee's determinations under the Plan need not be uniform and may be made by it selectively among Participants who receive Long-Term Incentive Awards and/or RSUs (in each case, whether or not such Participants are similarly situated).

### **SECTION 3. ELIGIBILITY**

The Chief Executive Officer, the President (if any), each executive officer and such other senior officers of the Company as the Committee may designate (the executive officers and designated senior officers, together the "Eligible Officers") will be eligible to participate in the Plan, but no individual will have a right to participate. Long-Term Incentive Awards may be granted to such Eligible Officers of the Company and its Related Companies as determined in the sole discretion of the Committee. An Eligible Officer may be granted a Long-Term Incentive Award under one or both the AGP Component and Rule of 40 Component in the sole discretion of the Committee.

The term "Related Company" or "Related Companies" will mean any corporation or business organization in which the Company owns, directly or indirectly, during the relevant time, either: (i) 50% or more of the voting stock or capital where such entity is not publicly held, or (ii) an interest which causes the other entity's financial results to be consolidated with the Company's financial results for financial reporting purposes.

An Eligible Officer must be employed by the Company or a Related Company as of June 30, 2018 to participate in either the ACP Component or the initial grants under the Rule of 40 Component. Eligible Officers who commence employment after June 30, 2018, are eligible to participate in the Rule of 40 Component for Performance Periods beginning January 1, 2019, but may not participate in the AGP Component, unless the Committee authorizes the additional Performance Periods.

### **SECTION 4. GRANTS OF LONG-TERM INCENTIVE AWARDS; CREATION OF BONUS POOLS**

(a) Selection by the Committee of Participants. The Committee will select those Eligible Officers who will receive a Long-Term Incentive Award (x) for the AGP Component and for the initial grants under the Rule of 40 Component, within 90 days of the date of effectiveness of the Plan, and (y) following the effectiveness of the Plan, for the Rule of 40 Component, annually within 90 days after the beginning of each three-year Performance Period (as defined below). Following such selection by the Committee, the selected Eligible Officers will be notified in writing that such person is a participant in the Plan, and shall specify whether such person has been granted an award under the AGP Component and/or the Rule of 40 Component, (each such notified person, a "Participant").

(b) Performance Period. Long-Term Incentive Awards granted under each of the AGP Component and Rule of 40 Component are measured based on a performance period of three years, commencing on the first day of January of the applicable year and ending on December 31 of the third year (each, a "Performance Period"). In respect of the AGP Component, the initial Performance Period shall be January 1, 2018 – December 31, 2020 and whether an additional Performance Period for the AGP Component will be implemented is at the discretion of the Board. In respect of the Rule of 40 Component,

a new Performance Period will commence each year. For the avoidance of doubt, an individual who is a Participant in the Rule of 40 Component for one Performance Period shall not be a Participant in any other Performance Periods unless the individual is again selected by the Committee in accordance with Section 4(a) of the Plan for such new Performance Period.

(c) Calculation of Performance Incentive Base and Creation of Bonus Pool. If the applicable performance conditions set forth below are satisfied, a bonus pool (the "Bonus Pool") for the applicable Plan Component shall be created as follows:

(1) AGP Component. If the Company achieves Company Revenue goals, as such goals shall be set by the Board at the time of its adoption of the Plan in respect of the Initial Performance Period, or as set promptly following the beginning of any additional Performance Periods, if any, a Bonus Pool shall be created for the AGP Component Participants in an amount equal to 2% of the incremental difference of the Company's Market Cap at December 31, 2020 less the Market Cap at December 31, 2017 of \$686.1 million. For purposes of the Plan, "Market Cap" shall be determined by reference to the market capitalization of the Company on the relevant date based on the number of outstanding shares and closing share price of a share of Common Stock as reported on The NASDAQ Stock Market (or the national securities exchange on which the Company's shares of common stock are then traded) (the "Relevant Exchange").

(2) Rule of 40 Component. For the initial Performance Period of the Rule of 40 Component, if the Company achieves annual Revenue and annual Adjusted EBITDA goals, as such goals shall be set by the Board at the time of its adoption of the Plan, in any fiscal year ending at or before December 31, 2020, a Bonus Pool is created for the Rule of 40 Component Participants in an amount equal to 0.5% of the incremental difference of the Company's Market Cap at December 31, 2020 less the Market Cap at December 31, 2017 of \$686.1 million. Notwithstanding the foregoing, if 90% of the Revenue and Adjusted EBITDA performance goals are met, the Bonus Pool shall be created in respect of 0.25% of the incremental difference of the Company's Market Cap at December 31, 2020 less the Market Cap at December 31, 2017 of \$686.1 million. The Committee in its sole discretion in consideration of the Company's budget projections shall determine the relevant performance metrics and performance targets for a Performance Period after the initial Performance Period.

(d) Bonus Pool Allocations. In the event that the creation of a Bonus Pool is triggered, such portions of the applicable Bonus Pool shall be allocated to each Participant, depending on the assignment of the Participant to one of three "Tiers," ("Tier 1", "Tier 2", and "Tier 3," respectively), with each Participant's Tier being set forth in the Participant's notice of participation in the AGP Component and/or Rule of 40 Component. Each Participant in a particular Tier will be eligible to receive an equal portion of that Tier's allocated amount.

(1) AGP Component. Tier 1, Tier 2 and Tier 3 participation is as follows:

- Tier 1 (CEO) - Receives 14% of applicable Bonus Pool
- Tier 2 - Receives 49% of applicable Bonus Pool
- Tier 3 - Receives 37% of applicable Bonus Pool

(2) Rule of 40 Component. Three Tiers of Participation which are as follows:

- Tier 1 (CEO) - Receives 14% of applicable Bonus Pool
- Tier 2 - Receives 49% of applicable Bonus Pool



- Tier 3 - Receives 37% of applicable Bonus Pool

(3) In each case of the AGP Component Bonus Pool and Rule of 40 Component Bonus Pool, any allocated amounts forfeited by Participants in accordance with Section 5(f), shall not be reallocated to other Participants.

(e) **Funding of Bonus Pools.** Each Bonus Pool that is triggered to be created shall be funded by the contribution by the Company of that number of shares of Common Stock (as defined herein) having a fair market value on April 1, 2021, or in the case of the Rule of 40 Component on the April 1 first following the last day of the relevant Performance Period, equal to the required funding amounts as set forth in Section 4(c) above, subject to the maximum funding levels set forth in Section 6(a) below. In the event (x) stockholders of the Company have not approved the shares of Common Stock reserved for issuance under the terms of the Plan prior to the date on which the funding for either the AGP Component Bonus Pool or Rule of 40 Component Bonus Pool is triggered, or have not approved a sufficient number of shares of Common Stock to fund such Bonus Pools, (y) the Committee has determined it will not fund the Bonus Pools with shares of Common Stock authorized under the Equity Plan or Successor Plan (as such terms are defined herein) as set forth in Section 6(a)(2), or (z) the Committee has otherwise determined that it is desirable to do so, the AGP Component Bonus Pool and/or the Rule of 40 Component Bonus Pool, as applicable, will be funded, in whole or in part, in cash.

## **SECTION 5. LONG-TERM INCENTIVE AWARD TERMS AND CONDITIONS**

Long-Term Incentive Awards shall be subject to the following terms and conditions:

- (a) Performance will be measured based upon the achievement of the objective triggering events set forth in Section 4(c), as measured at end of the applicable Performance Period.
- (b) Participants will be notified of their participation tier at the time of grant of an award under the AGP Component and/or Rule of 40 Component.
- (c) All Participants in each participation Tier of the applicable Bonus Pool will receive an equal share of such Tier allocation, subject to a Participant's forfeiture of his or her participation right pursuant to Section 5(f).
- (d) Unless otherwise determined by the Committee prior to the time payment becomes due, Long-Term Incentive Awards will be paid in the form of RSUs, with the number of RSUs to be determined using the closing stock price of a share of the Company's common stock on April 1st (or the last trading day preceding April 1, if April 1 is not a trading day) following the conclusion of the applicable Performance Period, subject to the following vesting conditions:
  - a. For the AGP Component:
    - 50% of the RSUs will be fully vested at the time of grant, on April 1, 2021;
    - 25% of the RSUs will become vested on January 1, 2022; and
    - 25% of the RSUs will become vested on January 1, 2023.
  - b. For the Rule of 40 Component:
    - 100% of the RSUs will be fully vested at the time of grant, on the applicable April 1.
- (e) RSUs will be subject to the terms and conditions of an RSU award agreement in a form to be provided by the Company at the time of grant.
- (f) Notwithstanding anything to the contrary and unless otherwise set forth in an RSU agreement, a Participant must be employed by LivePerson or a Related Company on the relevant vesting date

to receive payment of a Long-Term Incentive Award, and any unvested portion of the Long-Term Incentive Award, or subsequently granted RSUs in payment of such Award, shall be forfeited if the Participant incurs a separation from service from the Company and the Related Companies.

- (g) In settlement of the RSUs, within 10 days following the vesting of a portion of the RSUs, the Participant shall be issued that number of shares of Common Stock equal to the number of RSUs for which then vested; subject to payment by the Participant to the Company of any Federal, state, or local income and employment taxes that the Participant is obligated to pay in connection with the RSU's settlement (collectively, the "Tax Obligations") provided, however, notwithstanding anything to the contrary, the Company will have the right to withhold from the number of shares of Common Stock that would otherwise be issuable to the Participant in settlement of the RSUs, that number of shares of Common Stock having the fair market value equal to the amount of the Participant's Tax Obligations. .
- (h) Notwithstanding anything to the contrary, a Participant may elect to defer the settlement of all or a portion of the RSUs granted to the Participant, under the terms and in accordance with the LivePerson, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan"), effective as of August 1, 2015, as amended. Such election to defer must be made, in accordance with Section 409A of the Code and the terms of the Deferred Compensation Plan, by the end of the calendar year immediately preceding the last calendar year of the Performance Period.
- (i) Prior to the grant of the RSUs, the Committee may, at its sole discretion, reduce the amount of any potential Long-Term Incentive Award or refuse to pay any Long-Term Incentive Award.

## **SECTION 6. SHARES RESERVED FOR ISSUANCE; RSUs**

### **(a) Shares Authorized.**

(1) Subject to stockholder approval in accordance with the requirements of the rules of The NASDAQ Stock Market (or the national securities exchange on which the Company's shares of common stock are then traded), the total aggregate number of shares of common stock \$0.001 par value per share, of the Company (the "Common Stock") that may be issued or transferred under the Plan in the form of RSUs in satisfaction of Long-Term Incentive Awards is 500,000 shares, subject to adjustment as described below, which number of shares of Common Stock may be amended by the Committee prior to the time, and if, the Plan is submitted to the Company's stockholders for approval. The shares may be authorized but unissued shares of Common Stock or reacquired shares of Common Stock, including shares purchased by the Company on the open market for purposes of the Plan. For administrative purposes, when the Committee makes a grant of an RSU payable in Common Stock, the Committee shall reserve shares of Common Stock equal to the maximum number of shares of Common Stock that may be payable under the RSU. If any RSUs are forfeited or terminated, or otherwise are not paid in full, the shares subject to such RSU which have not been issued shall again be available for purposes of the Plan. Shares of Common Stock withheld for purposes of satisfying the Company's applicable tax withholding obligations with respect to the RSU granted under the Plan shall not be available for re-issuance or transfer under the Plan. To the extent that any RSUs are settled in cash and not shares of Common Stock, such grants of RSUs shall not count against the share limits set forth above.

(2) Notwithstanding anything to the contrary in Section 6(a)(1) above, the Committee may in its discretion utilize shares of Common Stock duly authorized for issuance under the terms of the Company's 2009 Stock Incentive Plan, as amended (the "Equity Plan"), or a successor or replacement plan to the 2009 Stock Incentive Plan (a "Successor Equity Plan"), for grants of RSUs in satisfaction of any portion or all of the Long-Term Incentive Awards granted under the terms of this Plan. In this case, (i) such RSUs shall be subject to the terms of the Equity Plan or Successor Equity Plan, as well as the terms of this Plan; and (ii) the terms of the Equity Plan or Successor Equity Plan regarding number of shares, share counting, and fungible share pool set forth in Section 4(a) of the Equity Plan or similar provisions of a Successor Equity Plan shall govern in lieu of Section 6(a)(1) of this Plan.

(b) Adjustments. In the case that shares of Common Stock are authorized exclusively for use under the terms of the Plan, following the date of stockholder approval of the Plan, if there is any change in the number or kind of shares of Common Stock outstanding (i) by reason of a stock dividend, spinoff, recapitalization, stock split, or combination or exchange of shares, (ii) by reason of a merger, reorganization or consolidation, (iii) by reason of a reclassification or change in par value, or (iv) by reason of any other extraordinary or unusual event affecting the outstanding Common Stock as a class without the Company's receipt of consideration, or if the value of outstanding shares of Common Stock is substantially reduced as a result of a spinoff or the Company's payment of an extraordinary dividend or distribution, the maximum number of shares of Common Stock available for issuance under the Plan, the maximum number of shares of Common Stock for which any individual may receive pursuant to Long-Term Incentive Awards in any year, the number of shares covered by outstanding RSU grants, the kind of shares to be issued or transferred under the Plan, and any applicable performance goals tied to the number of outstanding shares shall be equitably adjusted by the Committee, in such manner as the Committee deems appropriate, to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Common Stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under the Plan; provided, however, that any fractional shares resulting from such adjustment shall be eliminated. Any adjustments to outstanding RSUs shall be consistent with section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), to the extent applicable. Any adjustments determined by the Committee shall be final, binding and conclusive. If shares of Common Stock authorized under the terms of the Equity Plan or a Successor Equity Plan are used for issuance of RSU grants under the terms of this Plan, in accordance with Section 6(a)(2) above, Section 9 of the Equity Plan, or similar provision of a Successor Equity Plan, shall govern the adjustment of shares in respect of outstanding RSUs, in lieu of this Section 6(b).

(c) Conditions to Payment of Long-Term Incentive Awards. Prior to the payment of any Long-Term Incentive Award, the Committee will determine whether the performance criteria under the applicable Plan component has been met, therefore triggering the funding of the applicable Bonus Pool. In addition, no Long-Term Incentive Award will be payable pursuant to this Plan in the form of stock-settled RSUs until stockholder approval of the Plan has been obtained, unless the Committee has, in its discretion, determined to utilize shares of Common Stock authorized under the Equity Plan or a Successor Equity Plan in accordance with Section 6(a)(2) above. Notwithstanding the foregoing, any portion or all of the Long-Term Incentive Awards may be payable in cash at the discretion of the Committee (whether or not stockholder approval is obtained or whether shares of the Equity Plan or a Successor Equity Plan are utilized). Long-Term Incentive Awards are subject to forfeiture as provided below.

(d) Form of Payment; Forfeiture. All Long-Term Incentive Awards will be paid in the form of a stock-settled RSU, as described in Section 5(d), except as set forth below, as subject to the terms and conditions of an RSU award agreement (consistent with the provisions of the Plan and, if applicable, the Equity Plan) provided to the Participant at the time the RSU is granted in payment of the Long-Term Incentive Award. As set forth above and as shall be memorialized in the RSU award agreement, portions of the RSUs may be subject to forfeiture until vested. Unless otherwise provided in the RSU award agreement, any portion of the RSU that has not vested prior to the date of a Participant's termination of employment with the Company shall be forfeited as of the date of Termination for no consideration. In the event the AGP Component Bonus Pool or Rule of 40 Component Bonus Pool has been funded, in whole or in part, in cash, payment of the applicable Long-Term Incentive Awards shall be, to the extent necessary in the discretion of the Committee, in the form of a cash-settled RSU, but shall otherwise be subject to the same provisions as set forth herein applicable to a stock-settled RSU.

#### **SECTION 7. TERMINATION OF EMPLOYMENT DURING A PERFORMANCE PERIOD**

(a) If a Participant participates in the AGP Component and/or Rule of 40 Component, but the Participant's employment with the Company terminates for any reason prior to the occurrence of the applicable component's triggering event for the AGP Pool or Rule of 40 Pool, respectively, the right to a payment of the AGP Component Award or Rule of 40 Component Award, in the form of an RSU or otherwise, shall be forfeited in full and cancelled without consideration.

(b) Unless otherwise provided in the RSU award agreement granted in payment of a Long Term Incentive Award, any portion of the RSU that has not vested prior to the date of a Participant's termination of employment with the Company for any reason shall be forfeited as of the date of Termination and cancelled for no consideration.

#### **SECTION 8. AMENDMENTS, MODIFICATION AND TERMINATION OF THE PLAN**

The Board or the Committee may terminate the Plan at any time. From time to time, the Board or the Committee may suspend the Plan, in whole or in part. From time to time, the Board or the Committee may amend the Plan or RSU award agreement, including the adoption of amendments deemed necessary or desirable to correct any defect or supply an omission or reconcile any inconsistency in the Plan or in any Long-Term Incentive Award or RSU award agreement granted hereunder so long as share-owner approval has been obtained if required. No amendment, termination or modification of the Plan, Long-Term Incentive Award or RSU award agreement may in any manner affect Long-Term Incentive Awards or RSUs heretofore granted without the consent of the participant unless the Committee has made a determination that an amendment or modification is in the best interest of all persons to whom Long-Term Incentive Awards or RSUs have heretofore been granted, but in no event may such amendment or modification result in an increase in the amount of compensation payable pursuant to such Long-Term Incentive Award or RSU.

#### **SECTION 9. GOVERNING LAW**

The Plan and all determinations made and actions taken pursuant thereto will be governed by the laws of the State of New York and construed in accordance therewith.

## **SECTION 10. EFFECT ON BENEFIT PLANS**

Compensation received upon settlement of the RSUs granted in payment of Long-Term Incentive Awards under the Plan will not be included in the computation of benefits under any other employee benefit plan maintained by the Company under which the Participant may be covered, unless required by applicable laws.

## **SECTION 11. REORGANIZATION EVENT**

If there is a Reorganization Event (as hereinafter defined) while the Plan remains in effect, then notwithstanding that the Performance Period has not expired at the time of the Reorganization Event, if the performance targets triggering the Bonus Pool funding are reached in connection with, or as a result of the Reorganization Event, the Bonus Pool(s) shall be funded, and RSU grants made in accordance with the terms of the Plan as if the funding event had occurred as a result of reaching the targets at the end of the Performance Period; provided, however, that in the case of the payment of Long-Term Incentive Awards in the event of a Reorganization Event, payment shall be made in a lump sum in cash or settled in fully vested RSUs promptly after the date of such Change in Control, in lieu of any other additional payments under the Plan for the related Performance Periods.

A "Reorganization Event" for purposes of this Section 11 will have the same meaning as assigned to such term in the Company's 2009 Stock Incentive Plan, as amended or such similar term in a Successor Equity Plan.

## **SECTION 12. MISCELLANEOUS**

(a) Compliance with Section 409A. All Long Term Incentive Awards and RSUs granted under the Plan are intended either not to be subject to Section 409A of the Code or, if subject to Section 409A of the Code, to be administered, operated and construed in compliance with Section 409A of the Code. Notwithstanding this or any other provision of the Plan or any RSU award agreement to the contrary, the Committee may amend the Plan or any award agreement granted hereunder in any manner or take any other action that it determines, in its sole discretion, is necessary, appropriate or advisable (including replacing any Long-Term Incentive Award or RSU) to cause the Plan or any award granted hereunder to comply with Section 409A of the Code and all regulations and other guidance issued thereunder or to not be subject to Section 409A of the Code. In no event will the Company reimburse a Participant for any taxes or other penalties that may be imposed on the Participant as a result of Section 409A of the Code.

(b) Compliance with Law. The obligation of the Company to sell or deliver shares of Common Stock with respect to awards granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.

(c) Employment Status; Claims to Long-Term Incentive Awards. Nothing in the Plan shall be construed to limit in any way the right of the Company or its Related Companies to terminate the employment of any person at any time. The Long-Term Incentive Awards and RSUs represent unfunded and unsecured obligations of the Company and Participant in respect of the Plan shall have no rights other than those of a general unsecured creditor to the Company.

(d) Nontransferability. Unless otherwise permitted by the Committee, no Long-Term Incentive Award or RSU granted under the terms of the Plan shall be (i) sold, transferred or otherwise disposed of, (ii) pledged or otherwise hypothecated or (iii) subject to attachment, execution or levy of any kind; and any purported transfer, pledge, hypothecation, attachment, execution or levy in violation of this provision shall be null and void.

## SEPARATION AGREEMENT AND GENERAL RELEASE

This Separation Agreement and General Release (“Agreement”) is entered into by and between LivePerson, Inc. (the “Company”) and Eran Vanounou (the “Executive” and, together with the Company, the “Parties”), and effective as of April 30, 2018 (the “Effective Date”).

WHEREAS, the Parties mutually agree that the Executive’s employment with the Company will cease as of the Transition Date, and continue as a consultancy until the Separation Date (as defined below), pursuant to the terms hereof; and

WHEREAS, the Parties wish to set forth the terms of the Executive's separation agreement and general release of claims.

NOW, THEREFORE, in consideration of the mutual promises and conditions set forth herein, and for other good and sufficient consideration, the sufficiency of which is hereby acknowledged, the Company and the Executive agree as follows:

1. The Executive’s full-time employment with the Company will terminate and convert to a consulting services relationship upon the close of business on April 30, 2018, (the “Transition Date”), and will continue as a consulting services relationship through September 16, 2018 (the “Separation Date”). For purposes of clarification, any termination of Executive’s employment pursuant to this Paragraph 4 shall qualify as a “separation from service” within the meaning of Section 409A (as defined below).

2. Executive shall execute a general release of claims in the form attached hereto as Schedule A (the “General Release”) (a) upon the Transition Date; (b) upon the Separation Date, at the Company’s request.

3. In exchange for Executive’s execution of and compliance with this Agreement, including without limitation execution and non-revocation of the General Release, the Company agrees to provide the following payments and benefits:

- (a) a transition period during which: (i) the Executive’s salary (usual payroll) in effect as of the Transition Date shall continue through August 31, 2018; and (ii) Executive’s employee stock options and RSUs will continue vesting pursuant to their terms through September 16, 2018; Accrued and unused vacation days will be described and paid out in Employee’s last pay slip in accordance with standard Company policies and practices.
- (b) all vested stock options and RSUs (including those vested as a result of Paragraph 3(a)) above) held by Executive as of September 16,

2018 will be modified to remain exercisable until May 15, 2019, but in no event shall any employee equity be extended to remain exercisable beyond the original end of the term of such option; and

4. The Executive acknowledges that he has been paid in full for his bonus applicable for the 2017 fiscal year. Executive acknowledges and agrees that until the Separation Date and after his employment he will continue to be obliged by the terms of Sections 11 and 12 of the existing Employment Agreement executed by and between the Executive and the Company, dated as of November 7, 2013, and:

a. The Executive agrees, with reasonable notice, to furnish information as may be in his possession and cooperate with the Company as may be reasonably requested in connection with any claims or legal action in which the Company is or may become a party.

b. The Executive recognizes and acknowledges that all information pertaining to the software, business, clients, customers or other relationships of the Company is confidential and is a unique and valuable asset of the Company. The Executive will not give to any person, firm, governmental agency or other entity any information concerning the affairs, business, clients, or customers of the Company except as required by law. The Executive will not make use of this type of information for his own purposes or for the benefit of any person or organization other than the Company. The Executive will use his best efforts to prevent the disclosure of this information by others. All records, memoranda, software or intellectual property whether made by the Executive or otherwise coming into his possession are confidential and will remain the property of the Company. The foregoing restrictions shall not apply to information which is or becomes part of the public domain through no act or failure to act by the Executive. Pursuant to 18 U.S.C. § 1833(b), Executive acknowledges that Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret if he/she (i) makes such disclosure in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and such disclosure is made solely for the purpose of reporting or investigating a suspected violation of law; or (ii) such disclosure was made in a complaint or other document filed in a lawsuit or other proceeding if such filing is made under seal. Executive understands that if Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the trade secret to Executive's attorney and use the trade secret information in the court proceeding if Executive (x) files any document containing the trade secret under seal, and (y) does not disclose the trade secret, except pursuant to court order. Nothing in this Agreement, or any other agreement that Executive has with the Company, is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are



expressly allowed by such section. Further, nothing in this Agreement or any other agreement that Executive has with the Company shall prohibit or restrict Executive from making any voluntary disclosure of information or documents concerning possible violations of law to any governmental agency or legislative body, or any selfregulatory organization, in each case, without advance notice to the Company.

c. For a twelve (12) month period from the Transition Date of this Agreement (the "Restricted Period"), the Executive will not intentionally make any statement or perform any acts intended to or which the Executive knew or should have known would have the effect of injuring the interest of the Company.

d. During the Restricted Period, the Executive, without express written approval from the Company, will not solicit any clients of the Company for any existing business of the Company.

e. During the Restricted Period, the Executive (acting on his own behalf, or for or through others) will not actively solicit or induce any employee of the Company to terminate their employment with the Company or engage in activities that directly compete with the business of the Company, meaning a Company that makes product(s) or service(s) capable of replacing or displacing the Company's product or services as of the Transition Date.

5. The Executive acknowledges and agrees that the Company's obligation to make any payments under this Agreement shall cease upon any violation of Paragraph 4 above. The Company must first provide written notice to the Executive specifying the act which has violated Paragraph 4, and if such violation is not cured within fifteen (15) days, if capable of being cured, than the Company will inform the Executive of its termination of its post-employment payments. The Executive agrees that the restrictions contained in Paragraph 4 are essential elements of this Agreement, and, but for the Executive's agreement to comply with such restrictions, the Company would not have entered into this Agreement.

6. Promptly following the Transition Date, the Executive will certify that he has returned to the Company all Company property and equipment in his possession or control, including, but not limited to, computer equipment (including, but not limited to, computer hardware, software and printers, wireless handheld devices, cellular phones, pagers, etc.), customer information, customer lists, employee lists, Company files, notes, contracts, records, business plans, financial information, specifications, computer-recorded information, software, tangible property, identification badges and keys, and any other materials of any kind which contain or embody any proprietary or confidential material of the Company (and all reproductions thereof). The Executive also represents that he has and will leave intact all electronic Company documents, including those that he developed or helped to develop during his employment. The Executive further represents that he will, and will certify, that he has cancelled all accounts for his benefit, if any, in the Company's name including, but not limited to, credit cards, telephone charge cards, cellular phone accounts, pager accounts, and computer accounts promptly following the Transition Dae. Notwithstanding the foregoing, the Company will assist Executive in making an electronic copy of his contact list in whatever format Executive reasonably requests.

7. The Executive agrees that he will not, at any time, publicly disparage, criticize or ridicule the Company, nor make any negative public comments regarding the Company, its officers, employees, directors, products, services or business practices. The Company agrees that its officers, directors and authorized spokespersons will not at any time publicly disparage, criticize, or ridicule the Executive or make any negative public comments regarding the Executive.

8. All amounts payable under this Agreement shall be subject to deduction for all federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation and any other required deductions. The parties intend that all payments made under this Agreement comply with, or will be exempt from, the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, the regulations and other guidance there under and any state law of similar effect (collectively "Section 409A") so that none of the payments or benefits will be subject to the adverse tax penalties imposed under Section 409A, and any ambiguities herein will be interpreted to so comply or be exempt. Each payment and benefit payable under this Agreement is intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations. Company shall have no liability to the Executive or to any other person if the payments and benefits provided in this Agreement that are intended to be exempt from or compliant with Section 409A are not so exempt or compliant. In no event will the Company be responsible for or reimburse Executive for any taxes or other penalties that may be imposed on Executive as a result of Section 409A.

9. This Agreement amicably resolves any issues between the parties and they agree that this Agreement shall neither be interpreted nor construed as an admission of any wrongdoing or liability on the part of the Executive or the Company.

10. This Agreement 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 Agreement, are the only courts of competent jurisdiction) over any suit, action or other proceeding arising out of, under, or in connection with this Agreement or the subject matter hereof.

11. The provisions of this Agreement are severable. If any provision of this Agreement is held invalid or unenforceable, such provision shall be deemed deleted from this Agreement and such invalidity or unenforceability shall not affect any other provision of this Agreement, the balance of which will remain in and have its intended full force and effect; provided, 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.

12. The Executive understands and agrees that he may have, and has had, at least twenty-one (21) calendar days from the date hereof to accept this Agreement. The Executive acknowledges that he was advised by the Company to consult with an attorney of his own choosing concerning the waivers contained in and the terms of this Agreement, and that the waivers he has made and the terms he has agreed to herein are knowing, conscious and with full appreciation that he is forever foreclosed from pursuing any of the rights so waived.

13. This Agreement shall be binding on and shall inure to the benefit of the Executive's heirs, executors, administrators, representatives and assigns and the Company's successors in interest and assigns. The Executive may not assign any of his rights or duties hereunder, except with the written consent of the Company. The Executive covenants and represents that he has not assigned or attempted to assign any rights or claims he may have against the Company at any time prior to signing this Agreement.

21. The Company will indemnify the Executive to the fullest extent permitted by the laws of Delaware in effect at that time, the Indemnification Agreement previously executed between the Executive and the Company, or the certificate of incorporation and by-laws of the Company, whichever affords the greater protection to the Executive.

14. The parties agree that this Agreement contains the entire agreement between the parties and supersedes and cancels any and all prior agreement or understanding on the subjects covered herein, and no agreements, representations or statements of either party not contained in this Agreement shall bind that party. Notwithstanding the foregoing, the Executive acknowledges that nothing herein supersedes any pre-existing duties of confidentiality, or the assignment of any invention or intellectual property or proprietary rights to the Company. This Agreement can be modified only in writing signed by both parties.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

Executive LivePerson, Inc.

By: /s/ Eran Vanounou      By: /s/ Daryl J. Carlough  
Name: Eran Vanounou      Name: Daryl J. Carlough  
SVP, Global Controller

## SCHEDULE A

### GENERAL RELEASE OF ALL CLAIMS

Pursuant to the Separation Agreement and General Release entered into by and between LivePerson, Inc. (the “Company”) and Eran Vanounou (the “Executive”), dated effective as of \_\_\_\_\_ (the “Separation Agreement”), Executive hereby enters into this General Release of All Claims (the “Release”). In consideration of the separation payments and benefits set forth in Paragraph 3 of the Separation 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; provided, however, that the foregoing shall not release Company from its continuing obligations set forth in the Separation Agreement.

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 Separation 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 Separation Agreement. 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: \_\_\_\_\_

\*Note that this Release must also be executed on or after the Separation Date.

## GENERAL RELEASE OF ALL CLAIMS

Pursuant to the Separation Agreement and General Release entered into by and between LivePerson, Inc. (the “Company”) and Eran Vanounou (the “Executive”), dated effective as of April 30, 2018 (the “Separation Agreement”), Executive hereby enters into this General Release of All Claims (the “Release”). In consideration of the separation payments and benefits set forth in Paragraph 3 of the Separation 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; provided, however, that the foregoing shall not release Company from its continuing obligations set forth in the Separation Agreement.

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 Separation 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 Separation Agreement. 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\*: /s/ Daryl J. Carlough By: /s/ Eran Vanounou

\*Note that this Release must also be executed on or after the Separation Date.

## CERTIFICATIONS

I, Robert P. LoCascio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: August 6, 2018

By: /s/ ROBERT P. LOCASCIO

Name: Robert P. LoCascio

Title: Chief Executive Officer (principal executive officer)

## CERTIFICATIONS

I, Christopher E. Greiner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: August 6, 2018

By: /s/ CHRISTOPHER E. GREINER

Name: Christopher E. Greiner

Title: Chief Financial Officer (principal financial 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 Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2018, 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: August 6, 2018

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, Christopher E. Greiner, 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 Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2018, 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: August 6, 2018

By: /s/ CHRISTOPHER E. GREINER

Name: Christopher E. Greiner

Title: Chief Financial Officer (principal financial 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.*