

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2021

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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	LPSN	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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 May 4, 2021, 68,953,584 shares of the registrant's common stock were outstanding.

**LIVEPERSON, INC.**  
**March 31, 2021**  
**FORM 10-Q**  
**INDEX**

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## FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q about LivePerson, Inc. (“LivePerson”) that are not historical facts are forward-looking statements. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about LivePerson and our industry. Our expectations, assumptions, estimates and projections are expressed in good faith, and we believe there is a reasonable basis for them, but we cannot assure you that our expectations, assumptions, estimates and projections will be realized. Examples of forward-looking statements include, but are not limited to, statements regarding future business, future results of operations or financial condition (including based on examinations of historical operating trends), management strategies and the COVID-19 pandemic. Many of these statements are found in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this Form 10-Q. When used in this Form 10-Q, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes” and variations of such words or similar expressions are intended to identify forward-looking statements. However, not all forward-looking statements contain these words. Forward-looking statements are subject to risks and uncertainties that could cause actual future events or results to differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Form 10-Q include those set forth in our Annual Report on Form 10-K filed with the SEC on March 8, 2021 in the section entitled “Item 1A — Risk Factors.” 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 policy is generally to provide our expectations only once per quarter, and not to update that information until the next quarter. We do not undertake any obligation to revise forward-looking statements to reflect future events or circumstances. All forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

**Item 1. Financial Statements**

**LIVEPERSON, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)**  
**(UNAUDITED)**

	March 31, 2021	December 31, 2020 (Note 1)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 668,225	\$ 654,152
Accounts receivable, net of allowances of \$5,396 and \$5,344 as of March 31, 2021 and December 31, 2020, respectively	92,263	80,423
Prepaid expenses and other current assets	19,965	14,236
Total current assets	780,453	748,811
Operating lease right of use asset	437	614
Property and equipment, net	111,314	106,055
Contract acquisition costs	40,855	41,021
Intangibles, net	11,058	10,927
Goodwill	95,087	95,192
Deferred tax assets	3,620	2,032
Other assets	1,713	1,780
Total assets	<u>\$ 1,044,537</u>	<u>\$ 1,006,432</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 13,626	\$ 14,115
Accrued expenses and other current liabilities	96,346	99,870
Deferred revenue	108,415	88,848
Operating lease liability	5,097	5,718
Total current liabilities	223,484	208,551
Deferred revenue, net of current portion	573	409
Convertible senior notes, net	547,159	538,432
Other liabilities	5,411	6,304
Operating lease liability, net of current portion	6,170	7,180
Deferred tax liability	1,723	1,622
Total liabilities	<u>784,520</u>	<u>762,498</u>
Commitments and contingencies (Note 11)		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.001 par value - 5,000,000 shares authorized, none issued	—	—
Common stock, \$0.001 par value - 200,000,000 shares authorized, 71,351,202 and 70,264,265 shares issued, 68,641,372 and 67,554,435 shares outstanding as of March 31, 2021 and December 31, 2020, respectively	71	70
Additional paid-in capital	674,695	635,672
Treasury stock; 2,709,830 shares	(3)	(3)
Accumulated deficit	(413,080)	(391,885)
Accumulated other comprehensive (loss) income	(1,666)	80
Total stockholders' equity	260,017	243,934
Total liabilities and stockholders' equity	<u>\$ 1,044,537</u>	<u>\$ 1,006,432</u>

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	
	March 31,	
	2021	2020
Revenue	\$ 107,891	\$ 78,088
Costs and expenses <sup>(1)(2)</sup>		
Cost of revenue <sup>(3)</sup>	33,519	22,820
Sales and marketing	36,953	42,680
General and administrative	14,486	16,469
Product development	33,455	25,716
Restructuring costs	2,732	3,190
Amortization of purchased intangibles	375	405
Total costs and expenses	121,520	111,280
Loss from operations	(13,629)	(33,192)
Other (expense) income, net		
Interest expense, net	(9,129)	(2,791)
Other income (expense), net	712	(667)
Total other (expense) income, net	(8,417)	(3,458)
Loss before (benefit from) provision for income taxes	(22,046)	(36,649)
(Benefit from) provision for income taxes	(851)	352
Net loss	\$ (21,195)	\$ (37,001)
Net loss per share of common stock:		
Basic	\$ (0.31)	\$ (0.57)
Diluted	\$ (0.31)	\$ (0.57)
Weighted-average shares used to compute net loss per share:		
Basic	67,901,809	64,388,850
Diluted	67,901,809	64,388,850
<sup>(1)</sup> Amounts include stock-based compensation expense, as follows:		
Cost of revenue	\$ 1,895	\$ 1,249
Sales and marketing	3,782	5,138
General and administrative	2,650	2,727
Product development	6,284	5,581
<sup>(2)</sup> Amounts include depreciation expense, as follows:		
Cost of revenue	\$ 2,534	\$ 2,373
Sales and marketing	603	667
General and administrative	60	105
Product development	3,408	2,392
<sup>(3)</sup> Amounts include amortization of purchased intangibles, as follows:		
Cost of revenue	\$ 1,175	\$ 284

See Notes to Condensed Consolidated Financial Statements (unaudited).

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

	Three Months Ended	
	March 31,	
	2021	2020
Net loss	\$ (21,195)	\$ (37,001)
Foreign currency translation adjustment	(1,746)	2,469
Comprehensive loss	<u>\$ (22,941)</u>	<u>\$ (34,532)</u>

See Notes to Condensed Consolidated Financial Statements (unaudited).

LIVEPERSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(IN THOUSANDS, EXCEPT SHARE DATA)  
(UNAUDITED)

Three Months Ended March 31, 2021

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2020	70,264,265	\$ 70	(2,709,830)	\$ (3)	\$ 635,672	\$ (391,885)	\$ 80	\$ 243,934
Common stock issued upon exercise of stock options	209,185	—	—	—	2,617	—	—	2,617
Common stock issued upon vesting of restricted stock units	454,508	1	—	—	(1)	—	—	—
Stock-based compensation	—	—	—	—	9,225	—	—	9,225
Cash awards settled in shares of the Company's common stock	400,700	—	—	—	25,925	—	—	25,925
Common stock issued under Employee Stock Purchase Plan	22,544	—	—	—	1,257	—	—	1,257
Net loss	—	—	—	—	—	(21,195)	—	(21,195)
Other comprehensive loss	—	—	—	—	—	—	(1,746)	(1,746)
Balance at March 31, 2021	71,351,202	\$ 71	(2,709,830)	\$ (3)	\$ 674,695	\$ (413,080)	\$ (1,666)	\$ 260,017

Three Months Ended March 31, 2020

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	66,543,073	\$ 67	(2,709,830)	\$ (3)	\$ 436,557	\$ (283,562)	\$ (4,524)	\$ 148,535
Common stock issued upon exercise of stock options	199,215	—	—	—	1,955	—	—	1,955
Common stock issued upon vesting of restricted stock units	203,690	—	—	—	—	—	—	—
Common stock as earn-out payment in connection with AdvantageTec Inc.	11,508	1	—	—	293	—	—	294
Stock-based compensation	—	—	—	—	9,519	—	—	9,519
Cash awards settled in shares of the Company's common stock	991,905	—	—	—	24,656	—	—	24,656
ASU 2016-13 (Topic 326) Adjustment (See note 1)	—	—	—	—	—	(729)	—	(729)
Common stock issued under Employee Stock Purchase Plan	50,818	—	—	—	1,626	—	—	1,626
Net loss	—	—	—	—	—	(37,001)	—	(37,001)
Other comprehensive loss	—	—	—	—	—	—	(2,469)	(2,469)
Balance at March 31, 2020	68,000,209	\$ 68	(2,709,830)	\$ (3)	\$ 474,606	\$ (321,292)	\$ (6,993)	\$ 146,386

See Notes to Condensed Consolidated Financial Statements (unaudited).



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

	Three Months Ended March 31,	
	2021	2020
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (21,195)	\$ (37,001)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation expense	14,611	14,695
Depreciation and amortization	6,605	5,538
Amortization of tenant allowance	—	(129)
Amortization of purchased intangibles and finance leases	1,550	689
Amortization of debt issuance costs	609	298
Accretion of debt discount on convertible senior notes	8,118	2,368
Changes in fair value of contingent consideration	—	(263)
Provision for doubtful accounts, net	801	615
Deferred income taxes	(1,595)	212
Changes in operating assets and liabilities:		
Accounts receivable	(13,658)	24,112
Prepaid expenses and other current assets	(5,822)	(1,878)
Contract acquisition costs noncurrent	(436)	(2,445)
Other assets	47	(7)
Accounts payable	(1,920)	(3,412)
Accrued expenses and other current liabilities	17,208	2,987
Deferred revenue	21,642	(2,473)
Operating lease liabilities	(1,441)	390
Other liabilities	105	(3)
Net cash provided by operating activities	25,229	4,293
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment, including capitalized software	(10,630)	(10,805)
Payments for intangible assets	(807)	(225)
Net cash used in investing activities	(11,437)	(11,030)
<b>FINANCING ACTIVITIES:</b>		
Principal payments for financing leases	(859)	—
Proceeds from issuance of common stock in connection with the exercise of options and ESPP	3,874	3,098
Net cash provided by financing activities	3,015	3,098
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(2,734)</b>	<b>(1,405)</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>14,073</b>	<b>(5,044)</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of the period</b>	<b>654,152</b>	<b>176,523</b>
<b>CASH AND CASH EQUIVALENTS - End of the period</b>	<b>\$ 668,225</b>	<b>\$ 171,479</b>
<b>SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$ 329	\$ 1,337
Cash paid for interest	\$ 957	\$ 863
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Purchase of property and equipment recorded in accounts payable	\$ 1,530	\$ 1,408
Issuance of 11,508 shares of common stock as earn-out payment in connection with AdvantageTec Inc.	\$ —	\$ 294
Issuance of shares of common stock to settle cash awards	\$ 25,925	\$ 24,656
Right of use assets obtained in exchange for operating lease liabilities (1)	\$ —	\$ 1,406
Fair value of contingent earn-out in connection with the acquisition of AdvantageTec Inc. recorded in accrued expenses	\$ 132	\$ —

(1) Includes leases that commenced during the year ended December 31, 2020, as well as balances related to leases in existence as of the date of the adoption of Topic 842.

## 1. Description of Business and Basis of Presentation

LivePerson, Inc. (“LivePerson”, the “Company”, “we” or “us”) makes life easier for people and brands everywhere through trusted Conversational AI. Conversational AI allows humans and machines to interact using natural language, including speech or text. During the past decade, consumers have made mobile devices the center of their digital lives, and they have made mobile messaging the center of communication with friends, family and peers. This trend has been significantly accelerated by the COVID-19 pandemic and can now be viewed as a permanent, structural shift in consumer behavior. Our technology enables consumers to connect with businesses through these same preferred conversational interfaces, including Facebook Messenger, SMS, WhatsApp, Apple Business Chat, Google Rich Business Messenger and Alexa. These messaging conversations harness human agents, bots and Artificial Intelligence (AI) to power convenient, personalized and content-rich journeys across the entire consumer lifecycle, from discovery and research, to sales, service and support, and increasingly marketing, social, and brick and mortar engagements. For example, consumers can look up product info like ratings, images and pricing, search for stores, see product inventory, schedule appointments, apply for credit, approve repairs, and make purchases or payments - all without ever leaving the messaging channel. These AI and human-assisted conversational experiences constitute the Conversational Space, within which LivePerson has strategically developed one of the industry’s largest ecosystems of messaging endpoints and use cases.

The Conversational Cloud, our enterprise-class cloud-based platform, enables businesses to become conversational by securely deploying AI-powered messaging at scale for brands with tens of millions of customers and many thousands of agents. The Conversational Cloud powers conversations across each of a brand’s primary digital channels, including mobile apps, mobile and desktop web browsers, short message service (SMS), social media and third-party consumer messaging platforms. Brands can also use the Conversational Cloud to message consumers when they dial a 1-800 number instead of forcing them to navigate interactive voice response systems (IVRs) and wait on hold. Similarly, the Conversational Cloud can ingest traditional emails and convert them into messaging conversations, or embed messaging conversations directly into web advertisements, rather than redirect consumers to static website landing pages. Agents can manage all conversations with consumers through a single console interface, regardless of where the conversations originated.

LivePerson’s robust, cloud-based suite of rich messaging, real-time chat, AI and automation offerings features consumer and agent facing bots, intelligent routing and capacity mapping, real-time intent detection and analysis, queue prioritization, customer sentiment, analytics and reporting, content delivery, Payment Card Industry (PCI) compliance, cobrowsing and a sophisticated proactive targeting engine. An extensible application programming interface (API) stack facilitates a lower cost of ownership by facilitating robust integration into back-end systems, as well as enabling developers to build their own programs and services on top of the platform. More than 40 APIs and software development kits are available on the Conversational Cloud.

For your reference:

- Conversational AI: Conversational AI allows humans and machines to interact using natural language, including speech or text.
- Conversational Space: In the Conversational Space, consumers message with brands on their own schedule, using natural language, to resolve their intents - all on their preferred messaging service. The core capabilities of the Conversational Space are voice and text-based interfaces, powered by AI and humans working together. Conversational Space is the simplest, most intuitive interface of all.
- Conversational Cloud: LivePerson’s enterprise-class, AI-powered Conversational Cloud platform empowers consumers to message their favorite brands, just as they do with friends and family.

LivePerson’s Conversational AI offerings put the power of bot development, training, management and analysis into the hands of the contact center and its agents, the teams most familiar with how to structure sales and service conversations to drive successful outcomes. The platform enables what we call “the tango” of humans, AI and bots, whereby human agents act as bot managers, overseeing AI-powered conversations and seamlessly stepping into the flow when a personal touch is needed. Agents become ultra-efficient, leveraging the AI engine to serve up relevant content, define next-best actions and take over repetitive transactional work, so that the agent can focus on relationship building. By seamlessly integrating messaging with our proprietary Conversational AI, as well as third-party bots, the Conversational Cloud offers brands a comprehensive approach to scaling automations across their millions of customer conversations.

Complementing our proprietary messaging and Conversational AI offerings are teams of technical, solutions and consulting professionals that have developed deep domain expertise in the implementation and optimization of conversational services across industries and messaging endpoints. We are a leading authority in the Conversational Space. LivePerson’s

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

products, coupled with our domain knowledge, industry expertise and professional services, have been proven to maximize the effectiveness of the Conversational Space and deliver measurable return on investment. Certain of our customers have achieved the following advantages from our offerings:

- the ability for each agent to manage as many as 40 messaging conversations at a time, as compared to one at a time for a voice agent and two to four at a time for a good chat agent. Adding AI and bots provides even greater scale to the number of conversations managed;
- labor efficiency gains of at least two times that of voice agents, effectively cutting labor costs by at least 50%;
- improving the overall customer experience, thereby fueling customer satisfaction score increases of up to 20 percentage points, and enhancing retention and loyalty;
- more convenient, personalized and content-rich conversations that increase sales conversion by up to 20%, increase average order value and reduce abandonment;
- more satisfied contact center agents, thereby reducing agent churn by up to 50%;
- a valued connection with consumers via mobile devices, either through native applications, websites, text messages, or third-party messaging platforms;
- leverage of spending that drives visitor traffic by increasing visitor conversions;
- refinement and improvement of performance by understanding which initiatives deliver the highest rate of return; and
- increased lead generation through a single platform that engages consumers through advertisements and listings on branded and third-party websites.

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

To further enhance our platform, in September 2020 LivePerson signed a partnership with Infosys, a leader in next-generation digital services and consulting. The Company is working with Infosys to transform our technology infrastructure on the public cloud, to build integrated solutions and a global practice around our Conversational Cloud to sell into their channels and global enterprise customer base, and to redefine how the world’s top brands communicate.

More than 18,000 businesses, including HSBC, Orange, The Home Depot, and GM Financial use our conversational solutions to orchestrate humans and AI, at scale, and create a convenient, deeply personal relationship with their customers.

LivePerson's consumer services offering is an online marketplace that connects independent service providers (Experts) who provide information and knowledge for a fee via mobile and online messaging with individual consumers (Users). Users seek assistance and advice in various categories including personal counseling and coaching, computers and programming, education and tutoring, spirituality and religion, and other topics.

LivePerson was incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced in November 1998. In April 2000, the Company completed an initial public offering and is currently traded on the NASDAQ Global Select Market and the Tel Aviv Stock Exchange. LivePerson is headquartered in New York City. In light of the COVID-19 pandemic and the Company’s strong performance working remotely, LivePerson has adopted an “employee-centric” workforce model that does not rely on traditional offices.

*Basis of Presentation*

The accompanying condensed consolidated financial statements as of March 31, 2021 and for the three months ended March 31, 2021 and 2020 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 March 31, 2021, and the consolidated results of operations, comprehensive loss and cash flows for the interim periods ended March 31, 2021 and 2020. 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 as of December 31, 2020 has been derived from audited consolidated financial statements at that date.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

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, 2020 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 8, 2021.

*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.

Many of the Company’s estimates require increased judgment due to the significant volatility, uncertainty and economic disruption of the COVID-19 pandemic. The Company will continue to monitor the effects of the COVID-19 pandemic, and its estimates and judgments may change materially as new events occur or additional information becomes available.

*Recently Issued Accounting Standards*

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-06, “Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity”, which simplifies the accounting for convertible instruments by eliminating existing accounting models that require separation of a cash conversion or beneficial conversion feature from the host contract. Accordingly, a convertible debt instrument will be accounted as a single liability measured at its amortized cost and a convertible preferred stock will be accounted as a single equity instrument measured at its historical cost, as long as no other embedded features require bifurcation as derivatives and the convertible debt was not issued at a substantial premium. The ASU also simplifies the derivative scope exception for accounting for contracts in an entity’s own equity by:

- removing certain conditions required to meet the settlement criterion
- clarifying that instruments that are not indexed to the issuer’s own stock must be remeasured at fair value through earnings at each reporting period
- clarifying the scope of reassessment guidance and disclosure requirements in Subtopic 815-40.

The ASU also makes targeted improvements to the disclosure requirements for convertible instruments and earnings-per-share guidance.

For SEC filers, excluding smaller reporting companies, the ASU is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The ASU specifies that the guidance should be adopted as of the beginning of the annual fiscal year. The Company is assessing what impact ASU 2020-06 will have on its condensed consolidated financial statements.

*Recently Adopted Accounting Pronouncements*

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.” The new guidance is intended to simplify the accounting for income taxes by removing certain exceptions and by updating accounting requirements around franchise taxes, goodwill recognized for tax purposes, the allocation of current and deferred tax expenses among legal entities, among other minor changes. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company has adopted ASU 2019-12 in the first quarter of 2021 and determined that the ASU had no material impact on its condensed consolidated financial statements.

## **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 the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. No single customer accounted for 10% or more of the Company's total revenue for the three months ended March 31, 2021.

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 \$107.9 million and \$78.1 million was recognized during the three months ended March 31, 2021 and 2020, respectively.

Under Topic 606, the Company defers all incremental commission costs to obtain the contract (contract acquisition costs). The contract acquisition costs, which consist of prepaid sales commissions, have balances as of March 31, 2021 and December 31, 2020 of \$40.9 million and \$41.0 million, respectively. The Company amortizes these costs over the related period of benefit using the expected life of the customer contract, which the Company determines to be three to five years, which is consistent with the transfer to the customer of the services to which the asset relates. The Company classifies contract acquisition costs as long-term unless they have an original amortization period of one year or less.

### *Hosted Services- Business Revenue*

Hosted Services- Business Revenue is reported at the amount that reflects the ultimate consideration expected to be received and primarily consists of fees that provide customers access to the Conversational Cloud, 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 Conversational Cloud 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 the Company incurs with the labor provider and its fee for the hosted services through to the Company's customers in the form of a fixed fee for each order placed via the Company's online engagement solutions. For these Gainshare (formerly "Pay for Performance") arrangements in accordance with ASC-606, "Principal Agent Considerations," the Company acts as a principal in a transaction if the Company controls the specified goods or services before they are transferred to the customer.

### *Professional Services Revenues*

Professional Services Revenues 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 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 Conversational Cloud 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 time and materials 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.

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*Remaining Performance Obligation*

As of March 31, 2021, the aggregate amount of the total transaction price allocated in contracts with original duration of greater than one year to the remaining performance obligations was \$330.6 million. Approximately 90% of the Company's remaining performance obligations is expected to be recognized during the next 24 months, with the balance recognized thereafter. The aggregate balance of unsatisfied performance obligations represents contracted revenue that has not yet been recognized, and does not include contract amounts that are cancellable by the customer, amounts associated with optional renewal periods, and any amounts related to performance obligations, which are billed and recognized as they are delivered. The Company has elected the optional exemption, which allows for the exclusion of the amounts for remaining performance obligations that are part of contracts with an original expected duration of one year or less. Such remaining performance obligations represent unsatisfied or partially unsatisfied performance obligations pursuant to ASC 606.

*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," primarily because the Expert is the primary obligor. The Company does not act as a principal in a transaction since the Company does not control the specified goods or services before they are transferred to the customer. 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 remits 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 the Company's performance. The increase in the deferred revenue balance as of March 31, 2021 is primarily driven by cash payments received or due in advance of the Company's performance obligations, partially offset by \$46.7 million of revenues recognized that were included in the deferred revenue balance as of December 31, 2020.

The following table presents deferred revenue by revenue source (amounts in thousands):

	<b>Deferred Revenue</b>	
	<b>As of March 31, 2021</b>	<b>As of December 31, 2020</b>
Hosted services – Business	\$ 105,900	\$ 86,144
Hosted services – Consumer	875	835
Professional services – Business	1,640	1,869
<b>Total deferred revenue - short term</b>	<b>\$ 108,415</b>	<b>\$ 88,848</b>
Professional services – Business	573	409
<b>Total deferred revenue - long term</b>	<b>\$ 573</b>	<b>\$ 409</b>

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*Disaggregated Revenue*

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

	Three Months Ended	
	March 31,	
	2021	2020
<b>Revenue:</b>		
Hosted services – Business	\$ 83,640	\$ 61,051
Hosted services – Consumer	9,011	6,240
Professional services	15,240	10,797
<b>Total revenue</b>	<b>\$ 107,891</b>	<b>\$ 78,088</b>

*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	
	March 31,	
	2021	2020
United States	\$ 68,782	\$ 48,549
Other Americas <sup>(1)</sup>	3,913	2,020
<b>Total Americas</b>	<b>72,695</b>	<b>50,569</b>
EMEA <sup>(2) (4)</sup>	21,760	19,491
APAC <sup>(3)</sup>	13,436	8,028
<b>Total revenue</b>	<b>\$ 107,891</b>	<b>\$ 78,088</b>

<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 \$13.3 million and \$12.6 million for the three months ended March 31, 2021 and 2020, respectively, and from the Netherlands of \$1.3 million for the three months ended March 31, 2021 and 2020.

*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 the Conversational Cloud 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 condensed consolidated balance sheet. Contract acquisition costs represent prepaid sales commissions. The opening and closing balances of the Company's accounts receivable, unbilled receivables, contract acquisition costs and deferred revenues are as follows (amounts in thousands):

	Accounts Receivable	Unbilled Receivable	Contract Acquisition Costs noncurrent	Deferred Revenue (current)	Deferred Revenue (long term)
Opening Balance as of December 31, 2020	\$ 61,801	\$ 18,622	\$ 41,021	\$ 88,848	\$ 409
(Decrease) Increase, net	6,576	5,264	(166)	19,567	164
<b>Ending Balance as of March 31, 2021</b>	<b>\$ 68,377</b>	<b>\$ 23,886</b>	<b>\$ 40,855</b>	<b>\$ 108,415</b>	<b>\$ 573</b>

*Accounts Receivable, Net*

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The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities, which are included in accrued liabilities and other long-term liabilities) on the condensed consolidated balance sheet. Under the typical payment terms of the Company's over time contracts, the customer pays the Company either performance-based payments or progress payments. Amounts billed and due from the Company's customers are classified as receivables on the condensed consolidated balance sheet. Accounts receivable is presented net of an allowance for doubtful accounts and sales reserve of \$5.4 million and \$2.7 million as of March 31, 2021, respectively and \$5.3 million and \$3.4 million as of December 31, 2020, respectively.

An allowance for doubtful accounts is established to recognize expected credit losses on accounts receivable balances. Judgment is required in the estimation of the allowance and the Company evaluates the collectability of its accounts receivable based on a combination of factors. If the Company becomes aware of a customer's inability to meet its financial obligations, a specific allowance is recorded to reduce the net receivable to the amount reasonably believed to be collectible from the customer. For all other customers, the Company uses an aging schedule and recognizes allowances for doubtful accounts based on the creditworthiness of the debtor, the age and status of outstanding receivables, the current business environment and the Company's historical collection experience adjusted for current expectations for the customer or industry. Accounts receivable are written off against the allowance for uncollectible accounts when the Company determines amounts are no longer collectible.

	<b>Three Months</b>	
<b><u>Allowance for doubtful accounts (in thousands):</u></b>	<b>March 31, 2021</b>	
Balance at beginning of the year	\$	5,344
Additions Charged to Costs and Expenses		801
Deductions/Write-offs		(749)
Balance as of March 31, 2021	\$	5,396



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**3. Net Loss Per Share**

The Company calculates earnings per share (“EPS”) in accordance with the provisions of ASC 260-10. Under the guidance, basic EPS excludes dilution for common stock equivalents and is computed by dividing net income or loss attributable to common stockholders by the weighted average number of shares of common stock 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 share of common stock for the three months ended March 31, 2021 does not include the effect of 6,703,307 outstanding common stock awards, as the effect of their inclusion is anti-dilutive. Diluted net loss per share of common stock for the three months ended March 31, 2020 does not include the effect of 9,128,000 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:

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Basic	67,901,809	64,388,850
Effect of assumed exercised options	—	—
Diluted	67,901,809	64,388,850

In December 2020, the Company issued \$517.5 million aggregate principal amount of 0% Convertible Senior Notes due 2026 (“2026 Notes”) in a private placement, which amount includes \$67.5 million aggregate principal amount of the 2026 Notes issued pursuant to the exercise in full by the initial purchasers of their option to purchase additional 2026 Notes. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company’s election. It is the Company’s current intent to settle the principal amount of its outstanding 2026 Notes upon conversion in cash and any excess over the principal amount in shares of the Company’s common stock. The Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of the Company’s common stock for a given period exceeds the initial conversion price of \$75.23 per share. The conversion rate is subject to adjustment upon the occurrence of certain specified events but will not be adjusted for any accrued and unpaid special interest. Holders of the 2026 Notes may convert their 2026 Notes at their option at any time prior to the close of business on the business day immediately preceding August 15, 2026, in multiples of \$1,000 principal amount, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2021 (and only during such calendar quarter), if the last reported sale price of the Company’s common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the 2026 Notes on each applicable trading day as determined by the Company; (2) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the “trading price” (as defined in the indenture governing the 2026 Notes) per \$1,000 principal amount of 2026 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate for the 2026 Notes on each such trading day; (3) with respect to any Notes that LivePerson calls for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after August 15, 2026, holders may convert all or any portion of their 2026 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing circumstances.

In March 2019, the Company issued \$230.0 million aggregate principal amount of 0.750% Convertible Senior Notes due 2024 (“2024 Notes” and, together with the 2026 Notes, the “Notes”) in a private placement, which amount includes \$30.0 million aggregate principal amount of the 2024 Notes issued pursuant to the exercise in full by the initial purchasers of their option to purchase additional 2024 Notes. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company’s election. It is the Company’s current intent to settle the principal amount of its outstanding 2024 Notes in cash and any excess over the principal amount in shares of the Company’s common stock. The Company uses the treasury stock method for calculating any potential

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dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of the Company's common stock for a given period exceeds the initial conversion price of 130% of \$38.58 per share for the 2024 Notes. The conversion rate is subject to adjustment upon the occurrence of certain specified events but will not be adjusted for any accrued and unpaid interest. Holders of the 2024 Notes may convert their 2024 Notes at their option at any time prior to the close of business on the business day immediately preceding November 1, 2023, in multiples of \$1,000 principal amount, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2019 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the 2024 Notes on each applicable trading day as determined by the Company; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the "trading price" (as defined in the indenture governing the 2024 Notes) per \$1,000 principal amount of 2024 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate for the 2024 Notes on each such trading day; or (3) upon the occurrence of specified corporate events. On or after November 1, 2023, holders may convert all or any portion of their 2024 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing circumstances.

See Note 8 for a full description of the Notes.

#### 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 the Conversational Cloud'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 Critical Accounting Policies and Estimates. 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 March 31, 2021, 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	\$ 83,640	\$ —	\$ —	\$ 83,640
Hosted services – Consumer	—	9,011	—	9,011
Professional services	15,240	—	—	15,240
<b>Total revenue</b>	<b>98,880</b>	<b>9,011</b>	<b>—</b>	<b>107,891</b>
Cost of revenue	31,610	1,909	—	33,519
Sales and marketing	30,203	6,750	—	36,953
Amortization of purchased intangibles	375	—	—	375
Unallocated corporate expenses	—	—	50,672	50,672
Operating income (loss)	<u>\$ 36,692</u>	<u>\$ 352</u>	<u>\$ (50,672)</u>	<u>\$ (13,629)</u>

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Summarized financial information by segment for the three months ended March 31, 2020, 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	\$ 61,051	\$ —	\$ —	\$ 61,051
Hosted services – Consumer	—	6,240	—	6,240
Professional services	10,797	—	—	10,797
<b>Total revenue</b>	<b>71,848</b>	<b>6,240</b>	<b>—</b>	<b>78,088</b>
Cost of revenue	21,345	1,475	—	22,820
Sales and marketing	37,469	5,211	—	42,680
Amortization of purchased intangibles	405	—	—	405
Unallocated corporate expenses	—	—	45,375	45,375
Operating income (loss)	<u>\$ 12,629</u>	<u>\$ (446)</u>	<u>\$ (45,375)</u>	<u>\$ (33,192)</u>

**Geographic Information**

The Company is domiciled in the United States and has international operations around the globe. The following table presents the Company's long-lived assets by geographic region as of the dates presented (amounts in thousands):

	March 31, 2021	December 31, 2020
United States	\$ 207,165	\$ 202,275
Israel	18,672	16,657
Australia	13,494	13,792
Netherlands	7,962	8,301
Other <sup>(1)</sup>	16,791	16,596
Total long-lived assets	<u>\$ 264,084</u>	<u>\$ 257,621</u>

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

**5. Goodwill and Intangible Assets**

**Goodwill**

The changes in the carrying amount of goodwill for the three months ended March 31, 2021 are as follows (amounts in thousands):

	Business	Consumer	Consolidated
Balance as of December 31, 2020	\$ 87,168	\$ 8,024	\$ 95,192
Adjustments to goodwill:			
Foreign exchange adjustment	(105)	—	(105)
Balance as of March 31, 2021	<u>\$ 87,063</u>	<u>\$ 8,024</u>	<u>\$ 95,087</u>

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**Intangible Assets**

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

	As of March 31, 2021			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Amortization Period
Amortizing intangible assets:				
Technology	\$ 30,460	\$ (27,183)	\$ 3,277	5.3 years
Customer relationships	16,974	(14,186)	2,788	8.4 years
Patents	5,876	(962)	4,914	13.2 years
Other	314	(235)	79	2.2 years
Total	\$ 53,624	\$ (42,566)	\$ 11,058	

	As of December 31, 2020			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Amortization Period
Amortizing intangible assets:				
Technology	\$ 30,499	\$ (26,818)	\$ 3,681	5.4 years
Customer relationships	16,981	(13,982)	2,999	8.4 years
Patents	5,076	(908)	4,168	12.5 years
Other	314	(235)	79	2.2 years
Total	\$ 52,870	\$ (41,943)	\$ 10,927	

Amortization expense is calculated over the estimated useful life of the asset. Aggregate amortization expense for intangible assets was \$1.6 million and \$0.7 million for the three months ended March 31, 2021 and 2020, respectively. For the three months ended March 31, 2021 and 2020, 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
Remaining 2021	\$ 1,977
2022	2,266
2023	985
2024	784
2025	223
Thereafter	4,823
Total	\$ 11,058

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**6. Property and Equipment**

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

	March 31, 2021	December 31, 2020
Computer equipment and software	\$ 111,709	\$ 107,666
Internal-use software development costs	94,614	86,454
Finance lease right-of-use assets	9,157	10,045
	215,480	204,165
Less: accumulated depreciation	(104,166)	(98,110)
Total	<u>\$ 111,314</u>	<u>\$ 106,055</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):

	March 31, 2021	December 31, 2020
Payroll and other employee related costs	\$ 27,299	\$ 39,820
Professional services and consulting and other vendor fees	48,477	38,796
Unrecognized tax benefits	2,032	2,039
Sales commissions	3,680	6,988
Restructuring (see Note 13)	4,914	4,732
Non Income Tax	2,232	2,954
Other	7,712	4,541
Total	<u>\$ 96,346</u>	<u>\$ 99,870</u>

## 8. Convertible Senior Notes and Capped Call Transactions

### March 2019 Convertible Senior Notes

In March 2019, the Company issued \$230.0 million aggregate principal amount of its 0.750% Convertible Senior Notes due 2024 in a private placement, which amount includes \$30.0 million aggregate principal amount of such Notes issued pursuant to the exercise in full by the initial purchasers of their option to purchase additional "2024 Notes". Interest on the Notes is payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2019.

The 2024 Notes will mature on March 1, 2024, unless earlier repurchased or redeemed by the Company or converted pursuant to their terms. The total net proceeds from the offering of the 2024 Notes, after deducting debt issuance costs, paid or payable by the Company, was approximately \$221.4 million.

Each \$1,000 in principal amount of the 2024 Notes is initially convertible into 25.9182 shares of the Company's common stock par value \$0.001, which is equivalent to an initial conversion price of approximately \$38.58 per share. The conversion rate is subject to adjustment upon the occurrence of certain specified events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase the conversion rate for a holder who elects to convert its 2024 Notes in connection with such a corporate event. The 2024 Notes are not redeemable prior to the maturity date of the 2024 Notes and no sinking fund is provided for the 2024 Notes. If the Company undergoes a fundamental change (as defined in the indenture governing the 2024 Notes) prior to the maturity date, holders may require the Company to repurchase for cash all or any portion of their Notes in principal amounts of \$1,000 or a multiple thereof at a fundamental change repurchase price equal to 100% of the principal amount of the 2024 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Holders of the 2024 Notes may convert their 2024 Notes at their option at any time prior to the close of business on the business day immediately preceding November 1, 2023, in multiples of \$1,000 principal amount, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2019 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the 2024 Notes on each applicable trading day as determined by the Company; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the "trading price" (as defined in the indenture governing the 2024 Notes) per \$1,000 principal amount of 2024 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate for the 2024 Notes on each such trading day; or (3) upon the occurrence of specified corporate events. On or after November 1, 2023, holders may convert all or any portion of their 2024 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election.

Upon conversion, it is the Company's current intent to settle the principal amount of its outstanding 2024 Notes in cash and any excess over the principal amount in shares of the Company's common stock.

During the quarter ended March 31, 2021, the conditions allowing holders of the 2024 Notes to convert were met and, thus, holders of the 2024 Notes maintain the option to convert their 2024 Notes during the quarter ending March 31, 2021.

The 2024 Notes are senior unsecured obligations and will rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the 2024 Notes; equal in right of payment with the Company's existing and future liabilities that are not so subordinated; effectively subordinated to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of current or future subsidiaries of the Company.

In accounting for the issuance of the 2024 Notes, the Company separated the 2024 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was \$52.9 million and was determined by deducting the fair value of the liability component from the par value of the 2024 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense at an effective interest rate over the contractual terms of the 2024 Notes.

In accounting for the transaction costs related to the 2024 Notes, the Company allocated the total amount incurred of approximately \$8.6 million to the liability and equity components of the 2024 Notes based on the proportion of the proceeds

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allocated to the debt and equity components. Issuance costs attributable to the liability component were approximately \$6.6 million, were recorded as an additional debt discount and are amortized to interest expense using the effective interest method over the contractual term of the 2024 Notes. Issuance costs attributable to the equity component were approximately \$2.0 million and recorded as a reduction of additional paid in capital in stockholders' equity.

In connection with the offering of the 2024 Notes, the Company entered into privately-negotiated capped call option transactions with certain counterparties (the "2024 capped calls"). The 2024 capped calls each have an initial strike price of approximately \$38.58 per share, subject to certain adjustments, which corresponds to the initial conversion price of the 2024 Notes. The 2024 capped calls have initial cap prices of \$57.16 per share, subject to certain adjustment events. The 2024 capped calls cover, subject to anti-dilution adjustments, approximately 5.96 million shares of common stock. The 2024 capped calls are generally intended to reduce or offset the potential dilution to the common stock upon any conversion of the 2024 Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. The 2024 capped calls expire on March 1, 2024, subject to earlier exercise. The 2024 capped calls are subject to either adjustment or termination upon the occurrence of specified extraordinary events affecting the Company, including a merger event, a tender offer, and a nationalization, insolvency or delisting involving the Company. In addition, the 2024 capped calls are subject to certain specified additional disruption events that may give rise to a termination of the 2024 capped calls, including changes in law, failure to deliver, and hedging disruptions. The 2024 capped calls are recorded in stockholders' equity and are not accounted for as derivatives. The net cost of \$23.2 million incurred to purchase the 2024 capped calls was recorded as a reduction to additional paid-in capital in the accompanying consolidated balance sheet.

The remaining term over which the March 2019 Convertible Senior Notes debt discount and debt issuance costs will be amortized is 2.9 years. The effective interest rate on the debt was 4.35% for the period ended March 31, 2021.

**December 2020 Convertible Senior Notes**

In December 2020, the Company issued \$517.5 million aggregate principal amount of its 0% Convertible Senior Notes due 2026 ("2026 Notes" and, together with the 2024 Notes, the "Notes") in a private placement, which amount includes \$67.5 million aggregate principal amount of such Notes issued pursuant to the exercise in full by the initial purchasers of their option to purchase additional "2026 Notes".

The 2026 Notes will mature on December 15, 2026, unless earlier repurchased or redeemed by the Company or converted pursuant to their terms. The total net proceeds from the offering of the 2026 Notes, after deducting debt issuance costs, paid or payable by the Company, was approximately \$505.3 million.

Each \$1,000 in principal amount of the 2026 Notes is initially convertible into 13.2933 shares of the Company's common stock par value \$0.001, which is equivalent to an initial conversion price of approximately \$75.23 per share. The conversion rate is subject to adjustment upon the occurrence of certain specified events but will not be adjusted for any accrued and unpaid special interest. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase the conversion rate for a holder who elects to convert its 2026 Notes in connection with such a corporate event. The 2026 Notes are not redeemable prior to the maturity date of the 2026 Notes and no sinking fund is provided for the 2026 Notes. If the Company undergoes a fundamental change (as defined in the indenture governing the 2026 Notes) prior to the maturity date, holders may require the Company to repurchase for cash all or any portion of their Notes in principal amounts of \$1,000 or a multiple thereof at a fundamental change repurchase price equal to 100% of the principal amount of the 2026 Notes to be repurchased, plus accrued and unpaid special interest to, but excluding, the fundamental change repurchase date.

Holders of the 2026 Notes may convert their 2026 Notes at their option at any time prior to the close of business on the business day immediately preceding August 15, 2026, in multiples of \$1,000 principal amount, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2021 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the 2026 Notes on each applicable trading day as determined by the Company; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the "trading price" (as defined in the indenture governing the 2026 Notes) per \$1,000 principal amount of 2026 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate for the 2026 Notes on each such trading day; (3) with respect to any Notes that LivePerson calls for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after August 15, 2026, holders may convert all or any portion of their 2026 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election.

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Upon conversion, it is the Company's current intent to settle the principal amount of its outstanding 2026 Notes in cash and any excess in shares of the Company's common stock.

During the three months ended March 31, 2021, the conditions allowing holders of the 2026 Notes to convert were not met.

The 2026 Notes are senior unsecured obligations and will rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the 2026 Notes; equal in right of payment with the Company's existing and future liabilities that are not so subordinated; effectively subordinated to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of current or future subsidiaries of the Company.

In accounting for the issuance of the 2026 Notes, the Company separated the 2026 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was \$162.5 million and was determined by deducting the fair value of the liability component from the par value of the 2026 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense at an effective interest rate over the contractual term of the 2026 Notes.

In accounting for the transaction costs related to the 2026 Notes, the Company allocated the total amount incurred of approximately \$12.2 million to the liability and equity components of the 2026 Notes based on the proportion of the proceeds allocated to the debt and equity components. Issuance costs attributable to the liability component were approximately \$8.5 million, were recorded as an additional debt discount and are amortized to interest expense using the effective interest method over the contractual terms of the 2026 Notes. Issuance costs attributable to the equity component were approximately \$3.7 million and recorded as a reduction of additional paid in capital in stockholders' equity.

In connection with the offering of the 2026 Notes, the Company entered into privately-negotiated capped call option transactions with certain counterparties (the "2026 capped calls"). The 2026 capped calls each have an initial strike price of approximately \$75.23 per share, subject to certain adjustments, which corresponds to the initial conversion price of the 2026 Notes. The 2026 capped calls have initial cap prices of \$105.58 per share, subject to certain adjustment events. The 2026 capped calls cover, subject to anti-dilution adjustments, approximately 6.88 million shares of common stock. The 2026 capped calls are generally intended to reduce or offset the potential dilution to the common stock upon any conversion of the 2026 Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. The 2026 capped calls expire on December 15, 2026, subject to earlier exercise. The 2026 capped calls are subject to either adjustment or termination upon the occurrence of specified extraordinary events affecting the Company, including a merger event, a tender offer, and a nationalization, insolvency or delisting involving the Company. In addition, the 2026 capped calls are subject to certain specified additional disruption events that may give rise to a termination of the 2026 capped calls, including changes in law, failure to deliver, and hedging disruptions. The 2026 capped calls are recorded in stockholders' equity and are not accounted for as derivatives. The net cost of \$46.1 million incurred to purchase the 2026 capped calls was recorded as a reduction to additional paid-in capital in the accompanying consolidated balance sheet.

The remaining term over which the December 2020 Convertible Senior Notes debt discount and debt issuance costs will be amortized is 5.7 years. The effective interest rate on the debt was 6.33% for the period ended March 31, 2021.

The net carrying amount of the liability component of the Notes was as follows (in thousands):

	<u>As of March 31, 2021</u>	<u>As of December 31, 2020</u>
Principal	\$ 747,500	\$ 747,500
Unamortized discount	(188,151)	(196,269)
Unamortized issuance costs	(12,190)	(12,799)
Net carrying amount	<u>\$ 547,159</u>	<u>\$ 538,432</u>



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The net carrying amount of the equity component of the Notes was as follows (in thousands):

	<u>As of March 31, 2021</u>	
Proceeds allocated to the conversion options (debt discount)	\$	215,434
Issuance costs		(5,783)
Net carrying amount	\$	<u>209,651</u>

The following table sets forth the interest expense recognized related to the Notes (in thousands):

	<u>Three Months Ended March 31,</u>			
	<u>2021</u>		<u>2020</u>	
Contractual interest expense	\$	431	\$	417
Amortization of issuance costs		609		298
Amortization of debt discount		8,118		2,368
Total interest expense	\$	<u>9,158</u>	\$	<u>3,083</u>

Interest expense of \$9.2 million is reflected as a component of interest (expense) income, net in the accompanying condensed consolidated statement of operations for the three months ended March 31, 2021.

## 9. Acquisitions

### *AdvantageTec Inc.*

In October 2018, the Company entered into a stock purchase agreement to acquire the outstanding equity interest of AdvantageTec Inc. (“AdvantageTec”), a leading provider of texting solutions for service departments of automotive dealerships that helps enable Conversational Commerce across the entire dealership, including both front end/variable operations (new and used vehicle sales) and back end/fixed operations (parts and services). The purchase agreement was for total consideration of approximately \$11.2 million, which included approximately \$6.0 million in cash, approximately \$4.3 million in shares of common stock, and approximately \$0.9 million of potential earn-out consideration in cash and shares of common stock. The earn-out was contingent upon achieving certain targeted financial, strategic and integration objectives and milestones and is included as part of the purchase price. During 2019, the Company recorded a \$0.2 million fair value re-measurement adjustment and made payments of \$0.5 million in earn-out consideration. The Company settled the remaining contingent earn-out of approximately \$0.3 million in stock. During the three months ended March 31, 2021, there was an additional earn-out adjustment of approximately \$0.1 million.

The purchase price allocation resulted in approximately \$9.1 million of goodwill and approximately \$2.2 million of intangible assets. The goodwill will not be deductible for tax purposes. The intangible assets are being amortized over their expected period of benefit. A deferred tax liability for the identified intangibles has been recorded.

AdvantageTec enhances the Company’s messaging platform available for the automotive industry and is included in the Company’s business segment.

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**10. 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 March 31, 2021 and December 31, 2020, are summarized as follows (amounts in thousands).

	March 31, 2021				December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Cash equivalents:								
Money market funds	\$ 518,212	\$ —	\$ —	\$ 518,212	\$ 328,195	\$ —	\$ —	\$ 328,195
Total assets	<u>\$ 518,212</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 518,212</u>	<u>\$ 328,195</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 328,195</u>
<b>Liabilities:</b>								
Contingent earn-out	\$ —	\$ —	\$ 132	\$ 132	\$ —	\$ —	\$ —	\$ —
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 132</u>	<u>\$ 132</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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. The Company’s contingent earn-out liability is measured at fair value on a recurring basis and is classified as level 3 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 a goodwill impairment test. This measurement is classified based on level 3 input.

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As of March 31, 2021, the fair value of the Notes, as further described in Note 8 above, was approximately \$572 million. Management determines the fair value by utilizing an independent valuation specialist using the antithetic variable technique which is considered a level 2 fair value measurement.

The Company recorded a contingent earn-out of \$2.4 million in December 2018 in connection with the acquisitions of Conversable, Inc. and AdvantageTec. The contingent earn-out is based on achieving certain targeted financial, strategic, and integration objectives. The unobservable inputs considered are probability factors and the time value of money. During the year ended December 31, 2020, the contingent earn-out decreased by \$0.6 million due to a decrease in re-measurement to fair value of AdvantageTec, of approximately \$0.3 million and payments of approximately \$0.3 million in shares. During the three months ended March 31, 2021, the contingent earn-out increased by \$0.1 million. See Note 9 for a full description of the AdvantageTec acquisition.

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

	Contingent Earn-Out	
	March 31, 2021	December 31, 2020
Balance, Beginning of period	\$ —	\$ 557
AdvantageTec Inc. fair value adjustment (see Note 9)	132	(263)
Payments	—	(294)
Balance, End of period	<u>\$ 132</u>	<u>\$ —</u>

## 11. Commitments and Contingencies

### *Contractual Obligations*

The Company has entered into various non-cancelable operating lease agreements for certain of its offices and vehicles. The Company has also entered into various non-cancelable finance lease agreements for certain network equipment. The leases have initial lease terms ranging from 1 to 12 years. Payments due under the lease contracts include primarily fixed payments. The lease terms include periods under options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably assured. The Company's lease agreements generally do not contain any material residual value guarantees or material restrictive covenants.

The Company has evaluated its facility leases and determined which leases met the definition of the new standard in accordance with Topic 842. The Company also performed an evaluation of their other contracts with suppliers in accordance with Topic 842 and have determined that, except for the facilities, car, and network equipment leases described above, none of its supply contracts contain a lease. Further, the Company has made an accounting policy election to keep leases with a term of twelve months or less off the balance sheet. This policy applies to all classes of the underlying assets. The Company will recognize those lease payments and associated interest expense in the consolidated statement of operations evenly over the lease term.

The Company elected the "package of practical expedients," which permits the Company not to reassess under ASC 842 its prior conclusions about lease identification, lease classification and initial direct costs. The Company also made a policy election not to separate non-lease components from lease components. Furthermore, the Company elected not to capitalize leases with a term of 12 months or less and not to recognize the lease expense for such leases generally on a straight-line basis over the lease term.

The determination of the discount rate used to calculate the present value of the right-of-use assets and lease liabilities depends on whether an interest rate is implicit in the lease or not. If a rate is implicit in the lease, that rate is used when calculating the present value of lease payments. If the rate is not readily determinable, which is generally the case for the Company, the Company's incremental borrowing rate ("IBR") as of the date of inception of the lease is used (for initial measurement, the IBR was determined as of the adoption date of the standard). The IBR is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term and amount equal to the lease payments in a similar economic environment. The Company used a ratings benchmark report against its peers in the technology sector.

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In connection with the leases, the Company recognized operating lease right-of-use assets of \$0.4 million and \$0.6 million and an aggregate lease liability of \$11.3 million and \$12.9 million in its condensed consolidated balance sheet as of March 31, 2021 and December 31, 2020, respectively.

The Company has operating and finance leases for its corporate offices and other service agreements. The Company's leases have remaining lease terms of 1 to 5 years, some of which include options to extend. The Company's lease expense for the three months ended March 31, 2021 and 2020, consisting entirely of operating leases, was approximately \$1.9 million and \$3.4 million, respectively.

On July 13, 2020, the Company announced its decision to transition to an employee-centric model under which employees will work remotely rather than in traditional offices. In connection with this decision, the Company abandoned 14 leases in its global portfolio of office leases during the twelve months ended December 31, 2020. As a result, the Company recognized accelerated amortization to fully reduce the carrying value of the associated right of use assets ("ROU assets") between the decision date, which was determined to be July 13, 2020 and the cease use date. There were no changes to the accounting for the lease liabilities associated with the leased office spaces. Additionally, the Company recognized accelerated depreciation of fixed assets that were determined no longer to be of future economic benefit to the Company based on the decision to vacate the leased office space. Lease restructuring expenses of \$24.3 million are included in restructuring costs in the condensed consolidated statements of operations for the twelve months ended December 31, 2020. The Company also incurred other non-recurring expenses of \$5.1 million in restructuring costs in the condensed consolidated statements of operations for the twelve months ended December 31, 2020 associated with the transition to an employee-centric workforce model that does not rely on traditional offices. These expenses include termination penalties, moving expenses, storage expenses and incremental legal and consulting fees. The associated liability is presented on the condensed consolidated balance sheets within accrued expenses and other current liabilities as of March 31, 2021. Subsequent adjustments to these liabilities, including final settlement of the amounts, will be reflected in future period earnings.

The Company continues to actively assess its global lease portfolio. However, any additional de-recognition of ROU assets and incurrence of various one-time expenses in connection with early termination of additional leases are not expected to be material to the Company's financial condition or results of operations.

Supplemental cash flow information related to leases for the quarters ended March 31, 2021 and 2020 are as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows for operating leases	\$ 387	\$ 1,986
Operating cash flows for finance leases	94	—
Financing cash flows for finance leases	859	—

The components of lease costs for the quarters ended March 31, 2021 and 2020 are as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
<b>Finance lease cost</b>		
Amortization of right-of-use assets	\$ 888	\$ —
Interest	94	—
Operating lease cost	1,857	1,397
<b>Total lease cost</b>	<b>2,839</b>	<b>1,397</b>

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Supplemental balance sheet information related to leases was as follows:

	As of March 31, 2021	As of December 31, 2020
	(in thousands, except lease term and discount rate)	
<b>Operating Leases</b>		
Right-of-use asset, net	\$ 437	\$ 614
Current operating lease liability	5,097	5,718
Long term operating lease liability	6,170	7,180
<b>Total operating lease liability</b>	<b>11,267</b>	<b>\$ 12,898</b>
<b>Finance Leases</b>		
Right-of-use asset, net	9,157	10,045
Current finance lease liability	3,524	3,488
Long term finance lease liability	5,280	6,176
<b>Total finance lease liability</b>	<b>8,804</b>	<b>9,664</b>
<b>Weighted Average Remaining Lease Term</b>		
Operating leases	2.9 years	3.0 years
Finance leases	2.6 years	2.8 years
<b>Weighted Average Discount Rate</b>		
Operating leases	7 %	7 %
Finance leases	4 %	4 %

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

Quarter ending March 31, 2021:	Operating Leases	Finance Leases
2021 (remaining nine months for March 31, 2021)	\$ 4,669	\$ 2,861
2022	3,788	3,814
2023	1,953	2,572
2024	1,171	—
2025	636	—
Thereafter	265	—
<b>Total minimum lease payments</b>	<b>12,482</b>	<b>9,247</b>
Less: present value adjustment	(1,215)	(443)
<b>Present value of lease liabilities</b>	<b>\$ 11,267</b>	<b>\$ 8,804</b>

The timing and amounts of future minimum lease payments under non-cancellable operating leases in the above table may be subject to change as a result of the restructuring (see Note 13).

**Employee Benefit Plans**

In 2019, the Company's 401(k) policy was changed to a Safe Harbor Plan, whereby the Company matches 100% of the first 3% of eligible compensation and 50% of the next 2% of eligible compensation. Furthermore, the match is immediately vested. Salaries and related expenses include \$0.9 million of employer matching contributions for the three months ended March 31, 2021 and 2020.

***Letters of Credit***

As of March 31, 2021, the Company has a letter of credit totaling \$0.6 million as a security deposit for the due performance by the Company of the terms and conditions of a supply contract. As a result of the Company's transition to an employee-centric model, there were two draws against the Company's letters of credit in the aggregate amount of \$1.8 million in connection with exiting leases in Alpharetta, Georgia and Israel.

***Non Income Tax Matters***

The Company is in the process of finalizing its sales tax liability analysis for states in which it has economic nexus. During the first quarter of 2020, the Company determined it was probable the Company would be subject to sales tax liabilities plus applicable interest in these states and has estimated the potential exposure to range between \$2.5 million to \$6.3 million. The Company determined that its best estimate of what would be reasonably expected for the Company to settle the potential exposure was \$2.5 million and accordingly, the Company accrued this amount with a corresponding charge to earnings as of March 31, 2020. As of March 31, 2021, there is a \$2.0 million accrual balance.

***COVID-19 Pandemic***

In December 2019, a novel coronavirus disease ("COVID-19") was first reported. On March 11, 2020, due to worldwide spread of the virus, the World Health Organization characterized COVID-19 as a pandemic. The COVID-19 global pandemic has resulted in a widespread health crisis, and the resulting impact on governments, businesses and individuals and actions taken by them in response to the situation have resulted in widespread economic disruptions, significantly affecting broader economies, financial markets, and overall demand for the Company's products. The COVID-19 outbreak also has caused increased uncertainty in estimates and assumptions affecting the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities in the Company's Condensed Consolidated Financial Statements as the extent and period of recovery from the COVID-19 outbreak and related economic disruption is difficult to forecast.

The extent to which COVID-19 impacts the Company's business and financial results will depend on numerous evolving factors including, but not limited to, the magnitude and duration of COVID-19, the extent to which it will impact worldwide macroeconomic conditions, the speed of the anticipated recovery, and governmental and business reactions to the pandemic. The Company assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to the Company and the unknown future impacts of COVID-19. The accounting matters assessed included, but were not limited to, the Company's allowance for credit losses and the carrying value of the goodwill and other long-lived assets. While there was not any significant impact to the operations of the Company, during the twelve months ended December 31, 2020, the Company moved to an employee-centric model under which employees will work remotely rather than in traditional offices due to concerns about COVID-19. As a result of this decision, the Company recognized accelerated amortization to fully reduce the carrying value of the associated ROU assets for 14 leases within its global lease portfolio, which is a material impact to the Company's consolidated financial statements as of and for the twelve months ended December 31, 2020. Refer to earlier paragraphs of this Note 11 for a detailed discussion of the impacts of this lease restructuring.

The Company's future assessment of the magnitude and duration of COVID-19, as well as other factors, could result in other material impacts to the Company's consolidated financial statements in future reporting periods.

**12. Stockholders' Equity**

***Common Stock***

As of March 31, 2021, there were 200,000,000 shares of common stock authorized, 71,351,202 shares issued, and 68,641,372 shares outstanding. As of December 31, 2020, there were 200,000,000 shares of common stock authorized, 70,264,265 shares issued and 67,554,435 shares outstanding. The par value for shares of common stock is \$0.001 per share.

On November 12, 2019, the Company filed an amendment to its Certificate of Incorporation to authorize an additional 100,000,000 shares of common stock.

***Preferred Stock***

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As of March 31, 2021 and December 31, 2020, there were 5,000,000 shares of preferred stock authorized, and zero shares issued and outstanding. The par value for shares of preferred stock is \$0.001 per share.

**Stock Repurchase Program**

From 2012 through 2018, the Company had a stock repurchase program in place pursuant to which the Company was 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. The timing and actual number of shares repurchased depended on a variety of factors including the timing of open trading windows, price, corporate and regulatory requirements and other market conditions. The program was discontinued at the end of 2018. The Company may or may not enter into a new stock repurchase program in the future.

**Stock-Based Compensation**

The Company follows 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 Company’s forfeiture rate assumptions, which estimate the share-based awards that will ultimately vest, requires judgment, and to the extent actual results or updated estimates differ from management’s current estimates, such amounts will be recorded as a cumulative adjustment in the period of change and could be materially different from share-based compensation expense recorded in prior periods.

The per share weighted average fair value of stock options granted was \$31.60 and \$8.18 during the three months ended March 31, 2021 and 2020, respectively. The fair value of each option grant is estimated on the date of grant, adjusted for estimated forfeitures, using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Dividend yield	0.0%	0.0%
Risk-free interest rate	0.46%	0.66%
Expected life (in years)	5	5
Historical volatility	53.94%	46.50%

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

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

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

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

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

**Stock Option Plans**

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

The Company established the 2009 Stock Incentive Plan (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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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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.

On April 11, 2019, the Company's Board of Directors adopted, and on June 6, 2019, the Company's stockholders approved, the 2019 Stock Incentive Plan ("2019 Stock Incentive Plan") to replace the Amended 2009 Plan, which was set to expire under its terms on June 9, 2019. Under the 2019 Stock Incentive Plan, the number of shares underlying options and other equity awards which remain outstanding, as well as the number of shares that remained available for grant, under the Amended 2009 Plan and under the Amended 2000 Plan were incorporated, as of June 6, 2019, into the 2019 Stock Incentive Plan. In addition, under the 2019 Stock Incentive Plan, 4,250,000 new shares were authorized for issuance.

On June 11, 2020, the Company's Board of Directors adopted, and on June 17, 2020, the company's stockholders approved, the amendments to the LivePerson, Inc. 2019 Stock Incentive Plan. In addition, under the 2019 Stock Incentive Plan, 3,000,000 new shares were authorized for issuance.

The number of shares authorized for issuance under the 2019 Stock Incentive Plan, the Amended 2009 Plan, and the 2000 Plan is 35,067,744 shares in the aggregate. Options to acquire common stock granted thereunder have 10-year terms. As of March 31, 2021, approximately 2.6 million shares of common stock remained available for issuance under the 2019 Stock Incentive Plan (taking into account all option exercises and other equity award settlements through March 31, 2021).

***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.

On April 11, 2019, the Company's Board of Directors adopted, and on June 6, 2019, the Company's stockholders approved, the 2019 Employee Stock Purchase Plan (the "2019 Employee Stock Purchase Plan") to replace the Amended and Restated 2010 Employee Stock Purchase Plan which was set to expire under its terms in June 2020. There are 1,000,000 shares authorized and reserved for issuance under the 2019 Employee Stock Purchase Plan. As of March 31, 2021, approximately 0.8 million shares of common stock remain available for issuance under the 2019 Employee Stock Purchase Plan (taking into account all share purchases through March 31, 2021).

***Inducement Plan***

During January 2018, the Company established the Inducement Plan (the "2018 Plan"). Under the 2018 Plan, the Board of Directors can issue 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, and subsequently the Board of Directors approved and ratified, effective as of July 31, 2018, October 29, 2018 and February 13, 2019, increases of the number of shares authorized for issuance under the Amended 2018 Plan by 500,000, 250,000 and 618,048 shares, respectively, resulting in 3,368,048 shares of common stock in the aggregate being reserved for issuance pursuant to grants under the Amended 2018 Plan. As of March 31, 2021, approximately 1.2 million shares of common stock remained available for issuance under the Amended 2018 Plan (taking into account all option exercises and other equity award settlements through March 31, 2021).



**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Stock Option Activity**

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

	<b>Stock Option Activity</b>		<b>Weighted Average Remaining Contractual Term (in years)</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
	<b>Options (in thousands)</b>	<b>Weighted Average Exercise Price</b>		
Balance outstanding at December 31, 2020	4,332	\$ 19.78	6.79	183,825
Granted	66			
Exercised	(209)			
Cancelled or expired	(15)			
Balance outstanding at March 31, 2021	<u>4,174</u>	<u>\$ 20.93</u>	<u>6.77</u>	<u>\$ 134,089</u>
Options vested and expected to vest	<u>1,245</u>	<u>\$ 26.28</u>	<u>8.04</u>	<u>\$ 33,613</u>
Options exercisable at March 31, 2021	<u>2,412</u>	<u>\$ 15.75</u>	<u>5.71</u>	<u>\$ 89,213</u>

The total fair value of stock options exercised during the three months ended March 31, 2021 was approximately \$1.2 million. As of March 31, 2021, there was approximately \$17.6 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of approximately 2.5 years.

**Restricted Stock Unit Activity**

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

	<b>Restricted Stock Unit Activity</b>		
	<b>Number of Shares (in thousands)</b>	<b>Weighted Average Grant Date Fair Value (Per Share)</b>	<b>Aggregate Fair Value (in thousands)</b>
Balance outstanding at December 31, 2020	2,950	\$ 27.00	\$ 183,781
Awarded	519		
Vested	(855)		
Forfeited	(87)		
Non-vested and outstanding at March 31, 2021	<u>2,527</u>	<u>\$ 29.67</u>	<u>\$ 133,461</u>
Expected to vest	<u>1,631</u>	<u>\$ 28.72</u>	<u>\$ 86,029</u>

RSUs granted to employees generally vest over a three to four-year period or upon achievement of certain performance conditions. In accordance with ASU 2017-09, as of March 31, 2021, total unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested RSUs was approximately \$65.7 million and the weighted-average remaining vesting period was 2.7 years.

For the three months ended March 31, 2021 and 2020, the Company accrued approximately \$5.3 million and \$3.7 million in cash awards, respectively to be settled in shares of the Company's stock and recorded a corresponding expense, which is included as a component of stock-based compensation expense in the accompanying condensed consolidated statements of operations for the three months ended March 31, 2021 and 2020, respectively.

Stock-based compensation expense recognized in the Company's condensed consolidated statements of operations and cash flows was \$14.6 million and \$14.7 million for the three months ended March 31, 2021 and 2020, respectively.

**13. Restructuring**

In response to the COVID-19 pandemic, the Company went through a re-evaluation of its real estate needs. In connection with this re-evaluation, and the success the Company has had working remotely, it was decided in July 2020 that the Company would significantly reduce the real estate space it leases. This decision resulted in the significant reduction of the real estate space the Company leases and the removal of the associated ROU assets. Furthermore, this resulted in various one-time

expenses in connection with the abandonment of the majority of the Company's leased facilities. The lease restructuring costs noted below are a result of this transition to an employee-centric model.

On top of the lease restructuring costs, the Company went through a further restructuring related to costs associated with re-prioritizing and reallocating resources to focus on areas believed by management to show high growth potential.

The expenses associated with these restructuring events were approximately \$2.7 million and \$3.2 million during the three months ended March 31, 2021 and 2020, respectively. The Company expects to incur additional restructuring costs through December 31, 2021. The restructuring liability was approximately \$4.9 million and \$4.7 million as of March 31, 2021 and December 31, 2020, respectively. It is classified as accrued expenses and other current liabilities on the condensed consolidated balance sheets, as the liability is expected to be settled in the next 12 months.

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

	As of March 31, 2021	December 31, 2020
Balance, Beginning of the year	\$ 4,732	\$ 314
Lease restructuring costs	294	5,034
Severance and other compensation associated costs	2,438	5,090
Cash payments	(2,550)	(5,706)
Balance, End of period	<u>\$ 4,914</u>	<u>\$ 4,732</u>

The following table presents the detail of expenses for the Company's restructuring charges for the three months ended March 31, 2021 (amounts in thousands):

	March 31,	
	2021	2020
Lease restructuring costs:		
ROU assets write down	\$ —	\$ —
Abandonment of property and equipment	—	—
Other lease restructuring costs	294	—
Total Lease restructuring costs	<u>\$ 294</u>	<u>\$ —</u>
Severance and other compensation associated costs	\$ 2,438	\$ 3,190
Total restructuring costs	<u>\$ 2,732</u>	<u>\$ 3,190</u>

#### 14. Legal Matters

The Company previously filed an intellectual property suit against [24]7 Customer, Inc. ("[24]7") 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. 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 is set for May 24, 2021. Trial for [24]7's patent infringement claims has been vacated, to be reset after the trial on the Company's claims. The Company believes the claims filed by [24]7 are entirely 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 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.

## 15. Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are expected to become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. The Company includes interest accrued on the underpayment of income taxes in interest expense and penalties, if any, related to unrecognized tax benefits in general and administrative expenses. The Company recorded a valuation allowance against its U.S. deferred tax asset as it considered its cumulative loss in recent years as a significant piece of negative evidence. Since valuation allowances are evaluated on a jurisdiction by jurisdiction basis, the Company believes that the deferred tax assets related to LivePerson Australia, LivePerson UK, Kasamba Israel, LivePerson Japan and LivePerson Ltd. Israel are more likely than not to be realized as these jurisdictions have positive cumulative pre-tax book income after adjusting for permanent and one-time items. During the year ended December 31, 2020, there was an increase in the valuation recorded of \$6.9 million. For the quarter ended March 31, 2021, the Company recorded a tax benefit of \$0.9 million. This amount consisted of a tax provision for the period of \$0.6 million on operating earnings for the period, and a tax benefit of \$1.5 million related to the revision of estimates for uncertain tax benefits related to Kasamba Israel and Liveperson Ltd. Israel deferred tax assets.

The Company had a valuation allowance on certain deferred tax assets for the years ended December 31, 2019 and December 31, 2020 of \$48.5 million and \$55.4 million, respectively. Inherent in the Company's 2021 annual effective tax rate is an estimated increase in the valuation allowance of \$20.7 million, all of which will be recorded as an expense. During 2020, an increase in the valuation allowance in the amount of \$35.1 million was recorded as an expense and a decrease of \$28.2 million related to convertible notes was charged to equity. In 2019, an increase in the valuation allowance in the amount of \$25.0 million was recorded as an expense and a decrease of \$6.7 million related to the issuance of convertible notes was charged to equity.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law making several changes to the Internal Revenue Code. The changes include, but are not limited to: increasing the limitation on the amount of deductible interest expense, allowing companies to carryback certain net operating losses, and increasing the amount of net operating loss carryforwards that corporations can use to offset taxable income. As a result of the CARES Act, the Company filed refund claims relating to prior years totaling \$0.6 million.

**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. In addition, our actual results could differ from our estimates and assumptions based upon impacts on our business and general economic conditions due to the current COVID-19 pandemic.*

## Overview

LivePerson, Inc. (“LivePerson”, the “Company”, “we” or “us”) makes life easier for people and brands everywhere through trusted Conversational AI. Conversational AI allows humans and machines to interact using natural language, including speech or text. During the past decade, consumers have made mobile devices the center of their digital lives, and they have made mobile messaging the center of communication with friends, family and peers. This trend has been significantly accelerated by the COVID-19 pandemic and can now be viewed as a permanent, structural shift in consumer behavior. Our technology enables consumers to connect with businesses through these same preferred conversational interfaces, including Facebook Messenger, SMS, WhatsApp, Apple Business Chat, Google Rich Business Messenger and Alexa. These messaging conversations harness human agents, bots and Artificial Intelligence (AI) to power convenient, personalized and content-rich journeys across the entire consumer lifecycle, from discovery and research, to sales, service and support, and increasingly marketing, social, and brick and mortar engagements. For example, consumers can look up product info like ratings, images and pricing, search for stores, see product inventory, schedule appointments, apply for credit, approve repairs, and make purchases or payments - all without ever leaving the messaging channel. These AI and human-assisted conversational experiences constitute the Conversational Space, within which LivePerson has strategically developed one of the industry’s largest ecosystems of messaging endpoints and use cases.

The Conversational Cloud, our enterprise-class cloud-based platform, enables businesses to become conversational by securely deploying AI-powered messaging at scale for brands with tens of millions of customers and many thousands of agents. The Conversational Cloud powers conversations across each of a brand’s primary digital channels, including mobile apps, mobile and desktop web browsers, short message service (SMS), social media and third-party consumer messaging platforms. Brands can also use the Conversational Cloud to message consumers when they dial a 1-800 number instead of forcing them to navigate interactive voice response systems (IVRs) and wait on hold. Similarly, the Conversational Cloud can ingest traditional emails and convert them into messaging conversations, or embed messaging conversations directly into web advertisements, rather than redirect consumers to static website landing pages. Agents can manage all conversations with consumers through a single console interface, regardless of where the conversations originated.

LivePerson’s robust, cloud-based suite of rich messaging, real-time chat, AI and automation offerings features consumer and agent facing bots, intelligent routing and capacity mapping, real-time intent detection and analysis, queue prioritization, customer sentiment, analytics and reporting, content delivery, Payment Card Industry (PCI) compliance, cobrowsing and a sophisticated proactive targeting engine. An extensible application programming interface (API) stack facilitates a lower cost of ownership by facilitating robust integration into back-end systems, as well as enabling developers to build their own programs and services on top of the platform. More than 40 APIs and software development kits are available on the Conversational Cloud.

For your reference:

- **Conversational AI:** Conversational AI allows humans and machines to interact using natural language, including speech or text.
- **Conversational Space:** In the Conversational Space, consumers message with brands on their own schedule, using natural language, to resolve their intents - all on their preferred messaging service. The core capabilities of the Conversational Space are voice and text-based interfaces, powered by AI and humans working together. Conversational Space is the simplest, most intuitive interface of all.

- Conversational Cloud: LivePerson’s enterprise-class, AI-powered Conversational Cloud platform empowers consumers to message their favorite brands, just as they do with friends and family.

LivePerson’s Conversational AI offerings put the power of bot development, training, management and analysis into the hands of the contact center and its agents, the teams most familiar with how to structure sales and service conversations to drive successful outcomes. The platform enables what we call “the tango” of humans, AI and bots, whereby human agents act as bot managers, overseeing AI-powered conversations and seamlessly stepping into the flow when a personal touch is needed. Agents become ultra-efficient, leveraging the AI engine to serve up relevant content, define next-best actions and take over repetitive transactional work, so that the agent can focus on relationship building. By seamlessly integrating messaging with our proprietary Conversational AI, as well as third-party bots, the Conversational Cloud offers brands a comprehensive approach to scaling automations across their millions of customer conversations.

Complementing our proprietary messaging and Conversational AI offerings are teams of technical, solutions and consulting professionals that have developed deep domain expertise in the implementation and optimization of conversational services across industries and messaging endpoints. We are a leading authority in the Conversational Space. LivePerson’s products, coupled with our domain knowledge, industry expertise and professional services, have been proven to maximize the effectiveness of the Conversational Space and deliver measurable return on investment. Certain of our customers have achieved the following advantages from our offerings:

- the ability for each agent to manage as many as 40 messaging conversations at a time, as compared to one at a time for a voice agent and two to four at a time for a good chat agent. Adding AI and bots provides even greater scale to the number of conversations managed;
- labor efficiency gains of at least two times that of voice agents, effectively cutting labor costs by at least 50%;
- improving the overall customer experience, thereby fueling customer satisfaction score increases of up to 20 percentage points, and enhancing retention and loyalty;
- more convenient, personalized and content-rich conversations that increase sales conversion by up to 20%, increase average order value and reduce abandonment;
- more satisfied contact center agents, thereby reducing agent churn by up to 50%;
- a valued connection with consumers via mobile devices, either through native applications, websites, text messages, or third-party messaging platforms;
- leverage of spending that drives visitor traffic by increasing visitor conversions;
- refinement and improvement of performance by understanding which initiatives deliver the highest rate of return; and
- increased lead generation through a single platform that engages consumers through advertisements and listings on branded and third-party websites.

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

To further enhance our platform, in September 2020 we signed a partnership with Infosys, a leader in next-generation digital services and consulting. We are working with Infosys to transform our technology infrastructure on the public cloud, to build integrated solutions and a global practice around our Conversational Cloud to sell into their channels and global enterprise customer base, and to redefine how the world’s top brands communicate.

More than 18,000 businesses, including HSBC, Orange, The Home Depot, and GM Financial use our conversational solutions to orchestrate humans and AI, at scale, and create a convenient, deeply personal relationship with their customers.

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

**Build awareness and drive adoption of the Conversational Space.** LivePerson brought our first customer live on messaging in June 2016. Since that time, we have been focused on building awareness for conversational experiences and driving adoption. We have educated businesses on the financial and operational transformation that occurs when a contact center shifts to an asynchronous messaging environment, where the consumer controls the pace of the conversation, which can last minutes, hours or days, from a synchronous call or chat center, where conversations occur in real-time and have a distinct start and end.

A key component of our industry awareness marketing strategy has been to hold multiple global customer summits each year (events in 2020 were held virtually in light of the COVID-19 pandemic) that target executives from enterprise customers and prospects, and feature a key theme within the Conversational Space, such as Apple Business Chat, Google Rich Business

Messenger, IVR deflection or AI. LivePerson customers are the centerpoint of these summits, presenting why they chose LivePerson for conversational experiences, how they achieved success, and what type of ROI they have realized. Each attendee then receives a blueprint for how they can pursue similar outcomes. We have found this strategy to drive strong results for LivePerson, as we have seen a greater than 40% conversion rate on opportunities that were created or advanced as part of the customer summits. By year-end 2020, we had brought approximately 400 customers live on messaging and increased adoption within our enterprise customers to 66%. In addition, nearly 70% of messaging conversations had automation attached. We continue to focus on building awareness for the Conversational Space and driving adoption of messaging and AI across our customer base.

***Increase messaging volumes by developing a broad ecosystem, expanding customer use cases, and focusing on AI and automation.*** Our strategy is to drive higher messaging volumes by going both wide across messaging endpoints, deep across consumer use cases, and focusing on AI and automation as the means to deliver powerful scale. LivePerson offers a platform usage pricing model, where customers are offered access to our entire suite of messaging technologies across their entire agent pool for a pre-negotiated cost per interaction. We believe that over time this model will drive higher revenue for LivePerson by reducing barriers to adoption of new messaging endpoints and use cases.

In order to drive broad messaging adoption, it is imperative that the Conversational Cloud integrates to all of the messaging apps that consumers prefer to use for communication and addresses all key use cases. For example, if a consumer is an avid WhatsApp user, and a brand only offers SMS as a messaging option, that consumer may be reluctant to try messaging the brand. Therefore, a key strategy of ours has been to build one of the industry's broadest ecosystems of messaging endpoints and use cases. In June 2016, we launched with In-App messaging. In 2017, we introduced Facebook Messenger, SMS, Web messaging and IVR deflection integrations. In 2018, we added Apple Business Chat, Google Rich Business Messenger, Line, WhatsApp, Alexa, Google Home, Google Ad Lingo and Twitter. In 2019, we added email, allowing brands to manage emails through the same console they use for messaging, and to convert legacy emails into messaging conversations. We also added social monitoring and conversational tools for Twitter and Facebook, and introduced proactive messaging, allowing brands to transform traditional one-way notifications such as flight cancellations or phone plan overage alerts into two-way conversations. Finally, we connected to Facebook and WhatsApp digital advertisements, enabling consumers to initiate messaging conversations for marketing and customer care directly within the advertisement. In 2020, we added Instagram and Google's Business Messages, allowing brands to bring customer-initiated conversations into the Conversational Cloud directly from Instagram, Google Search, and Google Maps.

Each channel and use case added opens the door to new consumers, providing brands a greater opportunity to shift share away from their legacy contact center channels into messaging. For example, in 2019, leading airlines launched on WhatsApp and Apple Business Chat with the ability to make secure payments; a baseball stadium launched an automated conversational concierge providing answers to a wide range of questions from restroom locations to player stats; and a multinational telecommunications company used proactive two-way messaging for outbound campaigns. In 2020, one of the largest telcos in Australia fully virtualized their contact centers, a leading U.S. quick-serve restaurant launched on Facebook Messenger to help customers order meals, one of the biggest banks in the world launched an Apple Business Chat channel to provide a secure way to perform day-to-day banking, and one of the world's largest jewelry retailers used the Conversational Cloud and QR codes to sell millions of dollars of product.

LivePerson makes the management of all these disparate channels seamless to the brand. AI-based intelligent routing, queuing and prioritization software orchestrates these conversations at scale, regardless of which messaging endpoint they originated from, so that human and bot agents can engage with all customers through just one console.

We believe LivePerson is leading the structural shift to Conversational AI. In the wake of the COVID-19 pandemic, leading brands are turning to LivePerson's AI-powered messaging to overcome a capacity gap created by voice call agent work-from-home measures and increased demand for digital engagement as consumers practice social distancing. LivePerson is powering Conversational AI, automation and messaging strategies across a growing number of use cases from care and sales, to marketing, social, conversational advertising and brick and mortar. Our Conversational AI leadership and the increase in adoption have influenced LivePerson's enterprise and mid-market revenue retention rate, (the trailing-twelve-month change in total revenue from existing customers after upsells, downsells and attrition) which exceeded the high end of our target range of 105% to 115% for 2020. The benefit can also be seen in LivePerson's average revenue per enterprise and midmarket customers, which increased approximately 35% in 2020 to \$465,000 from approximately \$345,000 in 2019. We believe these ARPU trends are a clear indication of how LivePerson's strategy to drive messaging adoption has successfully influenced our revenue growth by taking share from legacy communication channels. Average annual revenue per enterprise and mid-market customer increased approximately 34% to \$490,000 for the trailing-twelve-months ended March 31, 2021.

***Attract the industry's best AI, machine learning and conversational talent.*** We believe that AI and machine learning are critical to successfully scaling in the Conversational Space, and that in order to develop the industry's leading technology, we need to attract the industry's best talent. In 2018, LivePerson recruited Alex Spinelli, key architect of the Alexa Operating System at Amazon.com, as our Global CTO. Under Mr. Spinelli's leadership, LivePerson hired more than 280 of the industry's

brightest data scientists, machine learning engineers and automation engineers, many from firms such as Nike, Amazon.com, Microsoft and Target, who are working exclusively on applying AI to the Conversational Space. LivePerson also expanded its development talent base in Germany, and added key development talent through the acquisitions of BotCentral in Mountain View, California and Conversable in Austin, Texas.

**Bring to market best-in-class AI and machine learning technologies designed for the Conversational Space.** We believe that in the last decade many vendors introduced AI and bot offerings that created frustrating experiences for consumers and businesses alike, which in turn has eroded trust in automation. Many of these solutions have proven difficult to build and scale, and have been limited by stand-alone implementations that lacked the measurement, reporting and human oversight of conversational platforms such as the Conversational Cloud. In December 2018, LivePerson announced its patent pending AI engine that is designed to overcome these shortcomings and help brands rapidly bring to market conversational AI that can scale to millions of interactions, while increasing customer satisfaction and conversion rates.

Unlike alternative solutions designed solely for IT departments, LivePerson's Conversational AI was built to be used by developers *and* contact center agents. By putting the power of conversational design and bot management in the hands of contact center agents, LivePerson's Conversational AI gives brands the ability to leverage the employees closest to the customer, those who are most versed in the voice of the brand, and with the most expertise in how to craft successful outcomes for customer service and sales journeys.

Some of the key innovations behind LivePerson's Conversational AI include:

- a holistic approach to scaling AI by combining consumer facing bots, agent facing bots, intelligent routing and real-time intent understanding, with an analytics dashboard that helps users focus on the intents that are impacting their business and prioritize which intents to automate next;
- bot building software that is based on dialogue instead of workflow or code, so non-technical employees like contact center agents can design automations;
- leveraging data moat from hundreds of millions of conversations to feed the machine learning that rapidly and accurately detects consumer sentiment and intents in real-time. Customers of LivePerson can use intent understanding for advanced routing, next-best actions, and to fully contain conversations with automation;
- the establishing of contact center agents as bot managers, ensuring that every conversation is safeguarded by a human and that agents are continuously training the AI to be smarter and drive more successful outcomes;
- powerful Assist technology that multiplies the efficiency of agents by analyzing intents in real time and then suggesting next best actions, predefined content, and bots that can take over transactional work;
- pre-built templates for target verticals that provide out of the box support for the top intents and back-end integrations;
- the ability to bootstrap conversations with existing transcripts, reducing design effort and speeding time to market;
- third-party AI natural language understanding (NLU) integration, so customers aren't boxed into one vendor; and
- AI analytics and reporting tailored to the Conversational Space, providing brands with immediate, actionable insights about their businesses and contact center operations.

Our strategy is to continue to enhance the Conversational AI engine and related products, by leveraging our global R&D footprint and substantial library of mobile and online conversational data, with the aim of increasing agent efficiency, decreasing customer care costs, improving the customer experience and increasing customer lifetime value.

**Sustain our leadership position by aligning brands to a vision that transforms how they communicate with consumers and delivers a superior return on investment.** We believe that most contact center technology vendors incorrectly view messaging as a feature. They are content with building integrations to a messaging endpoint and offering messaging as just another product in their suite. LivePerson holds the perspective that messaging and AI are the foundation for transforming conversational experiences, disrupting how agents operate and how brands engage with consumers. Brands must adapt their contact centers to an asynchronous messaging environment and leverage a combination of human agents, bots and AI to achieve scale and efficiencies. When done correctly, the entire consumer lifecycle with a brand will be maintained within the Conversational Space, and traffic will steadily shift away from lower returning voice calls, websites, emails and apps to higher returning messaging endpoints.

We believe that LivePerson is uniquely positioned to deliver this transformation due to our technology and expertise:

- The Conversational Cloud, LivePerson's enterprise-class, automation-first, cloud-based platform, was designed for AI-assisted and human-powered messaging in mobile and online channels. The platform offers best-in-class security and scalability, offers the broadest ecosystem of messaging endpoints, is designed for ease of use, and features an AI engine custom built for the Conversational Space, intent recognition, robust real-time reporting, role-based real-time analytics, predictive intelligence, and innovations in customer satisfaction and connection



measurement. Additionally, the Conversational Cloud is an open platform with pre-built, enterprise-grade integrations into back-end systems as well as the ability to work across NLU providers.

- The Company has a data moat built on hundreds of millions of conversations across industries, geographies and use cases that is feeding the machine learning engines that power intent understanding.
- The platform has expanded to power conversations across a broad spectrum of channels and use cases, from traditional sales and customer service, to marketing, social, email, advertising and brick and mortar.
- LivePerson has deep domain expertise across verticals and messaging endpoints, a global footprint, referenceable enterprise brands and a team of technical, solutions and consulting professionals to assist customers along their transformational journeys. We are positioned as an authority in the Conversational Space.
- The Company has developed Gainshare - a Transformation Model that is introduced to existing and prospective customers to help guide them on their journeys from legacy and often-times inefficient legacy voice, email and chat solutions to modern conversational ones powered by messaging and AI. Gainshare is a fully managed solution where LivePerson not only provides the messaging and AI automation technology, but also the labor, automation, and end-to-end program management, leveraging the Company's expertise with Conversational AI and messaging operations. Gainshare is an option for brands that want to accelerate a transformation to Conversational AI, or that want a worry-free solution where LivePerson manages the entire operation, from staffing to automation building and optimization, to conversation design and consumer experience. Gainshare pricing is bespoke, and is typically structured around a brand's desired goals, whether driving incremental revenue or reducing operational costs.

We believe that LivePerson's differentiated approach to the Conversational Space, combined with our unique technology and expertise has established us as a market leader, with an ability to deliver superior returns on investment. LivePerson customers manage as many as 40 messaging conversations at a time, as compared to one at a time for a voice agent and two to four at a time for a good chat agent. Adding AI and bots provides even greater scale to the number of conversations managed. Our customers often see labor efficiency gains of at least two times that of voice agents, effectively cutting labor costs by at least 50%. Furthermore, our ability to deliver more convenient, personalized and content-rich conversations often drives increases in customer satisfaction score of up to 20 percentage points and increases in sales conversions of up to 20%, while enhancing average order value, customer retention and loyalty.

**Strengthen our position in both existing and new industries.** We plan to continue to develop our market position by increasing our customer base, and expanding within our installed base. We continue to focus primarily on key target markets: consumer/retail, telecommunications, financial services, travel/hospitality, technology and automotive within both our enterprise and mid-market sectors, as well as the small business (SMB) sector. In 2019, we made strong inroads into new verticals with key wins in the airline, food service and healthcare industries. In 2020, we strengthened our presence in key markets including travel/hospitality and retail, and opened new verticals like healthcare and government. We are experimenting with new conversational businesses, including some that are in regulated industries, like online banking. We are increasingly structuring our field organization to emphasize our domain expertise and strengthen customer relationships across target industries.

**Continue to build our international presence.** We are focused on building our international presence and expanding our international revenue contribution, which accounted for 38% and 41% of total revenue in 2020 and 2019, respectively. International revenue contribution for the three months ended March 31, 2021 accounted for 36% of total revenue. We are generating positive results from our recent investments in the Asia Pacific, Europe and Latin America regions.

**Leverage our open architecture to support partners and developers.** In addition to developing our own applications, we continue to cultivate a partner eco-system capable of offering additional applications and services to our customers. We integrate into third-party messaging endpoints including SMS, Facebook Messenger, Apple Business Chat, Google Rich Business Messenger, Line, WhatsApp, Alexa, Google Home, WeChat, Google Ad Lingo, Google Search, Google Maps, Instagram and Twitter, multiple IVR vendors and dozens of branded apps. The Conversational Cloud integrates our proprietary messaging and Conversational AI with third-party bot offerings, empowering our customers to manage a mix of different bots, human agents and technologies from one control panel, thereby optimizing contact center efficiency. 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 more than 40 APIs and software development kits that allow customers and 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 2019, we launched LivePerson Functions, a serverless Function as a Service (FaaS) integration which enables brands to develop custom behaviors within LivePerson's conversational platform to easily and rapidly tailor conversation flows to their specific needs.

**Expand sales partnerships to broaden our presence and accelerate sales cycles.** We are focused on broadening our market reach and accelerating sales cycles by partnering with systems integrators, technology providers, business process outsourcers, value added resellers and other sales partners. We formalized a relationship with IBM Global Business Services in 2017 and Accenture in 2018. In 2019, we announced strategic partnerships with TTEC, a leading BPO focused on customer experience, and DMI, a digital transformation company, to redefine the customer experience with digital engagement, messaging, and AI-driven automation. In 2020, Infosys joined LivePerson's network with a first-of-its-kind 360-degree partnership focusing not only on capturing the global rising demand for conversational commerce and building a personalized experience for customers, but also driving the transformation for internal corporate messaging and the employee experience through Conversational AI. LivePerson increased the number of partners focused on SMBs to more than 300 at year-end 2020 and 2019, from over 150 at year-end 2018, and approximately 40 at the end of 2017. Approximately one quarter of all opportunities were influenced by partners in 2020, and we are focused on driving that contribution toward 50% longer term.

**Maintain 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. 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.

**Evaluate 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 designed to 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 March 31, 2021 compared to the three months ended March 31, 2020:

- Total revenue increased 38% to \$107.9 million from \$78.1 million.
- Revenue from our Business segment increased 38% to \$98.9 million from \$71.8 million.
- Gross profit margin decreased to 69% from 71%.
- Cost and expenses increased 9% to \$121.5 million from \$111.3 million.
- Net loss decreased to \$21.2 million from \$37.0 million.
- Average annual revenue per enterprise and mid-market customer increased approximately 34% to \$490,000 for the trailing-twelve-months ended March 31, 2021, as compared to \$365,000 for the trailing-twelve-months ended March 31, 2020.
- Our target for enterprise and mid-market revenue retention in 2021 matches 2020, and is a range of 105% to 115%. Revenue retention rate for enterprise and mid-market customers on the Conversation Cloud in the first quarter of 2021 exceeded the high end of our target range of 105% to 115%, and was within our target range of 105% to 115% in the first quarter of 2020. Revenue retention rate measures the percentage of revenue retained at quarter end, from full service customers that were on the Conversational Cloud at the same period a year ago.

### Adjusted EBITDA and Adjusted Operating Income (Loss)

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

We have included adjusted EBITDA and adjusted operating 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 operating 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 operating 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 impact of acquisition costs;
- adjusted EBITDA does not consider the impact of restructuring costs;
- adjusted EBITDA does not consider the impact of other 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.

	Three Months Ended March 31,	
	2021	2020
<b>Reconciliation of Adjusted EBITDA</b>		
GAAP net loss	\$ (21,195)	\$ (37,001)
Amortization of purchased intangibles	1,550	689
Stock-based compensation	14,611	14,695
Contingent earn-out adjustments	132	(263)
Restructuring costs	2,732 (1)	3,190 (1)
Depreciation and amortization	6,605	5,537
Other litigation and consulting costs	1,347 (2)	4,708 (2)
(Benefit from) Provision for income taxes	(851)	352
Interest expense, net	9,129	2,791
Other (income) expense, net	(712) (3)	667 (3)
Adjusted EBITDA (loss)	<u>\$ 13,348</u>	<u>\$ (4,635)</u>

(1) Includes severance costs of \$2.4 million and other lease restructuring costs of \$0.3 million for the three months ended March 31, 2021. Includes severance costs and other compensation related costs of \$3.2 million for the three months ended March 31, 2020.

(2) Includes litigation costs of \$1.2 million and consulting costs of \$0.1 million for the three months ended March 31, 2021. Includes sales tax liability of \$2.3 million, litigation costs of \$1.2 million, employee benefit cost of \$0.8 million and consulting costs of \$0.4 million for the three months ended March 31, 2020.

(3) Includes financial income (expense) which is attributable primarily to currency rate fluctuations.

Our use of adjusted operating 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 operating income does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted operating income does not consider the impact of acquisition costs;
- adjusted operating income does not consider the impact of restructuring costs;
- adjusted operating income does not consider the impact of other costs;
- other companies, including companies in our industry, may calculate adjusted operating income differently, which reduces its usefulness as a comparative measure.

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

Reconciliation of Adjusted Operating Income (Loss)	Three Months Ended March 31,	
	2021	2020
Loss before provision for income taxes	\$ (22,046)	\$ (36,649)
Amortization of purchased intangibles	1,550	689
Stock-based compensation	14,611	14,695
Restructuring costs	2,732 (1)	3,190 (1)
Other litigation and consulting costs	1,347 (2)	4,708 (2)
Contingent earn-out adjustments	132	(263)
Interest expense, net	9,129	2,791
Other (income) expense, net	(712) (3)	667 (3)
Adjusted operating income (loss)	<u>\$ 6,743</u>	<u>\$ (10,172)</u>

(1) Includes severance costs of \$2.4 million and other lease restructuring costs of \$0.3 million for the three months ended March 31, 2021. Includes severance costs and other compensation related costs of \$3.2 million for the three months ended March 31, 2020.

(2) Includes litigation costs of \$1.2 million and consulting costs of \$0.1 million for the three months ended March 31, 2021. Includes sales tax liability of \$2.3 million, litigation costs of \$1.2 million, employee benefit cost of \$0.8 million and consulting costs of \$0.4 million for the three months ended March 31, 2020.

(3) Includes financial income (expense) which is attributable primarily to currency rate fluctuations.

### **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 our revenue is generated from monthly service revenues and related professional services from the sale of our 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. 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.

We determine 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, we satisfy a performance obligation.

Total revenue of \$107.9 million and \$78.1 million was recognized for the three months ended March 31, 2021 and 2020, respectively.

Under Topic 606, we defer all incremental commission costs to obtain the contract (contract acquisition costs). The contract acquisition costs consist of prepaid sales commissions and have balances as of March 31, 2021 and December 31, 2020 of \$40.9 million and \$41.0 million, respectively. We amortize these costs over the related period of benefit using the expected life of the customer contract, which we determine to be three to five years, consistent with the transfer to the customer of the services to which the asset relates. We classify contract acquisition costs as long-term unless they have an original amortization period of one year or less.

#### *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 the Conversational Cloud, 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 Conversational Cloud 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 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 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 its 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 Gainshare (formerly “Pay for Performance”) arrangements in accordance with ASC-606, “Principal Agent Considerations,” we act as a principal in a transaction if we control the specified goods or services before they are transferred to the customer.

Revenue attributable to our monthly hosted Business services accounted for 78% of total revenue for the three months ended March 31, 2021 and 2020.

#### *Professional Services Revenues*

Professional Services Revenues 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 Conversational Cloud 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 time and materials 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.

Revenue attributable to professional services accounted for 14% of total revenue for the three months ended March 31, 2021 and 2020.

#### *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,” primarily because the Expert is the primary obligor. We do not act as a principal in a transaction since we do not control the specified goods or services before they are transferred to the customer. Additionally, we perform as an agent without any risk of loss for collection, and we are not involved in selecting the Expert or establishing the Expert’s fee. We collect a fee from the consumer and retain a portion of the fee, and then remit the balance to the Expert. Revenue from these transactions is recognized at the point in time when the transaction is complete and no significant performance obligations remain.

Revenue from our Consumer segment accounted for approximately 8% of total revenue for the three months ended March 31, 2021 and 2020, respectively.

#### *Remaining Performance Obligation*

As of March 31, 2021, the aggregate amount of the total transaction price allocated in contracts with original duration of greater than one year to the remaining performance obligations was \$330.6 million. Approximately 90% of our remaining performance obligations is expected to be recognized during the next 24 months, with the balance recognized thereafter. The aggregate balance of unsatisfied performance obligations represents contracted revenue that has not yet been recognized, and does not include contract amounts that are cancellable by the customer, amounts associated with optional renewal periods, and any amounts related to performance obligations, which are billed and recognized as they are delivered. We have elected the optional exemption, which allows for the exclusion of the amounts for remaining performance obligations that are part of

contracts with an original expected duration of one year or less. Such remaining performance obligations represent unsatisfied or partially unsatisfied performance obligations pursuant to ASC 606.

#### *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.

#### *Deferred Revenues*

We record deferred revenues when cash payments are received or due in advance of our performance. The increase of \$19.7 million in deferred revenue balance for the quarter ended March 31, 2021 from the deferred revenue balance of \$89.3 million for the year ended December 31, 2020 is primarily driven by cash payments received or due in advance of our performance obligations, partially offset by \$46.7 million revenues recognized that were included in the deferred revenue balance as of December 31, 2020.

#### *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.

Our forfeiture rate assumptions, which estimate the share-based awards that will ultimately vest, requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period of change and could be materially different from share-based compensation expense recorded in prior periods.

For the three months ended March 31, 2021 and 2020, we accrued approximately \$5.3 million and \$3.7 million in cash awards respectively, to be settled in shares of our stock and recorded a corresponding expense, which is included as a component of stock-based compensation expense in the accompanying condensed consolidated financial statements for the three months ended March 31, 2021 and 2020, respectively.

For the three months ended March 31, 2021 and in the comparable period in 2020, there was approximately \$17.6 million and \$18.1 million, respectively, of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of approximately 2.5 years. As of March 31, 2021 and as of March 31, 2020, there was approximately \$65.7 million and \$79.7 million, respectively, of total unrecognized compensation cost related to nonvested restricted stock units. That cost is expected to be recognized over the remaining weighted average period of approximately 2.5 years and 3.2 years, respectively.

#### *Accounts Receivable*

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, if we experience a significant write-off from one of our large customers, it could have a material adverse impact on our consolidated financial statements. No single customer accounted for or exceeded 10% of our total revenue in the three months ended March 31, 2021 and in the comparable period of 2020. No single customer accounted for or exceeded 10% of our total accounts receivable as of March 31, 2021. No customer accounted for or exceeded 10% of our total accounts receivable in 2020. During the three months ended March 31, 2021, we increased our allowance for doubtful accounts from \$5.3 million as of December 31, 2020 to approximately \$5.4 million. A large proportion of receivables are due from larger corporate customers that typically have longer payment cycles. Accounts

receivable is presented net of an allowance for doubtful accounts and sales reserve of \$5.4 million and \$2.7 million as of March 31, 2021, respectively, and \$5.3 million and \$3.4 million as of December 31, 2020, respectively.

An allowance for doubtful accounts is established for losses expected to be incurred on accounts receivable balances. Judgment is required in the estimation of the allowance and we evaluate the collectability of our accounts receivable based on a combination of factors. If we become aware of a customer's inability to meet its financial obligations, a specific allowance is recorded to reduce the net receivable to the amount reasonably believed to be collectible from the customer. For all other customers, we use an aging schedule and recognize allowances for doubtful accounts based on the creditworthiness of the debtor, the age and status of outstanding receivables, the current business environment and our historical collection experience adjusted for current expectations for the customer or industry. Accounts receivable are written off against the allowance for uncollectible accounts when we determine amounts are no longer collectible.

### *Goodwill*

Goodwill represents the excess of the aggregate purchase price over the fair value of net identifiable assets acquired in a business combination. Goodwill is not amortized and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We have determined that the Company operates as two reporting units and have selected September 30 as the date to perform our annual impairment test. In the valuation of goodwill, management must make assumptions regarding estimated future cash flows to be derived from our business. If these estimates or their related assumptions change in the future, we may be required to record impairment for these assets.

We have the option to first perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. However, we may elect to bypass the qualitative assessment and proceed directly to the quantitative impairment tests. The impairment test involves comparing the fair value of the reporting unit to its carrying value, including goodwill. A goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value. The impairment is limited to the carrying amount of goodwill.

No goodwill impairment charges have been recorded for any period presented.

### *Impairment of Long-Lived Assets*

The carrying amounts of our long-lived assets, including property and equipment, lease right-of-use assets, capitalized internal-use software, costs to obtain customer contracts, and acquired intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful lives are shorter than originally estimated. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future undiscounted net cash flows the asset is expected to generate over its remaining life. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. If the useful life is shorter than originally estimated, we amortize the remaining carrying value over the new shorter useful life. There was a loss on disposal of approximately \$5.1 million in October 2020. Accelerated depreciation was recognized for fixed assets that were determined to no longer be of future economic benefit based on the decision to vacate certain leased office space.



## *Income Taxes*

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are expected to become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. The Company includes interest accrued on the underpayment of income taxes in interest expense and penalties, if any, related to unrecognized tax benefits in general and administrative expenses. The Company recorded a valuation allowance against its U.S. deferred tax asset as it considered its cumulative loss in recent years as a significant piece of negative evidence. Since valuation allowances are evaluated on a jurisdiction by jurisdiction basis, we believe that the deferred tax assets related to LivePerson Australia, LivePerson UK, Kasamba Israel, LivePerson Japan and LivePerson Ltd. Israel are more likely than not to be realized as these jurisdictions have positive cumulative pre-tax book income after adjusting for permanent and one-time items. During the year ended December 31, 2020, there was an increase in the valuation recorded of \$6.9 million. For the quarter ended March 31, 2021, the Company recorded a tax benefit of \$0.9 million. This amount consisted of a tax provision for the period of \$0.6 million on operating earnings for the period, and a tax benefit of \$1.5 million related to revision of estimates for uncertain tax benefits related to Kasamba Israel and Liveperson Ltd. Israel deferred tax assets.

The Company had a valuation allowance on certain deferred tax assets for the years ended December 31, 2019 and December 31, 2020 of \$48.5 million and \$55.4 million, respectively. Inherent in the Company's 2021 annual effective tax rate is an estimated increase in the valuation allowance of \$20.7 million, all of which will be recorded as an expense. During 2020, an increase in the valuation allowance in the amount of \$35.1 million was recorded as an expense and a decrease of \$28.2 million related to convertible notes was charged to equity. In 2019, an increase in the valuation allowance in the amount of \$25.0 million was recorded as an expense and a decrease of \$6.7 million related to the issuance of convertible notes was charged to equity.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law making several changes to the Internal Revenue Code. The changes include, but are not limited to: increasing the limitation on the amount of deductible interest expense, allowing companies to carryback certain net operating losses, and increasing the amount of net operating loss carryforwards that corporations can use to offset taxable income. As a result of the CARES Act, the Company filed refund claims relating to prior years totaling \$0.6 million.

## *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 14, "Legal Matters", in the Notes to the Condensed Consolidated Financial Statements under Item 8 of this Quarterly Report on Form 10-Q for additional information on our legal proceedings and litigation.

## *Recently Issued Accounting Standards*

See Note 1, "Description of Business and Basis of Presentation" in the Notes to the Condensed Consolidated Financial Statements for a full description of recently issued accounting standards.

### Recently Adopted Accounting Pronouncements

See Note 1, “Description of Business and Basis of Presentation” in the Notes to the Condensed Consolidated Financial Statements for a full description of recently adopted accounting pronouncements.

### 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 March 31,	
	2021	2020
	(in thousands)	
Stock-based compensation expense	\$ 14,611	\$ 14,695

### 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 the Conversational Cloud’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 Experts and Users seeking information and knowledge for a fee via mobile and online messaging.

The following tables set forth our results of operations for the periods presented and as a percentage of our revenues for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

Comparison of the Three Months Ended March 31, 2021 and 2020

Revenue

	Three Months Ended March 31,		
	2021	2020	% Change
	(in thousands)		
Revenue by Segment:			
Business	\$ 98,880	\$ 71,848	38 %
Consumer	9,011	6,240	44 %
Total	\$ 107,891	\$ 78,088	38 %

Business revenue increased by 38% to \$98.9 million in the three months ended March 31, 2021 from \$71.8 million in the comparable periods in 2020. The increase in B2B revenue during the three months ended March 31, 2021 is driven mainly by year-over-year increase in hosted services of \$21.9 million and in professional services of \$5.1 million. Included in hosted services is an increase in revenue that is variable based on interaction and usage of approximately \$7.1 million.

The increase in Business revenue was driven in nearly equal parts by existing and new customers as LivePerson generated greater demand for its Conversational Commerce software and Gainshare (formerly “Pay for Performance”) solutions. In the wake of the COVID-19 pandemic, leading brands are turning to LivePerson’s AI-powered messaging to overcome a capacity gap created by voice call agent work-from-home measures and increased demand for digital engagement as consumers practice social distancing. LivePerson is powering Conversational AI, automation and messaging strategies across a growing number of use cases from care and sales, to marketing, social, conversational advertising and brick and mortar. As adoption increases, we are seeing higher revenue per customer. Our average annual revenue per enterprise and mid-market customer increased approximately 34% year over year to \$490,000 in the trailing three months ended March 31, 2021, as compared to \$365,000 for the trailing twelve months ended March 31, 2020. Similarly, we are seeing strong revenue retention rates. Revenue retention for our enterprise and mid-market customers on Conversational Cloud in the first quarter of 2021 exceeded the high end of our target range of 105% to 115%, and was within our target range of 105% to 115% in the first quarter of 2020.

Consumer revenue increased by 44% to \$9.0 million in the three months ended March 31, 2021 from \$6.2 million in the comparable period in 2020. This improvement was driven by an increasingly effective user value and higher demand by consumers to engage with experts and advisors through conversational messaging channels.

Cost of Revenue - Business

Cost of revenue - business 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 March 31,		
	2021	2020	% Change
	(\$ in thousands)		
Cost of revenue - business	\$ 31,610	\$ 21,345	48 %
Percentage of total revenue	29 %	27 %	
Headcount (at period end):	251	250	— %

Cost of revenue - business increased by 48% to \$31.6 million in the three months ended March 31, 2021, from \$21.3 million in the comparable period in 2020. This increase in expense is primarily attributable to business services and outsourced subcontracted labor of approximately \$6.6 million driven by Health and Gainshare (formerly “Pay for Performance”) services, which power Conversational Commerce programs on behalf of customers. The Company also recognized an increase in expenses for backup server facilities of approximately \$2.4 million, in amortization expense of approximately \$0.3 million, an increase in salary and employee related expenses of approximately \$0.8 million.

### Cost of Revenue - Consumer

Cost of revenue - consumer 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 March 31,		
	2021	2020	% Change
	(\$ in thousands)		
Cost of revenue - consumer	\$ 1,909	\$ 1,475	29 %
Percentage of total revenue	2 %	2 %	
Headcount (at period end)	24	15	60 %

Cost of revenue - consumer increased by 29% to \$1.9 million in the three months ended March 31, 2021 from \$1.5 million in the comparable period in 2020. This increase in expense is primarily related to an increase in salary and employee related expenses of approximately \$0.3 million and in credit card processing fees of approximately \$0.2 million.

### Sales and Marketing - Business

Sales and marketing - business 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 March 31,		
	2021	2020	% Change
	(\$ in thousands)		
Sales and marketing - business	\$ 30,203	\$ 37,469	(19)%
Percentage of total revenue	28 %	48 %	
Headcount (at period end):	312	357	(13)%

Sales and marketing - business expenses decreased by 19% to \$30.2 million in the three months ended March 31, 2021 from \$37.5 million in the comparable period in 2020. This variance was primarily attributable to a decrease in salary and related employee expenses of approximately \$3.9 million, a decrease in business services of approximately \$2.2 million, a decrease in marketing expense of approximately \$0.8 million, a decrease in backup server facilities of approximately \$0.3 million, and a decrease in depreciation expense of approximately \$0.1 million. These decreases were partially offset in part by an increase in recruiting expenses of approximately \$0.1 million.

The Company has been able to adjust its marketing and hiring efforts to account for the impact of the COVID-19 pandemic. Additionally, we have adapted our marketing strategy to include targeted digital experiences that emphasize the unique positioning of our messaging and AI offerings to help brands succeed in this new environment. Our marketing message has shifted to include business continuity and virtualization of the contact center in addition to business improvement.

### Sales and Marketing - Consumer

Sales and marketing - consumer 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 March 31,		
	2021	2020	% Change
	(\$ in thousands)		
Sales and marketing - consumer	\$ 6,750	\$ 5,211	30 %
Percentage of total revenue	6 %	7 %	
Headcount (at period end):	19	18	6 %

Sales and marketing - consumer expenses increased by 30% to \$6.8 million in the three months ended March 31, 2021 from \$5.2 million in the comparable period in 2020. This increase is primarily attributable to an increase in marketing expense of approximately \$1.1 million and in business services expense of approximately \$0.5 million.

### 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 March 31,		
	2021	2020	% Change
	(\$ in thousands)		
General and administrative	\$ 14,486	\$ 16,469	(12)%
Percentage of total revenue	13 %	21 %	
Headcount (at period end):	111	146	(24)%

General and administrative expenses decreased by 12% to \$14.5 million in the three months ended March 31, 2021 from \$16.5 million in the comparable period in 2020. This is primarily related to a decrease in facilities of approximately \$2.6 million and in salary and employee related expenses of approximately \$1.7 million. These decreases were offset in part by an increase in business services and outsourced labor of approximately \$1.7 million, an increase in taxes of \$0.4 million, and an increase in insurance expense of \$0.2 million.

General and administrative expense as a percentage of revenue has decreased primarily as a result our continued deferral of hiring, outside of core growth areas, as our internal automation initiatives have enhanced employee productivity. Additionally, the reduction in rent expense after officially transitioning to a “work from home” model in the three month period ended March 31, 2021, also contributed to the decrease.

### 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 March 31,		
	2021	2020	% Change
	(\$ in thousands)		
Product development	\$ 33,455	\$ 25,716	30 %
Percentage of total revenue	31 %	33 %	
Headcount (at period end):	501	445	13 %

Product development costs increased by 30% to \$33.5 million in the three months ended March 31, 2021 from \$25.7 million in the comparable period in 2020. This is primarily related to an increase in salaries and employee related expenses of approximately \$5.6 million, in business services and outsourcing subcontracted labor of approximately \$1.8 million, in depreciation expense of approximately \$1.0 million, and in credit card processing and bank fees of \$0.2 million. This was partially offset by a decrease of approximately \$0.8 million in facilities expenses. We made investments in public cloud migration, and in enhancing and expanding new features of the Conversational Cloud. Also, we invested in hiring more data scientists and machine learning engineers to focus on Conversational AI.

We continue to invest in new product development efforts to expand the capability of Conversational Cloud. In accordance with ASC 350-40 - “Internal-Use Software,” as new projects are initiated that provide functionality to the Conversational Cloud platform, the associated development and employee costs will be capitalized. Upon completion, the project costs will be depreciated over five years. In the three months ended March 31, 2021, \$8.2 million was capitalized, compared to \$7.6 million in the comparable periods in 2020.

### Restructuring Costs

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

	Three Months Ended March 31,		
	2021	2020	% Change
	(\$ in thousands)		
Restructuring costs	\$ 2,732	\$ 3,190	(14)%
Percentage of total revenue	3 %	4 %	

Restructuring costs decreased by 14% to approximately \$2.7 million during the three months ended March 31, 2021 from \$3.2 million in the comparable period in 2020. The restructuring cost for the three months ended March 31, 2021 was a result of our partnership with Infosys to transform our technology infrastructure on the public cloud, to build integrated solutions and a global practice around our Conversational Cloud, and to redefine how brands communicate. This variance was primarily attributable to an increase in restructuring costs related to lease abandonment, along with severance and other compensation costs. The restructuring cost for three months ended March 31, 2020 was attributed to severance and associated costs associated with re-prioritizing and reallocating resources on areas believed to show high growth potential.

#### *Amortization of Purchased Intangibles*

	Three Months Ended March 31,		
	2021	2020	% Change
	(\$ in thousands)		
Amortization of purchased intangibles	\$ 375	\$ 405	(7)%
Percentage of total revenues	— %	1 %	

Amortization expense for purchased intangibles decreased by 7% to \$0.4 million in the three months ended March 31, 2021 from \$0.4 million in the comparable period in 2020.

Additional amortization expense in the amount of \$1.2 million and \$0.3 million in the three months ended March 31, 2021 and 2020 is included in cost of revenue.

#### *Other Expense (Income), net*

Other expense (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 March 31,		
	2021	2020	% Change
	(\$ in thousands)		
Interest expense	(9,129)	(2,791)	227 %
Other income (expense)	712	(667)	(207)%
Other expense, net	\$ (8,417)	\$ (3,458)	143 %

Other expense increased to \$8.4 million in the three months ended March 31, 2021, respectively, from other expense of \$3.5 million in the comparable periods in 2020 due to interest expense attributable to the 0.750% Convertible Senior Notes due 2024 (the “2024 Notes”) and the Convertible Senior Notes due 2026 (the “2026 Notes”) and, together with the 2024 Notes, the “Notes”), partially offset by interest income on cash and cash equivalents and financial income which is attributable to currency rate fluctuations.

#### *(Benefit from) Provision For Income Taxes*

	Three Months Ended March 31,		
	2021	2020	% Change
	(\$ in thousands)		
(Benefit from) Provision for income taxes	\$ (851)	\$ 352	(342)%

Benefit from provision for income taxes was \$0.9 million in the three months ended March 31, 2021, and provision for income taxes was \$0.4 million in the three months ended March 31, 2020, respectively. Our consolidated effective tax rate was impacted by the statutory income tax rates applicable to each of the jurisdictions in which we operate.

The tax benefit of \$0.9 million for the period was made up of a tax provision of \$0.6 million on operating earnings for the period, and a tax a benefit of \$1.5 million related to revision of estimates for uncertain tax benefits related to Kasamba Israel and Liveperson Ltd. Israel deferred tax assets.

#### Net Loss

We had a net loss of \$21.2 million in the three months ended March 31, 2021 compared to a net loss of \$37.0 million for the three months ended March 31, 2020. During the three months ended March 31, 2021, there were increases in revenue of approximately \$29.8 million, increases in operating expenses of approximately \$10.2 million, increase in other (expense) income, net of approximately \$5.0 million, and decrease in provision for income taxes of approximately \$1.2 million.

#### Liquidity and Capital Resources

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
<b>Consolidated Statements of Cash Flows Data:</b>		
Cash flows provided by operating activities	\$ 25,229	\$ 4,293
Cash flows used in investing activities	(11,437)	(11,030)
Cash flows provided by financing activities	3,015	3,098

As of March 31, 2021, we had approximately \$668.2 million in cash and cash equivalents, an increase of approximately \$14.1 million from December 31, 2020. The increase is primarily attributable to cash flows provided by financing activities related to issuance of common stock in connection with exercise of options and ESPP and an increase in operating activities.

Net cash provided by operating activities was \$25.2 million for the three months ended March 31, 2021. Our net loss of \$21.2 million was offset by non-cash expenses: stock-based compensation of \$14.6 million; depreciation and amortization of \$6.6 million; an increase in deferred revenue of \$21.6 million and accrued expenses of \$17.2 million. This was partially offset by increases in accounts receivable of \$13.7 million and prepaid expenses of 5.8 million. Net cash provided by operating activities of \$4.3 million for the three months ended March 31, 2020. Our net loss of \$37.0 million was offset by non-cash expenses: stock-based compensation of \$14.7 million; depreciation and amortization of \$5.5 million; and a decrease in accounts receivable of \$24.1 million.

Net cash used in investing activities was \$11.4 million in the three months ended March 31, 2021 and consisted primarily of the purchase of fixed assets for our co-location facilities and capitalization of internally developed software. Net cash used in investing activities was \$11.0 million in the three months ended March 31, 2020 and consisted primarily of the purchase of fixed assets for our co-location facilities and capitalization of internally developed software.

Net cash provided by financing activities was \$3.0 million in the three months ended March 31, 2021, consisting primarily of proceeds from issuance of common stock in connection with the exercise of stock options by employees. Net cash provided by financing activities was \$3.1 million in the three months ended March 31, 2020 and consisted primarily of proceeds from issuance of common stock in connection with the exercise of stock options by employees.

We have incurred significant expenses to develop our technology and services, to hire employees in our customer service, sales, marketing and administration departments, and for the amortization of purchased intangible assets, as well as non-cash compensation costs. Historically, we 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 March 31, 2021, we had an accumulated deficit of approximately \$413.1 million.

In response to the COVID-19 pandemic, we have undertaken a re-evaluation of our real estate needs. In connection with this re-evaluation, and the success we have had working remotely for the past several months, we have significantly reduced the real estate space we lease. This will likely result in various one-time cash expenses in connection with early termination of some or all of our leases.

Our principal sources of liquidity are the net proceeds from the issuance of our convertible senior notes, after deducting purchaser discounts and debt issuance costs paid by us, issuance of common stock in connection with the exercise of options, and payments received from customers using our products. 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 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.

#### Off-Balance Sheet Arrangements

We do not engage in off-balance sheet financing arrangements.

### 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 March 31, 2021, the U.S. dollar depreciated by approximately 5% as compared to the NIS. During the three months ended March 31, 2021, expenses generated by our Israeli operations totaled approximately \$19.8 million. 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 Pound Sterling; the functional currency of our operations in the Netherlands, Germany, France and Italy 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 Risks*

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 three months ended March 31, 2021, our allowance for doubtful accounts increased by \$0.1 million to approximately \$5.4 million. During the three months ended March 31, 2020, we increased our allowance for doubtful accounts by \$0.5 million to approximately \$3.6 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 the applicable recorded allowance when we have exhausted collection efforts without success. We adjust our allowance for doubtful accounts when accounts previously reserved have been collected.

An allowance for doubtful accounts is established for losses expected to be incurred on accounts receivable balances. Judgment is required in the estimation of the allowance and we evaluate the collectability of our accounts receivable and contract assets based on a combination of factors. If we become aware of a customer’s inability to meet its financial obligations, a specific allowance is recorded to reduce the net receivable to the amount reasonably believed to be collectible from the customer. For all other customers, we use an aging schedule and recognize allowances for doubtful accounts based on the creditworthiness of the debtor, the age and status of outstanding receivables, the current business environment and our historical collection experience adjusted for current expectations for the customer or industry. Accounts receivable are written off against the allowance for uncollectible accounts when we determine amounts are no longer collectible.

#### *Interest Rate Risk*

Our investments consist of cash and cash equivalents. Therefore, changes in market 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 March 31, 2021. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2021 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 March 31, 2021 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. (“[24]7”) 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. 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 is set for May 24, 2021. Trial for [24]7’s patent infringement claims has been vacated, to be reset after the trial on our claims. We believe the claims filed by [24]7 are entirely 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 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, 2020, filed on March 8, 2021, 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*

There were no unregistered sales of equity securities by the issuer during the three months ended March 31, 2021.

##### *Purchase of Equity Securities by the Issuer*

There were no repurchases of equity securities by the issuer during the three months ended March 31, 2021.

#### Item 3. Defaults Upon Senior Securities

None.

#### Item 4. Mine Safety Disclosures

None.

#### Item 5. Other Information

None.

ITEM 6. EXHIBITS

31.1	*	<a href="#">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</a>
31.2	*	<a href="#">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</a>
32.1	**	<a href="#">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</a>
32.2	**	<a href="#">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</a>
101.INS	*	Inline XBRL Instance Document -- The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	*	Inline XBRL Taxonomy Extension Schema Document
101.CAL	*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	*	Cover Page Interactive Data File (formatted as Inline XBRL)

\* Filed herewith

\*\* Furnished herewith

**SIGNATURES**

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

**LIVEPERSON, INC.**  
(Registrant)

Date: May 7, 2021

By: /s/ ROBERT P. LOCASCIO  
Name: Robert P. LoCascio  
Title: Chief Executive Officer (principal executive officer)

Date: May 7, 2021

By: /s/ JOHN D. COLLINS  
Name: John D. Collins  
Title: Chief Financial Officer (principal financial officer)

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: May 7, 2021

By: /s/ ROBERT P. LOCASCIO

Name: Robert P. LoCascio

Title: Chief Executive Officer (principal executive officer)

## CERTIFICATIONS

I, John Collins, 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: May 7, 2021

By: /s/ John Collins

Name: John Collins

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 March 31, 2021, 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: May 7, 2021

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, John Collins, 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 March 31, 2021, 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: May 7, 2021

By: /s/ John Collins

Name: John Collins

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.*