LIVEPERSON INC
Form 10-K
March 14, 2008

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

FORM 10-K

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

For the fiscal year ended December 31, 2007
Commission File Number 000-30141

LIVEPERSON, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**13-3861628**
(State of incorporation)	**(I.R.S. employer identification number)**
462 SEVENTH AVENUE, 3rd FLOOR NEW YORK, NEW YORK	**10018**
(Address of principal executive offices)	**(Zip Code)**

(212) 609-4200
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	The Nasdaq Stock Market LLC

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

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

Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 x No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2007 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $197,622,933 (computed by reference to the last reported sale price on The Nasdaq Capital Market on that date). The registrant does not have any non-voting common stock outstanding.

On March 6, 2008, 48,172,084 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2008 Annual Meeting of Stockholders, to be filed not later than April 29, 2008, are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

LIVEPERSON, INC.

2007 ANNUAL REPORT ON FORM 10-K

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FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. **BUSINESS**

Overview

LivePerson is a leading facilitator of online ecommerce interaction, enhancing real-time sales, customer support and personalized expert advice. In 2007, LivePerson hosted more than 50 million chat interactions across our diverse customer base, while more than 600,000 paid transactions took place between experts and consumers through Kasamba, which we acquired in October 2007. LivePerson's proprietary chat, voice, email and self-service/knowledgebase applications, coupled with our domain knowledge and industry expertise, have been proven to maximize the positive financial impact of the online channel—increasing sales, customer satisfaction and loyalty while reducing customer service costs.

More than 6,000 companies, including EarthLink, Hewlett-Packard, Microsoft, Qwest, and Verizon, employ our technology to keep pace with rising consumer expectations from the online channel. As a result, LivePerson has unique insight into consumer behavior; which we use to improve our product and educate our customers through our growing consulting services.

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

- increase conversion rates and reduce abandonment by selectively engaging website visitors;
- accelerate the sales cycle, drive repeat business and increase average order values;
- increase customer satisfaction, retention and loyalty while reducing customer service costs;
- harness the knowledge of subject-matter experts by allowing consumers to engage with major online brands; and
- refine and improve performance by understanding which initiatives deliver the highest rate of return.

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

LivePerson was incorporated in the State of Delaware in November 1995 and the LivePerson service was initially introduced in November 1998.

Market Opportunity

More than 10 years after its emergence, the Internet is beginning to mature. More than 75% of U.S. households currently have a PC; this figure is expected to grow to 85% by 2012.

In 2007, broadband Internet access became the mainstream method of connection; 50% of U.S. households are online using high-speed access, while researchers anticipate broadband penetration to reach 70% by 2012.

Forrester Research reports that U.S. online retail sales reached $175 billion in 2007, representing a 21% increase from the previous year. The industry is expected to add roughly $30 billion in additional revenue every year over the next five years, continuing its double-digit year-over-year growth rate.

The independent research company also forecasts online banking adoption will continue its upward trajectory. According to Forrester's figures, by 2011 the number of U.S. consumers who bank online will grow by 55%, representing 76% of online households.

Search advertising spending and Internet advertising revenues continue to reach new heights. Companies continue to shift spending away from TV, print, radio, and other traditional media in favor of web-based media, which can be more measurable, interactive, targeted and relevant. Although estimates vary, the Interactive Advertising Bureau (IAB) and PricewaterhouseCoopers (PwC) calculated that 2007 Internet advertising revenues grew to $21 billion, a 25% increase over the previous revenue record of nearly $17 billion in 2006.

The unrivaled convenience, accessibility and selection of the Web have established the channel as a mass consumer medium. The Internet is a ubiquitous influence in our day-to-day lives, and consumer expectations and demands continue to rise.

We believe that the online channel presents significant expansion opportunities across many industries. According to the U.S. Commerce Department, e-commerce sales grew 10% in 2007, while overall retail sales grew by only 4%. More affluent than the average consumer, online shoppers are less sensitive to changes in economic conditions. Nonetheless, competition is just a mouse-click away. To survive in this competitive environment, e-businesses must differentiate their service, quality and overall experience to gain customer loyalty.

By supplying online engagement tools that facilitate real-time assistance and trusted personalized advice, LivePerson enables businesses and individual service providers to connect with their target audience. Creating more relevant, compelling and personalized online experiences, our platform helps e-business organizations meet the needs of demanding consumers while reinforcing their brand promise.

Strategy

The key elements of our strategy include:

Expanding Our Real-Time Platform of Live Expert Advice to Drive Further Demand for Chat. In October 2007, LivePerson completed its acquisition of Kasamba Inc. Accelerating our expansion into the direct-to-consumer market, the acquisition is expected to extend the value we deliver to our growing base of business customers. Our integrated platform will connect consumers with individual service providers and experts in a broader range of categories and will be designed to help the Internet deliver on its promise of making our lives easier and better by supplying access to the world's experts and their information.

Strengthening Our Position in Target Markets and Growing Our Recurring Revenue Base. LivePerson intends to extend its market position by significantly increasing its installed client base. We plan to continue to focus primarily on key target markets: the financial services, retail, telecommunications, technology, travel/hospitality, and automotive industries, as well as the small and midsize business (SMB) sector. As the online community is increasingly exposed to the benefits and functionality of our solutions, we intend to capitalize on our growing base of existing clients by collaborating with them to optimize our added value and effectiveness. Broadening our client base will enable us to continue to expand our recurring revenue stream. We also believe that greater exposure of Internet

users to our real-time platform will create additional demand for online engagement solutions.

Increasing the Value of our Service to our Clients. We regularly add new features and functionality to our services to further enhance value to our clients. Because we manage the server infrastructure, we can make new features available to our clients immediately upon release, without client or end-user installation of software or hardware. We currently offer a suite of reporting, analysis and administrative tools as part of our overall portfolio of services. We will continue to develop more comprehensive tools for appropriate sectors of our client base, while adding further interactive capabilities. For example, our enhanced click-to-call voice capabilities extend our value proposition across additional communication channels, facilitating a blended Web and call center experience. The innovative voice offering helps customers bridge the gap between their online channel and their call center. We also intend to continue to enhance our ability to capture, analyze and report on the substantial amount of online activity data we collect on behalf of our clients to further our clients' online strategies. We will also continue to refine additional service offerings that will provide value to our clients, such as more robust consulting and advisory services that enable improved reporting capabilities, data storage and bridges to existing client systems. Our clients may use these capabilities to increase productivity, manage call center staffing, develop one-to-one marketing tactics and pinpoint sales opportunities. Through these and other initiatives, we intend to reinforce our value proposition to clients, which we believe will result in additional revenue from new and existing clients over time.

Continuing to Build Strong Brand Recognition. As a pioneer in real-time customer engagement, LivePerson enjoys strong brand recognition and credibility. By strategically targeting decision makers and influencers within key vertical markets, our goal is to generate increased awareness and demand for our broad range of online engagement tools. In addition, we have developed relationships with the media and analyst community to reinforce our position and status within the industry. Our brand name is also visible to both business users and consumers. When a visitor engages in a text-based chat on a website that offers our real-time technology, our brand name is usually displayed on the LivePerson dialogue window. We believe that this high-visibility placement will continue to create brand awareness and increased demand for our solutions.

Maintaining our Technological Leadership Position. We are focused on the development of tightly integrated software design and network architecture that is both reliable and scalable. We continue to devote significant resources to technological innovation. Specifically, we plan to continue to expand the features and functionality of our existing services, develop broader applications for our services and create new products and services that will benefit our expanding client base. We evaluate emerging technologies and industry standards and continually update our technology in order to retain our leadership position in the real-time customer service industry. We regularly 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 client and end-user requirements in our rapidly evolving industry.

Evaluating Strategic Alliances and Acquisitions where Appropriate. We continue to seek opportunities to form strategic alliances with, or to acquire, other companies that can accelerate our growth or broaden our product offerings. We have successfully integrated several acquisitions over the last seven years. In October 2000, we acquired HumanClick Ltd., an Israeli-based provider of real-time, online customer service applications to small businesses. In July 2002, we acquired the customer contracts and associated rights of NewChannel, Inc., a provider of proactive online sales services. In December 2003, we acquired certain identifiable assets of Island Data Corporation, a provider of knowledgebase services to large corporate clients. In July 2004, we acquired certain identifiable assets of FaceTime Communications, Inc., a provider of real-time communications solutions. In July 2006, we acquired Proficient Systems, Inc., an Atlanta-based provider of hosted proactive chat solutions that help companies generate revenue on their websites. In October 2007, we acquired Kasamba Inc., a leading online provider of live expert advice delivered to customers via real-time chat.

While we have in the past, and may from time to time in the future, engage in discussions regarding or pursue acquisitions or strategic alliances, we currently have no commitments with respect to any future acquisitions or strategic alliances and we are not currently engaged in any material negotiations with respect to these types of opportunities.

Expanding our International Presence. We maintain a sales and customer support office as well as a hosting facility in the United Kingdom. During 2007, we increased our investment in personnel and marketing support to expand our customer base in the United Kingdom and Western Europe, and have several of the largest financial services and telecommunications companies in this territory as customers. We expect to further expand in this region, primarily through direct sales efforts. We have also translated the customer-facing user interface for LivePerson services into eighteen languages, including French, German, Italian, Chinese, Japanese and Korean. We are actively evaluating strategies to pursue further international expansion in the Asia/Pacific region. We expect that these expansion efforts will leverage regionally focused partners with existing relationships.

Products and Services

LivePerson's hosted platform supports and manages real-time online interactions—chat, voice/click-to-call, email and self-service/knowledgebase—from a single, unified agent desktop. By supplying a complete, unified customer history, our solutions enable businesses to deliver a relevant, timely, personalized, and seamless customer experience. In addition to product offerings, LivePerson provides professional services to support the complete deployment of our enterprise solutions.

Timpani Sales and Marketing

Timpani Sales and Marketing combines online site traffic monitoring software with a sophisticated rules engine to enable LivePerson clients to proactively engage website visitors. The enterprise application enables clients to maximize online revenue opportunities, improve conversion rates and reduce shopping cart abandonment by proactively engaging the right visitor, using the right channel, at the right time. The intelligent and proactive solution identifies website visitors who demonstrate the highest propensity to convert and engages them in real time with relevant content and offers, helping to achieve desired outcomes.

Timpani Contact Center

Timpani Contact Center provides online customer support capability via a unified, multi-channel interface comprised of chat, voice, email and self-service knowledgebase. The product enables clients to improve service quality, increase agent productivity and facilitate first-contact resolution by streamlining customer interactions across all online channels, while reducing service costs. By integrating all interactions, this comprehensive solution supplies a unified customer history, enabling organizations to deliver service consistency and continuity to customers.

Timpani Voice

Timpani Voice bridges the gap between web-based contact channels and the call center. Combining online collaboration tools with business rules, real-time analytics and comprehensive reporting, our click-to-call solution leverages existing telephony infrastructure and call center resources to seamlessly integrate voice with the online channel.

LivePerson Pro

LivePerson Pro enables SMBs to increase online sales and improve customer service with live chat. This economical solution combines real-time monitoring tools, which are used to identify targeted visitors, and geolocation, to facilitate cross-sell/up-sell opportunities and prevent fraud.

LivePerson Contact Center

LivePerson Contact Center enables SMBs to improve agent productivity, lower service costs and increase customer satisfaction. The solution manages all communications, including live chat, voice, email, self-service, and telephone logs, from an easy-to-use, all-in-one platform. Our SMB products also offer full integration with Google Analytics, a feature that helps customers accurately measure the impact of the chat channel on their sales and conversion rates.

Professional Services

Our Professional Services team uses a comprehensive, customer-focused methodology to develop high-quality solutions, delivering significant results and providing a competitive advantage to our enterprise clients. Dedicated members of the Professional Services team work hand-in-hand with client teams to analyze online Web processes, develop an optimal deployment strategy, coordinate technical deployment and testing, train contact center agents and implement ongoing performance optimization programs designed to deliver desired business results.

Consumer Services

Our current consumer services offering is an online marketplace that connects experts and individual service providers who sell their information and knowledge via real-time chat with consumers. Users seek assistance and advice in various categories including personal counseling and coaching, computers & programming, health & medicine, education & tutoring, shopping, professional development, spirituality & religion, business & finance, arts & creative services, legal services, home & leisure, and other topics.

Clients

Our client base includes Fortune 1000 companies, dedicated Internet businesses and a broad range of online merchants. Our solutions benefit organizations of all sizes conducting business or communicating with customers online. We plan to continue to focus primarily on key target markets: the financial services, retail, telecommunications, technology, travel/hospitality, and automotive industries, as well as the SMB sector.

No single customer accounted for 10% of our total revenue in 2007.

Sales and Marketing

Sales

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

- *Direct Sales*. Our sales process focuses on how our solutions and domain expertise deliver financial and operational value that support our clients' strategic initiatives. The Timpani Sales and Marketing value proposition is targeted to business executives whose primary responsibility is maximizing online customer acquisition. These executives have a vested interest in improving conversion rates, increasing application completion rates and increasing average order value. The value proposition for Timpani Contact Center is designed to appeal to professionals who hold top- and bottom-line responsibility for customer service and technical support functions within their organization. Timpani Contact Center enables these organizations to provide effective customer service using the online channel while deflecting costly phone calls and shifting service interactions to more cost efficient channels. Whether we engage with individuals or teams responsible for online sales or service, LivePerson's Timpani platform supports any organization with a company-wide strategic initiative to improve the overall online customer experience.

Our sales methodology begins with in-depth research and discovery meetings that enable us to develop a deep understanding of the value drivers and key performance metrics of a prospective client. We then present an analytical review detailing how our solutions and industry expertise can impact these value drivers and metrics. Once we validate solution capabilities and prove financial return on investment (ROI), we transition to an account management program that enables ongoing client success.

- *Indirect Sales*. Our New Markets sales organization is focused on developing partnerships with call centers, industry vertical channels and online marketing agencies to generate revenues outside the focus of the direct sales team. This organization also provides leverage to the direct team with strategic partnerships that allow us to extend our core solution offering and increase our value proposition. By maximizing market coverage via partners who provide complementary products and services, we believe this channel will increase our revenue opportunities and accelerate market penetration without incurring the traditional costs associated with direct sales.

Client Support

Our Professional Services group provides deployment support and business consulting to enterprise clients and maintains involvement throughout the engagement lifecycle. All LivePerson clients have access to 24/7 help desk services through chat, email and phone. Enterprise clients are also each assigned an account manager to provide ongoing evaluation of their online business strategy and performance against established business metrics.

Marketing

Our marketing efforts are organized around the needs, trends and characteristics of our existing and prospective client base. Our deep relationship with existing clients fosters continuous feedback, thereby allowing us to develop and refine marketing programs for specific industry segments. We market our products and services to executives with profit and loss (P&L) responsibility for the online channel and customer service operations with a focus on the financial services, retail, telecommunications, technology, travel/hospitality, and automotive industries, as well as SMBs. Our integrated marketing strategy includes lead generation campaigns to reach potential and existing clients using mediums such as online initiatives, advertising, direct mail, and industry- and category-specific tradeshows and events.

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

Competition

The markets for online engagement technology and online consumer services are intensely competitive and characterized by aggressive marketing, evolving industry standards, rapid technology developments, and frequent new product introductions. Although few technological barriers to enter this market exist, we believe that our long-standing relationships with clients, particularly at the enterprise level, differentiate us from new entrants into the market. This differentiation is comprised mainly of our depth of experience in data analysis, agent training and online marketing optimization. Additional barriers to entry include the ability to design and build scalable software that can support the world's most highly-trafficked websites, and, with respect to outsourced solution providers, the ability to design, build and manage a scalable network infrastructure.

LivePerson's business solutions compete directly with companies focused on technology that facilitates real-time sales, email management, searchable knowledgebase applications and customer service interaction. These markets remain fairly saturated with small companies that compete on price and features. LivePerson faces significant competition from online interaction solution providers, including SaaS providers RightNow Technologies, Art Technology Group and Instant Service. The most significant barriers to entry in this market are knowledge of:

- online consumer purchasing habits;
- methodologies to correctly engage customers;
- metrics proving return on investment; and
- technology innovation opportunities.

LivePerson also faces potential competition from larger enterprise software companies such as Oracle and SAP. In addition, established technology and/or consumer-oriented companies such as Microsoft, Yahoo and Google may leverage their existing relationships and capabilities to offer online engagement solutions that facilitate real-time assistance and live advice.

Finally, LivePerson competes with clients and potential clients that choose to develop an in-house online engagement solution, as well as, to a lesser extent, traditional offline customer service solutions, such as telephone call centers.

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

- greater brand recognition;
- more diversified lines of products and services; and
- significantly greater financial, marketing and research and development resources.

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

- undertake more extensive marketing campaigns;
- adopt more aggressive pricing policies; and
-