QuickLinks -- Click here to rapidly navigate through this document

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☒

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

For the fiscal year ended December 31, 2001
Commission File Number 000-30141

LIVEPERSON, INC.

(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	**13-3861628** (IRS Employer Identification No.)
462 Seventh Avenue, 21st Floor 10018 **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: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $0.001 per share

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of March 15, 2002 was $6,605,794 (based on the last reported sale price on the Nasdaq National Market on that date). The registrant does not have any non-voting common stock outstanding. On March 15, 2002, 33,983,381 shares of the registrant's common stock were outstanding.

Portions of the registrant's definitive proxy statement for the 2002 Annual Meeting of Stockholders, to be filed not later than April 30, 2002, are incorporated by reference into Items 10, 11, 12 and 13 of Part III of this Form 10-K.

LIVEPERSON, INC.

2001 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

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

PART I

ITEM 1. BUSINESS

Overview

LivePerson is a provider of technology that facilitates real-time sales and customer service for companies doing business on the Internet. We change the way Web site owners communicate with Internet users by enabling live text-based chat, email support, document management and frequently asked questions (FAQ) software. Historically, Internet users have had limited ways to communicate with online businesses to inquire about matters such as product features, transaction security and shipping details. The LivePerson services enable our clients to communicate with Internet users in a variety of ways, including principally via text-based chat. They can respond to these and other Internet user inquiries in real time, and can thereby enhance online shopping and customer service experiences.

Our services are comprised of LivePerson Chat (our text-based chat service) and LivePerson Exchange (a combination of document management, email and FAQ services), offering our clients additional opportunities to interact with Internet users.

We are an application service provider, and we offer our proprietary real-time interaction technologies as outsourced services. Our technologies require limited software and no hardware installation by our clients or Internet users. Upgrades to our services require little effort on our clients' part, because the services are hosted on servers managed by LivePerson. We also offer our clients the ability to add capacity upon request.

Based on feedback received from our clients, we believe that our services offer our clients the opportunity to increase sales by answering Internet user questions and solving Internet user problems at critical points in the buying process. They also enable our clients to reduce customer service costs by allowing them to enhance operating efficiency and to improve Internet user response times. Furthermore, information captured in transcripts of live text-based interactions can be used by our clients to increase their responsiveness to Internet user needs and preferences, thereby improving Internet user satisfaction, loyalty and retention.

We currently have more than 3,000 clients, including numerous online retailers, financial service providers and traditional offline businesses with a Web presence. Our largest clients in 2001 included American Power Conversion, Ameritrade, EarthLink, Kinko's, Neiman Marcus and QVC.

We were incorporated in the State of Delaware in November 1995; however, we did not commence operations until January 1996. We introduced the LivePerson services in November 1998.

Industry Background

The Internet is evolving from primarily a static information source to a widely accepted medium for commerce. Competition among online businesses is intense, with new companies launching commercial Web sites every day. The number of online shoppers also continues to increase rapidly. There are more than

67 million online shoppers today, according to a Jupiter Media Metrix report published in February 2002, and this number is expected to nearly double to 132 million over the next four years.

To compete effectively in this environment, online businesses are increasingly striving to provide high quality service to attract and retain customers. This increased focus is in turn leading to heightened expectations for online service by Internet users. Whether to ask questions about product features or transaction security, or to get help with completing an online application, Internet users today expect effective, real-time answers. Companies that do not provide this level of service risk losing customers to competitors. Online customer service providers are particularly well-suited to support growing demand for effective service. Online customer service contacts (defined as the number of times an online user interacts with a customer service or sales representative via email, chat or other electronic means) are expected to grow from 870 million in 2001 to nearly 5 billion in 2006, according to Jupiter Media Metrix.

Companies are also increasingly focused on gathering information to improve responsiveness and increase the rate of conversion from Web site visitor to buyer. Online shoppers have many purchasing options, with easy access to competitive pricing, feature and distribution information. In this environment, online businesses that collect substantial information about Internet users are better able to serve them effectively. Internet user feedback provides Web site owners with input on product and service offerings, preferences and Web site usability.

The LivePerson Solution

LivePerson is a provider of technology that facilitates real-time sales and customer service for companies doing business on the Internet. We are an application service provider offering this technology as an outsourced service to companies of all sizes. Our technology enables our clients to interact with customers in real-time at the user's request through live text-based chat or to provide answers to routine customer inquiries using a searchable knowledge base of FAQs. This improves Web site communication and enhances the online shopping experience. LivePerson's services also enable site monitoring and proactive interaction capabilities that create an online experience very much like a traditional offline sales or service environment, by enabling clients to welcome Web site visitors, share marketing or promotional information with them, and engage them in conversation, all within the feature set of the LivePerson solution.

To implement our text-based chat, email and FAQ services, our clients simply place a LivePerson-branded or custom-created icon on one or more pages of their Web sites and give their operators access to our service via the Internet. When an Internet user browsing a client's Web site desires live text-based assistance, the user simply clicks on the icon. This causes a pop-up dialogue window to appear on the user's screen. The Internet user and our client's operator then engage in a real-time online conversation in this dialogue window. The operator may incorporate graphics and links to Web pages into the dialogue window. Our service enables this live conversation by linking the Internet user

---

and our clients' operators through our proprietary technology, which resides on our servers. Our clients may also have their customer service operators proactively engage in chat conversations with their customers, or provide customized marketing or promotional information directly to those customers.

We create and store conversation transcripts and related data, and we also enable our clients to generate optional Internet user exit surveys, which our clients can use to collect additional information about Internet users. Stored data includes the Internet user's name, browser type, Internet Protocol (IP) address and responses to exit surveys, the operator's identity and time stamps for each chat transmission. In addition, we provide our clients with tools to analyze the stored information. These tools include summary reports of the number of chats in certain periods and the duration of such chats, filters to sort data from exit surveys, statistical summaries of those data and statistical summaries of operator performance. These administrative functions are designed to help our clients replicate traditional call center and sales support tools in an online environment.

We believe the LivePerson services give our clients the opportunity to:

- *Maximize Sales Opportunities.* Our clients are able to respond to Internet user inquiries in real-time. Live interaction with Internet users creates opportunities to:
  - answer questions on demand and resolve Internet user issues as they occur;
  - assist in closing sales that might otherwise have been abandoned without direct one-to-one real-time interaction; and
  - market additional products and services in order to increase average order sizes.
- *Strengthen Relationships with Internet Users.* Personalized service generates increased Internet user satisfaction. Our service enables our clients to build relationships with Internet users and offers our clients the opportunity to market to Internet users on a one-to-one basis. Furthermore, transcripts from LivePerson conversations and optional exit surveys often provide relevant Internet user data and valuable real-time feedback. Our clients may then use this information to modify product offerings and marketing efforts, improve Web site navigation and refine their FAQ listings. In addition, our clients' experience has shown that Internet users, when visiting a Web site, are time-sensitive and desire real-time information and support; our services are designed to maximize our clients' ability to respond rapidly to customer demands.
- *Reduce Operating Costs.* Our clients' experience has shown that a single operator can interact with as many as four users simultaneously. As a result, an operator can provide service to more Internet users, thereby reducing cost per interaction. In addition, our clients can create pre-formatted responses to Internet user questions, allowing them to improve response time and operator efficiency. An operator can simply choose or, where appropriate, slightly modify, a pre-formatted response to answer many questions.

Because we are an application service provider and provide our clients with a service rather than an in-house technology solution, we provide our clients with the following additional benefits:

- *Low Fees.* We charge our clients reasonable ongoing monthly fees. A reasonable set-up fee is also charged to certain of our larger clients who require more sophisticated implementation and training.

- *Effective Use of Internal Resources.* Because the LivePerson services are outsourced applications, our clients can devote their information technology resources to other priorities.

- *Rapid Deployment.* We provide the technology needed to facilitate real-time sales and customer service without customization. Our clients simply download a small client-side program over the Internet, and may immediately provide the LivePerson services to their end

users. Our clients' operators and Internet users can use our services with any standard Web browser.

- *Automatic Upgrades.* We install all upgrades to the LivePerson services on our servers. As a result, upgrades are immediately available for use and require only a minimal, menu-driven software upgrade for our clients, and no action by their customers. We provide additional training as and if required by the upgraded feature sets.

- *Ease of Expansion.* Our clients can add additional operator seats simply by requesting them, enabling the LivePerson services to meet our clients' growth needs.

Our Strategy

Our objective is to enhance our current position as a provider of real-time sales and customer service technology for companies doing business on the Internet. The key elements of our strategy include:

Strengthening our Position in Target Markets and Growing our Recurring Revenue Base. We intend to extend our market position by significantly increasing our installed client base. We plan to continue to focus primarily on financial services companies, internal corporate call centers and small businesses as our key target markets. We intend to capitalize on our growing base of existing clients by selling them additional seats and other services as Internet users are increasingly exposed to the benefits and functionality of live text-based interaction. Increasing our client base will enable us to continue to strengthen our recurring revenue stream. We also believe that greater exposure of Internet users to our services will create additional demand for real-time sales and customer service solutions.

Increasing the Value of our Service to our Clients. We strive to continuously add new features and functionality to our live interaction platform. Because we manage the server infrastructure, we can make new features available immediately to our clients without client or end-user installation of software or hardware. We currently offer a suite of reporting and administrative tools as part of our overall suite of services. We will continue to develop richer tools for appropriate sectors of our client base, while adding further interactive capabilities. We will also continue to develop additional services that will provide value to our clients. For example, we intend to provide more robust advisory services to our clients that enable improved reporting capabilities, data storage and bridges to existing client systems. Our clients may use these capabilities to increase productivity, manage call center staffing, develop one-to-one marketing tactics and pinpoint sales opportunities. Through these and other initiatives, we intend to increase the value of our services to clients and their reliance on its benefits, which we believe will result in additional revenue from both new and existing clients over time.

Continuing to Build Strong Brand Recognition. Our brand name is generally prominently displayed on the pop-up dialogue window that appears when an Internet user commences a text-based chat. In addition, our clients see our brand name when they log into our server infrastructure, which typically occurs on a daily basis, with many logged into our servers on a continuous basis. We believe that high visibility placement of our brand name will create greater brand awareness and increase demand for the LivePerson services. In addition, we intend to leverage increasing awareness of our brand and our reputation as a provider of real-time sales and customer service technology to become a well-recognized solution for companies doing business on the Internet.

Maintaining our Technological Leadership Position. We focus on the development of tightly integrated software design and network architecture that is both reliable and scalable. We continue to devote significant resources to technological innovation. Specifically, we plan to continue to expand the features and functionality of our existing services, develop broader applications for our services and create new products and services that will benefit our expanding client base. We evaluate emerging technologies and industry standards and continually update our technology in response to changes in

the real-time customer service industry. We believe that these efforts will allow us to effectively anticipate changing client and end-user requirements in our rapidly evolving industry.

Evaluating Strategic Alliances and Acquisitions where Appropriate. We intend to seek opportunities to form strategic alliances with or to acquire other companies that will enhance our business. In October 2000, we acquired HumanClick Ltd., an Israeli-based provider of real-time, on-line customer service applications to small- and mid-sized businesses. We have also entered into selected strategic alliances with third-party developers to provide complementary software services to existing clients, and may enter into additional alliances in the future. We have no present plans or commitments with respect to any strategic alliances or acquisitions and we are not currently engaged in any material negotiations with respect to these opportunities.

Expanding our International Presence. We have translated the user interface for the LivePerson services into a variety of languages, presently including Dutch, French, German, Italian, Portuguese, Spanish and Swedish. We are expanding our international presence to better penetrate these markets through partnerships in the United Kingdom, China, South Korea, Denmark and the Netherlands and are evaluating strategies to implement further international expansion.

The LivePerson Services

LivePerson Chat

The LivePerson Chat service appears on our clients' Web sites as a LivePerson-branded or custom-created icon. An Internet user browsing a client's Web site who desires assistance simply clicks on the icon, causing the LivePerson pop-up dialogue window to appear on the user's screen. An operator prompts the user with an offer of assistance, commencing a real-time text-based interaction. In many instances, pre-formatted responses are used to respond to Internet user inquiries.

LivePerson Chat provides the following features and benefits:

- *Real-time Text-Based Interaction.* Real-time text-based interaction is the communication vehicle between our clients' operators and Internet users. Text is currently the preferred method of communication because it requires no special plug-ins or hardware and it can be stored and analyzed.

- *LiveEngage.* Enables clients to automatically send a timed, context-sensitive message to a Web site visitor based on preset rules.

- *Image/Link/Page Presenter.* An operator may present photographs, images or links to other Web pages or sites in the dialogue window in response to Internet user queries. An operator may also "push" Web pages to an Internet user's screen.

- *Shopping Cart Converter.* The shopping cart converter is a pop-up window feature that is often used to help prevent shopping cart abandonment. Typically, after an Internet user has been at a shopping cart for a set period, a pop-up window will appear offering assistance. This enables the Internet user to instantly ask a question before completing or potentially abandoning a transaction.

- *Exit Survey.* A customizable exit survey is presented to the Internet user after each conversation. The survey can be modified in real time and is used by our clients primarily for gathering Internet user feedback, creating Internet user profiles and quality control.

- *Email Targeter.* Based on information collected in exit surveys, the email targeter allows clients to target sales and marketing campaigns to selected Internet user groups.

- *Skill-based Routing.* Internet users can be routed to specific operators based on the operator's particular knowledge of specific products or services. For example, many of our

clients have specialized operator groups focusing separately on sales or customer service to whom they selectively route inquiries. This routing complements and partially automates the alternative operator transfer capability.

LivePerson Exchange

LivePerson Exchange integrates a FAQ service with email and document management. These services enhance online sales and service efforts by offering Internet users a self-help option, which is especially useful for those customers with routine inquiries. LivePerson Exchange allows our clients to provide their customers with access to a searchable knowledge base of FAQs 24-hours per day/seven-days per week, whether or not their customer service operators are available. The searchable knowledge base features automatic prioritization of answers based on frequency of selection and effectiveness in answering customers' questions. FAQs can be searched by either entering a keyword or by clicking on a drop-down navigation bar to search by topic.

- *Secure Email Management.* A secure, private message area enables each Web site visitor to submit inquiries via email. Repeat visitor activity is held in a single record, while the status of each inquiry is tracked within an administrative tool.

- *Document Management.* A searchable document library provides Web site visitors access to stored forms and documents, such as marketing materials, employee forms and product manuals.

- *Integrated Knowledge Base.* The LivePerson knowledge base, where pre-formatted responses are created and stored, integrates seamlessly with LivePerson Chat. As a result, pre-formatted responses need only be created or edited once for use with either service.

- *Most Recent Question.* When customers proceed to a LivePerson Chat after using LivePerson Exchange, operators see the most recent question asked by the customer allowing the operator to quickly understand the nature of the customer's inquiry.

- *Reporting.* Reporting tools allow our clients to monitor customer request volume and the top 100 search phrases used.

Clients

Our client base includes dedicated Internet companies, Fortune 1000 companies and other companies with established commercial Web sites. Our service benefits companies of all sizes doing business on the Internet. We continue to focus primarily on financial services companies, internal corporate call centers and small businesses as our key target markets.

The following is a representative list of our clients among those generating at least $2,000 in revenue during 2001:

American Power Conversion
Ameritrade
APL
Bloomingdale's
EarthLink
eHealthInsurance
Flightneeds
Ford Motor Company
GEICO
GMAC
GreenPoint Financial
IndyMac Bank

Kinko's
Neiman Marcus
ProPay
QVC
Ralph Lauren Media
Sierra Trading Post
TechSmart
Virgin *One*
Wall Street Access

Z-Tel

Many of our clients' businesses are seasonal. Our clients' demand for real-time sales and customer service technology in general and their demand for seats and our other services, in particular, may be seasonal as well. As a result, our future revenue and profits may vary from quarter to quarter.

Sales, Client Support and Marketing

Sales. We sell the LivePerson services primarily via telephone and our own interactive chat service as a monthly fee service, or via direct automated download from the Internet. Due to the relatively low start-up costs of the LivePerson services, our experience has shown that purchase approval frequently comes from customer service, sales or marketing managers, and requires little or no involvement on the part of a client's information technology staff. We sell the LivePerson services mainly through a direct sales organization and target companies seeking to improve customer relations and increase Internet commerce activity—primarily financial services companies, internal corporate call centers and small businesses. Additionally, potential clients have contacted us as a result of our participation in trade shows, press releases, news articles, online and offline advertising campaigns or visits to our Web site. We demonstrate the LivePerson services online and, for larger accounts, we provide in-person service demonstrations.

We also have begun to enter into contractual arrangements that complement our direct sales force. These are primarily with sales partner organizations and individuals in key markets. We compensate such partners through a commission-based plan. Revenue from these partnerships is not material.

Client Support. Our client services group assists the client in launching the LivePerson services, and manages our ongoing relationship with the client. Each client has access to help desk services, while larger clients also have access to a client services manager for assistance with service questions.

The following steps are required to launch a new LivePerson client:

- *Account Set-Up.* We create operator names and passwords for our client.

- *Site Set-Up.* Our client places our HTML link on their Web site.

- *Training.* We provide telephone-based training of operators and administrators, if necessary.

Set-up and training can generally be accomplished within the same day. We also maintain a 24-hour per day/seven-day per week help desk to assist clients with any technical concerns or issues.

Marketing. Our marketing strategy is focused on building brand awareness of LivePerson as a provider of real-time sales and customer service technology for companies doing business on the Internet. Our marketing is targeted primarily toward financial services companies, internal corporate call centers and small businesses. Marketing efforts consist primarily of direct communication efforts to potential and existing users through interactive email and real-time chat, as well as channel support through newsletters and trade publications.

Our marketing strategy also includes aggressive public relations efforts. These initiatives include interviews with media and industry analysts which often result in published articles. They also include speaking engagements and byline articles featuring our executives. We also develop potential sales relationships through the use of case studies featuring the successes of our existing client relationships.

Competition

The market for real-time sales and customer service technology is new and intensely competitive. There are no substantial barriers to entry in this market, other than the ability to design and build scalable software and, with respect to outsourced solution providers, the ability to design, build and manage scalable network architecture. Established or new entities may enter this market in the near future, including those that provide real-time interaction online, with or without the user's request.

We compete directly with companies focused on technology that facilitates real-time sales and customer service interaction. Our competitors include customer service enterprise software providers such as eGain Communications Corp., Divine, Inc., KANA Software, Inc. and RightNow Technologies, Inc., some of which offer hosted solutions. Furthermore, many of our competitors offer a broader range of customer relationship management products and services than we currently offer. We may be disadvantaged and our business may be harmed if companies doing business on the Internet choose sales and customer service technology from such providers.

We also face potential competition from larger enterprise software companies such as Oracle and Siebel Systems. In addition, established technology companies, including IBM and Microsoft, may also leverage their existing relationships and capabilities to offer real-time sales and customer service applications.

Finally, we face competition from clients and potential clients that choose to provide a real-time sales and customer service solution in-house as well as, to a lesser extent, traditional offline customer service solutions, such as telephone call centers.

We believe that competition will increase as our current competitors increase the sophistication of their offerings and as new participants enter the market. Many of our current and potential competitors have:

- longer operating histories;
- larger client bases;
- greater brand recognition;
- more diversified lines of products and services; and
- significantly greater financial, marketing and other resources.

These competitors may enter into strategic or commercial relationships with larger, more established and better-financed companies. These competitors may be able to:

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

Any delay in the general market acceptance of the real-time sales and customer service solution business model would likely harm our competitive position. Delays would allow our competitors additional time to improve their service or product offerings, and would also provide time for new competitors to develop real-time sales and customer service applications and solicit prospective clients within our target markets. Increased competition could result in pricing pressures, reduced operating margins and loss of market share.

Technology

Three key technological features distinguish the LivePerson services:

- All of our customers share the same servers, databases, and network connections. We are therefore able to accommodate our expanding customer base and increasing system usage in a very cost-effective manner. Our servers are hosted in a fully secured third-party server center in the United States.
- Our network, hardware and software are designed to accommodate our clients' demand for secure, high-quality 24-hours per day/seven-days per week service.
- As a hosted service, we are able to add additional capacity and new features quickly and efficiently. This has enabled us to immediately provide these benefits simultaneously to our

entire client base. In addition, it allows us to maintain a relatively short development and implementation cycle, that has typically been approximately 90 days.

As an application service provider, we focus on the development of tightly integrated software design and network architecture. We have dedicated significant resources to designing our software and network architecture based on the fundamental principles of security, reliability and scalability.

Software Design. Our software design is based on client server architecture. As an application service provider, our customers install only the LivePerson software client (Windows or Java-based) on their operators' workstations. Visitors to our clients' Web sites use nothing more than a standard Web browser and do not need to download software from LivePerson in order to chat with our clients' operators.

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

- Java
- XML (Extensible Mark-up Language)
- HTML (Hypertext Mark-up Language)
- SQL (Structured Query Language)
- HTTP (Hypertext Transfer Protocol)

Network Architecture. The software underlying our service is integrated with a scalable and reliable network architecture. Our network is scalable in that we do not need to incrementally add new hardware or network capacity for each new LivePerson client. This network architecture is hosted in a third-party server center with redundant network connections, servers and other infrastructure, ensuring high availability and up-time.

Government Regulation

We are subject to federal, state and local regulation, including laws and regulations applicable to access to or commerce over the Internet. Due to the increasing popularity and use of the Internet and various other online services, it is likely that a number of new laws and regulations will be adopted with respect to the Internet or other online services covering issues such as user privacy, freedom of expression, pricing, content and quality of products and services, taxation, advertising, intellectual property rights and information security. The nature of such legislation and the manner in which it may be interpreted and enforced cannot be fully determined and, therefore, such legislation could subject us and/or our clients or Internet users to potential liability, which in turn could have an adverse effect on our business, results of operations and financial condition. The adoption of any such laws or regulations might also impair the growth of Internet use, which in turn could decrease the demand for our services or increase the cost of doing business or in some other manner have a material adverse effect on our business, results of operations and financial condition. In addition, applicability to the Internet of existing laws governing issues such as intellectual property, taxation and personal privacy is uncertain. The vast majority of such laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies.

As a result of collecting data from live online Internet user dialogues, our clients may be able to analyze the commercial habits of Internet users. Privacy concerns may cause Internet users to avoid online sites that collect such behavioral information and even the perception of security and privacy concerns, whether or not valid, may indirectly inhibit market acceptance of our services. In addition, our clients may be harmed by any laws or regulations that restrict their ability to collect or use this data. The European Union and many countries within the E.U. have adopted privacy directives or laws that strictly regulate the collection and use of personally identifiable information of Internet users. The

United States has adopted legislation which governs the collection and use of personally identifiable information of children under 13. The U.S. Federal Trade Commission has also taken action against Web site operators who do not comply with their stated privacy policies. Furthermore, Canada has recently adopted legislation governing the collection and use of personal information. These and other governmental efforts may limit our clients' ability to collect and use information about their Internet users through our services. As a result, such laws and efforts could create uncertainty in the marketplace that could reduce demand for our services or increase the cost of doing business as a result of litigation costs or increased service delivery costs, or could in some other manner have a material adverse effect on our business, results of operations and financial condition.

In addition to privacy legislation, any new legislation or regulation regarding the Internet, or the application of existing laws and regulations to the Internet, could harm us. Additionally, as we expand outside the U.S., the international regulatory environment relating to the Internet could have a material and adverse effect on our business, results of operations and financial condition.

Intellectual Property and Proprietary Rights

We rely upon a combination of patent, copyright, trade secret and trademark law, written agreements and common law to protect our proprietary technology, processes and other intellectual property, to the extent that protection is sought or secured at all. We currently have one U.S. patent application pending. The U.S. Patent and Trademark Office has issued a non-final office action rejecting our initial patent application. We have responded to the office action but we cannot assure you that a patent will eventually be issued to us. Furthermore, to the extent that the invention described in our U.S. patent application was made public prior to the filing of the application, we may not be able to obtain patent protection in certain foreign countries. In addition, we currently have one common law trademark, "LivePerson", one registered U.S. trademark, "LivePerson Give Your Site A Pulse" and one pending U.S. trademark application, "HumanClick". With regard to the "HumanClick" mark, the U.S. Patent and Trademark Office published such mark for opposition on January 8, 2002, and may issue a notice of allowance with respect to such mark if no opposition was filed by February 7, 2002. However, the U.S. Patent and Trademark Office has not yet indicated whether timely opposition was filed, no final determination as to the registrability of this mark has been made, and, ultimately we may not be able to secure registration of this trademark.

Although we rely on patent, copyright, trade secret and trademark law, written agreements and common law, we believe that factors such as the technological and creative skills of our personnel, new service developments, frequent enhancements and reliable maintenance are more essential to establishing and maintaining a technology leadership position. We cannot assure you that others will not develop technologies that are similar or superior to our technology. We enter into confidentiality and other written agreements with our employees, consultants and strategic partners, and through written agreements, control access to and distribution of our software, documentation and other proprietary information. Despite our efforts to protect our proprietary rights, third parties may, in an unauthorized manner, attempt to copy or otherwise obtain and use our service or technology or otherwise develop a service with the same functionality as our products. Policing unauthorized use of our products is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect proprietary rights as fully as do the laws of the United States.

Substantial litigation regarding intellectual property rights exists in the software industry. Our services may be increasingly subject to third-party infringement claims as the number of competitors in our industry segment grows and the functionality of services in different industry segments overlaps. Some of our competitors in the market for real-time sales and customer service solutions may have filed or may intend to file patent applications covering aspects of their technology. Although we believe that our services and technology do not infringe upon the intellectual property rights of others and that we have all rights necessary to utilize the intellectual property employed in our business, we do not

conduct comprehensive patent searches to determine whether our services and technology infringe patents held by others, and we may be subject to claims alleging infringement of third-party intellectual property rights. Any such claims could require us to spend significant amounts in litigation, distract management from other tasks of operating our business, pay damage awards, delay delivery of the LivePerson services, develop non-infringing intellectual property or acquire licenses to the intellectual property that is the subject of any such infringement. Therefore, such claims could have a material adverse effect on our business, results of operations and financial condition.

Employees

As of March 15, 2002, we had 66 full-time employees. None of our employees are covered by collective bargaining agreements. We believe our relations with our employees are good.

ITEM 2. PROPERTIES

We currently lease approximately 7,000 square feet at our headquarters location in New York City, through October 2004.

Our wholly-owned subsidiary, HumanClick Ltd., maintains offices in Moshav Bnei Zion, Israel of approximately 3,600 square feet, under leases expiring in February 2003.

ITEM 3. LEGAL PROCEEDINGS

On December 12, 2001, Compaq Financial Services Corporation, a subsidiary of Compaq Computer Corporation, filed a complaint against us in the Supreme Court of the State of New York, New York County. The complaint alleges that LivePerson is in default of an operating lease for computer equipment. Compaq is seeking to recover approximately $2.0 million in damages, fees and expenses. We have served an answer asserting affirmative defenses and counterclaims for fraud and negligent misrepresentation, and seek damages and fees. Compaq has moved for summary judgement on its claims, and we have filed papers in opposition to the motion. The motion is currently pending.

On November 16, 2001, Corio, Inc. filed a demand for arbitration against us with the American Arbitration Association in San Francisco County, California. The demand is related to a hosted software service contract terminated during 2001. Corio is seeking to recover approximately $1.4 million in damages, fees and expenses. We have filed an answer denying liability and asserting a counterclaim for breach of contract, and seek a refund of all amounts paid to Corio, approximately $1.5 million.

Although we intend to defend vigorously each of the matters described above, and believe that we have provided adequate reserves in connection with each of the claims, we cannot assure you that our defense in either case will be successful and, if it is not, that our ultimate liability in connection with either or both of these claims will not exceed our reserves.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year ending December 31, 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

Our common stock has been quoted on the Nasdaq National Market under the symbol "LPSN" since our initial public offering on April 7, 2000. The following table sets forth, for the periods indicated, the range of high and low bid information (in dollars per share) of our common stock as quoted on the Nasdaq National Market:

	High	Low
Year ended December 31, 2000:		
Second Quarter (from April 7, 2000)	$ 11.00	$ 5.375
Third Quarter	$ 9.50	$ 3.625
Fourth Quarter	$ 4.16	$ 0.875
Year ended December 31, 2001:		
First Quarter	$ 1.75	$ 0.25
Second Quarter	$ 0.55	$ 0.20
Third Quarter	$ 0.36	$ 0.07
Fourth Quarter	$ 0.43	$ 0.10

HOLDERS

As of March 15, 2002, there were approximately 270 holders of record of our common stock.

DIVIDEND POLICY

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

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

On April 12, 2000, we consummated our initial public offering of 4,000,000 shares of common stock, for which trading on the Nasdaq National Market commenced on April 7, 2000, pursuant to the Registration Statement on Form S-1, file number 333-95689, which was declared effective by the Securities and Exchange Commission on April 6, 2000. The managing underwriters of the offering were Chase Securities Inc., Thomas Weisel Partners LLC and PaineWebber Incorporated. The offering did not terminate until after the sale of all securities registered. The aggregate price of the offering shares was $32.0 million and our net proceeds were approximately $28.1 million after underwriters' discounts and commissions of approximately $2.2 million and other expenses of approximately $1.7 million. Except for salaries, and reimbursements for travel expenses and other out-of-pocket costs incurred in the ordinary course of business, none of the proceeds from the offering have been paid by us, directly or indirectly, to any of our directors or officers or any of their associates, or to any persons owning ten percent or more of our outstanding stock or to any of our affiliates. As of December 31, 2001, we have used approximately $18.0 million of the net proceeds from the offering for product development costs, sales and marketing activities and working capital and invested the remainder in cash and cash equivalents pending its use for other purposes.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides certain information regarding the common stock authorized for issuance under our equity compensation plans, as of December 31, 2001. Our only equity compensation plans are the 2000 Stock Incentive Plan and our Employee Stock Purchase Plan, both of which were approved by our stockholders.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1) (c)
Equity compensation plans approved by stockholders	6,467,242	$ 1.46	4,825,712
Equity compensation plans not approved by stockholders	—	—	—
Total	6,467,242	$ 1.46	4,825,712

(1) Excludes securities reflected in column (a). The number of shares of common stock available for issuance under the 2000 Stock Incentive Plan automatically increases on the first trading day in each calendar year by an amount equal to three percent (3%) of the total number of shares of our common stock outstanding on the last trading day of the immediately preceding calendar year, but in no event shall such annual increase exceed 1,500,000 shares. The number of shares of common stock available for issuance under our Employee Stock Purchase Plan automatically increases on the first trading day in each calendar year by an amount equal to one-half of one percent (0.5%) of the total number of shares of our common stock outstanding on the last trading day of the immediately preceding calendar year, but in no event shall such annual increase exceed 150,000 shares. Effective October 2001, we suspended our Employee Stock Purchase Plan until further notice.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data with respect to our consolidated balance sheets as of December 31, 2001 and 2000 and the related consolidated statements of operations for the years ended December 31, 2001, 2000 and 1999 have been derived from our audited consolidated financial statements which are included herein. The consolidated financial data for the year ended December 31, 2000 includes the results of operations of HumanClick from October 2000 (the date of its acquisition). See note 2 to our consolidated financial statements for further information concerning the acquisition. The selected financial data with respect to our balance sheets as of December 31, 1999, 1998 and 1997 and the related statements of operations for the years ended December 31, 1998 and 1997 have been derived from our audited financial statements which are not included herein. The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and

the notes thereto and the information contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(in thousands, except share and per share data)				
Consolidated Statement of Operations Data:					
Revenue:					
Service revenue	$ 7,806	$ 6,279	$ 576	$ 1	$ —
Programming revenue	—	—	39	378	245
Total revenue	7,806	6,279	615	379	245
Operating expenses:					
Cost of revenue, exclusive of $(193), $1,109, $198, $0 and $0 for the years ended December 31, 2001, 2000, 1999, 1998 and 1997, respectively, reported below as non-cash compensation expense	6,740	7,888	856	70	121
Product development, exclusive of $(181), $1,476, $566, $0 and $0 for the years ended December 31, 2001, 2000, 1999, 1998 and 1997, respectively, reported below as non-cash compensation expense	3,509	8,209	1,637	93	—
Sales and marketing, exclusive of $376, $4,822, $577, $0 and $0 for the years ended December 31, 2001, 2000, 1999, 1998 and 1997, respectively, reported below as non-cash compensation expense	5,089	14,529	3,987	33	—
General and administrative, exclusive of $675, $5,838, $1,338, $25 and $0 for the years ended December 31, 2001, 2000, 1999, 1998 and 1997, respectively, reported below as non-cash compensation expense	5,694	6,994	1,706	178	130
Amortization of goodwill and other intangibles(1)	2,975	619	—	—	—
Non-cash compensation expense, net	677	13,245	2,679	25	—

Non-cash compensation credit related to restructuring, net	(1,720)	—	—	—	—
Restructuring and impairment charges	12,740	—	—	—	—
Total operating expenses	35,704	51,484	10,865	399	251
Loss from operations	(27,898)	(45,205)	(10,250)	(20)	(6)
Other income (expense):					
Other income	109	65	—	—	—
Interest income	538	1,839	474	—	—
Interest expense	(10)	(33)	(1)	—	—
Total other income, net	637	1,871	473	—	—
Net loss	(27,261)	(43,334)	(9,777)	(20)	(6)
Non-cash preferred stock dividend	—	18,000	—	——	
Net loss attributable to common stockholders	$ (27,261)	$ (61,334)	$ (9,777)	$ (20)	$ (6)
Basic and diluted net loss per common share	$ (0.80)	$ (2.50)	$ (1.38)	$ 0.00	$ 0.00
Weighted average basic and diluted shares outstanding	33,987,895	24,535,078	7,092,000	7,092,000	7,092,000

	December 31,				
	2001	2000	1999	1998	1997
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 10,136	$ 20,449	$ 14,944	$ 107	$ 10
Working capital (deficit)	7,878	20,280	13,380	(30)	(35)
Total assets	17,627	47,000	19,570	142	30
Redeemable convertible preferred stock	—	—	18,990	—	—
Total stockholders' equity (deficit)	14,271	42,775	(2,046)	(30)	(35)

(1) Related to our acquisition of HumanClick Ltd. in October 2000. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 2 to our Consolidated Financial Statements in Item 8.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and related notes included elsewhere in this report. Statements in the following discussion about LivePerson that are not historical facts are forward-looking statements based on our current expectations, assumptions, estimates and projections about LivePerson and our industry. These forward-looking statements are subject to risks and uncertainties that could cause actual future events or results to differ materially from such statements. Any such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. It is routine for our internal projections and expectations to change as the year or each quarter in the year progress, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we are under no obligation to inform you if they do. Our company policy is generally to provide our expectations only once per quarter, and not to update that information until the next quarter. Actual events or results may differ materially from those contained in the projections or forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this report, particularly in the section captioned "—Risk Factors That May Affect Future Results."

Subsequent Event

On February 14, 2002, we received a letter from The Nasdaq Stock Market, Inc., notifying us that during the preceding 30 consecutive trading days, the bid price of our common stock had closed below the minimum bid price of $1.00 per share as required by the Nasdaq National Market under Nasdaq Marketplace Rule 4450(a)(5). The letter stated that we have until May 15, 2002 to demonstrate compliance with such rule and that, if we are not in compliance by that date, Nasdaq will notify us that our securities will be delisted from the Nasdaq National Market. If such event occurs, we may appeal the decision to a Nasdaq Listing Qualifications Panel. The letter also stated that we could apply to transfer the listing of our common stock to the Nasdaq SmallCap Market.

Critical Accounting Policies

General

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

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

During 1998, we began offering the LivePerson services. The LivePerson services facilitate real-time sales and customer service for companies doing business on the Internet. We charge a monthly fee for each operator access account, which we refer to as a "seat." Certain of our larger clients, who require more sophisticated implementation and training, also pay an initial non-refundable set-up fee.

The initial set-up fee is intended to recover certain costs (principally customer service, training and other administrative costs) prior to the deployment of our services. Such fees are recorded as deferred revenue and recognized ratably over a period of 24 months, representing the estimated term of a client relationship. Although we believe this estimate is reasonable, this estimate may change in the future. In instances where we do charge a set-up fee, we do not charge an additional set-up fee if an existing client adds more seats. Unamortized deferred fees, if any, are recognized upon termination of the agreement with the customer. We recognized $286,000, $0 and $0 in 2001, 2000 and 1999, respectively, of set-up fees due to client attrition.

In the first half of 2001, we began selling the LivePerson services directly via Internet download. These services are paid for almost exclusively by credit card. Credit card payments accelerate cash flow and reduce our collection risk by transferring the risk to the credit card provider. Sales executed via Internet download may occur with or without the assistance of an online sales representative, rather than through face-to-face or telephone contact that is typically required for traditional direct sales. Sales of the LivePerson services via Internet download typically have no set-up fee, because we do not provide the customer with training and administrative costs are minimal.

We record revenue for traditional direct sales and Internet download sales based upon a monthly fee charged for each seat using the LivePerson services, provided that no significant Company obligations remain and collection of the resulting receivable is probable. We recognize monthly service revenue fees as services are provided. Our service agreements typically have no termination date and are terminable by either party upon 30 to 90 days' notice without penalty.

Accounts Receivable

Our customers are primarily concentrated in the United States. We perform ongoing credit evaluations of our customers' financial condition (except for customers who purchase the LivePerson services via Internet download, which are paid for almost exclusively by credit card, which transfers the collection risk to the credit card provider) 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. Our concentration of credit risk is limited due to the large number of customers. No single customer accounted for or exceeded 10% of our total revenue in 2001, 2000 or 1999 or 10% of our total accounts receivable in 2001 or 2000.

Impairment of Long-Lived Assets

Prior to January 1, 2002, we accounted for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." (See "Recently Issued Accounting Standards" for our accounting for long-lived assets beginning on January 1, 2002.) SFAS No. 121 requires that long-lived assets, including fixed assets and goodwill, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be

recoverable. If events or changes in circumstances indicate that the carrying amount of an asset to be held and used may not be recoverable, we estimate the undiscounted future cash flows to result from the use of the asset and its ultimate disposition. If the sum of the undiscounted cash flows is less than the carrying value, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The assessment of the recoverability of long-lived assets, including fixed assets and goodwill, will be impacted if estimated future operating cash flows are not achieved.

Restructuring Activities

Restructuring activities are accounted for in accordance with the guidance provided in the consensus opinion of the Emerging Issues Task Force ("EITF"), in connection with EITF Issue 94-3 ("EITF 94-3"). EITF 94-3 generally requires, with respect to the recognition of severance expenses, management approval of the restructuring plan, the determination of the employees to be terminated and communication of benefit arrangement to employees.

Overview

LivePerson is an application service provider of technology that facilitates real-time sales and customer service for companies doing business on the Internet. We offer our proprietary real-time interaction technology as outsourced services. We currently generate revenue from the sale of our LivePerson services, which enable our clients to communicate directly with Internet users via text-based chat, and to a lesser extent from related professional services. With the LivePerson chat service, our clients can respond to Internet user inquiries in real-time, and can thereby enhance their Internet users' online shopping experience.

We were incorporated in the State of Delaware in November 1995; however, we did not commence operations until January 1996. We had no significant revenue until 1997, when we began to generate revenue from services primarily related to Web-based community programming and media design.

In 1998, we shifted our core business focus to the development of the LivePerson services and phased out our prior programming efforts, which last generated revenue in December 1999. We introduced the LivePerson services in November 1998.

In January 2000, we completed a private placement of 3,157,895 shares of our series D redeemable convertible preferred stock with an affiliate of, and other entities associated with, Dell Computer Corporation and with NBC Interactive Media, Inc. (a division of NBC) at a purchase price of $5.70 per share. We received net proceeds of approximately $17.9 million from this private placement. Our series D redeemable convertible preferred stock converted, at a two-for-three ratio, into 4,736,842 shares of common stock upon the closing of our initial public offering on April 12, 2000, together with our other outstanding convertible preferred stock. In connection with the issuance of our series D redeemable convertible preferred stock, we recorded a non-cash preferred stock dividend of $18.0 million, which relates to the beneficial conversion feature associated with such preferred stock. The amount of this dividend is limited to the gross proceeds received by us in connection with the sale of our series D convertible preferred stock and was recorded in the first quarter of 2000 because the series D convertible preferred stock was, at the time it was issued, immediately convertible at the option of the holder.

On April 12, 2000, we consummated our initial public offering, which resulted in the issuance of 4,000,000 shares of our common stock at $8.00 per share, from which we received net proceeds of approximately $28.1 million.

On October 12, 2000, we acquired HumanClick Ltd., a private company organized under the laws of Israel. The purchase price was $9.7 million, which included the issuance of 4,238,405 shares of our common stock valued at $9.1 million and acquisition costs of $263,000.

In the first quarter of 2001, following a review of our business in connection with our acquisition of HumanClick, we commenced restructuring initiatives to streamline our operations, including the consolidation of our two San Francisco Bay area offices. The restructuring resulted in a reduction of our workforce by approximately 90 people as of the end of the first quarter of 2001. In the third quarter of 2001, in a continued effort to streamline our operations, we initiated additional restructuring initiatives. These initiatives resulted in the elimination of redundant staff positions, and the decision to relocate our principal executive offices, which included the termination of an office space lease (and the entering into of a new three-year lease that commenced in November 2001). The restructuring resulted in a reduction of our workforce by approximately 20 people, the write-off of impaired computer equipment and software and the write-off of certain furniture, equipment and building improvements. For the year ended December 31, 2001, we recorded net charges of approximately $12.7 million for our various restructuring initiatives. In connection with our third quarter 2001 restructuring initiatives, we upgraded all of our clients onto a single software application platform. We expect this new platform to provide our customers with a more dependable product while reducing our cost of providing these services.

In October 2001, our Board of Directors determined that it would not effect the one-for-fifteen reverse split of our common stock approved by our stockholders at the Special Meeting of Stockholders held on September 11, 2001, due to the fact that on September 27, 2001, Nasdaq informed us that on such date they had implemented a moratorium on the minimum bid price and market value of public float requirements for continued listing on The Nasdaq Stock Market, which requirements were suspended until January 2, 2002. See also the information above under the caption "Subsequent Event."

As part of our restructuring initiatives, we have consolidated our client base onto a single software application platform and network. Our network is hosted by a third-party provider of secure server hosting services located in the United States. While the cost of providing our services as a result of these initiatives has decreased, we are dependent on our third-party server hosting provider for redundant network connections, server maintenance and general security. We have not experienced any material product instability or operational consequences since the implementation of these initiatives. We have also consolidated our product development, help desk and online sales personnel in our Israel office. As a result, the political, economic or military conditions affecting Israel could have a material adverse effect on our operations in Israel or our business.

Unaudited Quarterly Results of Operations

The following table sets forth, for the periods indicated, our financial information for the eight most recent quarters ended December 31, 2001. In our opinion, this unaudited information has been prepared on a basis consistent with our annual consolidated financial statements and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the unaudited information for the periods presented. This information should be read in conjunction with the consolidated financial statements, including the related notes, included elsewhere in this annual

report. The results of operations for any quarter are not necessarily indicative of results that we may achieve for any subsequent periods.

	Quarter Ended							
	Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	Mar. 31, 2001	Dec. 31, 2000	Sept. 30, 2000	June 30, 2000	Mar. 31, 2000
	(in thousands, except share and per share data)							
Revenue:								
Service revenue	$ 1,789	$ 1,734	$ 1,915	$ 2,368	$ 2,330	$ 1,849	$ 1,326	$ 774
Programming revenue	—	—	—	—	—	—	—	—
Total revenue	1,789	1,734	1,915	2,368	2,330	1,849	1,326	774
Operating expenses:								
Cost of revenue	328	1,586	2,144	2,682	2,443	2,216	2,039	1,190
Product development	509	865	883	1,252	2,079	2,212	2,151	1,767
Sales and marketing	662	1,133	1,178	2,116	4,089	3,223	3,792	3,425
General and administrative	662	1,464	1,626	1,942	1,670	2,034	1,990	1,300
Amortization of goodwill and other intangibles	745	745	743	742	619	—	—	—
Non-cash compensation expense, net	108	526	(332)	375	256	2,031	5,002	5,956
Non-cash compensation credit related to restructuring, net	—	—	—	(1,720)	—	—	—	—
Restructuring and impairment charges	—	9,232	117	3,391	—	—	—	—

Total operating expenses	3,014	15,551	6,359	10,780	11,156	11,716	14,974	13,638
Loss from operations	(1,225)	(13,817)	(4,444)	(8,412)	(8,826)	(9,867)	(13,648)	(12,864)
Other income (expense), net:								
Other income	—	43	61	5	65	—	—	—
Interest income	61	118	124	235	415	551	582	291
Interest expense	(3)	—	—	(7)	(20)	(13)	—	—
Total other income, net	58	161	185	233	460	538	582	291
Net loss	(1,167)	(13,656)	(4,259)	(8,179)	(8,366)	(9,329)	(13,066)	(12,573)
Non-cash preferred stock dividend	—	—	—	—	—	—	—	18,000
Net loss attributable to common stockholders	$ (1,167)	$ (13,656)	$ (4,259)	$ (8,179)	$ (8,366)	$ (9,329)	$ (13,066)	$ (30,573)
Basic and diluted net loss per common share	$ (0.03)	$ (0.40)	$ (0.13)	$ (0.24)	$ (0.25)	$ (0.32)	$ (0.47)	$ (4.15)
Weighted average shares outstanding used in basic and diluted net loss per common share calculation	34,003,610	34,003,501	33,992,277	33,951,476	33,441,094	29,476,985	27,969,434	7,362,000

Our revenue from the LivePerson services remained flat in the last quarter of the fiscal year ended December 31, 2001, after decreasing in each of the previous two quarters. The lack of material increased revenue in the fourth quarter of 2001, and the quarterly revenue declines earlier in the year, were primarily attributable to client attrition from our Internet-related customers with limited operating histories (many of which began to face difficult business conditions in the last three quarters of 2001), and, to a lesser extent, to fewer new clients due to the reduction in our sales force as a result of our restructuring initiatives. Our revenue had increased in each of the five quarters ended March 31, 2001, from $774,000 to $2.4 million, due primarily to increased market acceptance of our services, which was in part attributable to the growth of our direct sales force. The growth of our sales force had allowed us to solicit more prospective clients and to respond more quickly and effectively to their inquiries. We recently experienced slower revenue growth rates than in the past and we cannot assure you that we will experience any future revenue growth.

Our cost of revenue has decreased in each of the last four quarters, from $2.7 million to $328,000. This decrease is attributable to reduced spending requirements, including the cancellation of operating leases for certain computer equipment that supported our infrastructure, the consolidation of our

clients onto a single customer application platform, reduced headcount and lower allocated occupancy costs and related overhead, each as a result of our restructuring initiatives. Prior to restructuring, our cost of revenue had increased in each of the five quarters ended March 31, 2001, from $1.2 million to $2.7 million. The increase was primarily due to the addition of client services personnel and the expansion of our technological infrastructure. Costs associated with the expansion of our technological infrastructure include, but are not limited to, depreciation and payments under our operating leases for certain computer equipment.

Our product development costs have generally decreased in each of the last eight quarters, from $1.8 million to $509,000. This decrease is primarily attributable to a decrease in outsourced labor costs and to our restructuring initiatives, which resulted in fewer employees, streamlined operations and reduced spending requirements, including moving software development to our Israel office and lower occupancy costs and related overhead.

Our sales and marketing costs have generally decreased in each of the last eight quarters, from $3.4 million to $662,000. This decrease is primarily attributable to reduced print advertising expense and to our restructuring initiatives, which resulted in fewer employees, streamlined operations and reduced spending requirements, including lower allocated occupancy costs and related overhead.

General and administrative costs have decreased in each of the last four quarters, from $1.9 million to $662,000, principally due to our restructuring initiatives. These initiatives resulted in the elimination of redundant staff positions and the decision to relocate our principal executive offices, which included the termination of an office space lease. Prior to restructuring, our general and administrative costs had generally increased in each of the five quarters ended March 31, 2001, from $1.3 million to $1.9 million, principally due to an increase in the number of employees and related occupancy costs and, to a lesser extent, to professional fees.

Amortization of goodwill and other intangibles is related entirely to our acquisition of HumanClick in October 2000. Prior to October 2000, we did not incur any amortization of goodwill and other intangibles.

Non-cash compensation expense has generally decreased in each of the last eight quarters, from $6.0 million to $108,000. This decrease is due primarily to the reversal of previously recognized amortization of deferred compensation due to the forfeitures of employee stock options associated with employees who voluntarily left LivePerson in 2001, as well as employees whose employment was terminated as part of our restructuring initiatives during 2001, and, to a lesser extent, to a lower aggregate amount of amortization recognized because the number of our employees has decreased.

Since our restructuring initiatives in 2001, we have experienced substantial decreases in our expenses. These initiatives resulted in the elimination of redundant staff positions, the consolidation of all clients onto a single application platform and the decision to relocate our principal executive offices, which included the termination of an office space lease. Although our operating costs have recently decreased, we do not anticipate further material cost savings in the future. Annual revenue in 2001 grew at a substantially slower rate than in 2000 and, in the second and third quarters of 2001, quarterly revenue decreased, in each case, due primarily to client attrition from our Internet-related customers with limited operating histories (many of which began to face difficult business conditions in the last three quarters of 2001), and, to a lesser extent, to fewer new clients due to the reduction in our sales force as a result of our restructuring initiatives. We cannot assure you that we will experience any future revenue growth or that we will generate sufficient revenue to achieve profitability.

Consequently, we believe that period-to-period comparisons of our operating results may not be meaningful, and as a result, you should not rely on them as an indication of future performance.

Revenue

With respect to the LivePerson services, our clients pay us a monthly fee for each operator access account, which we refer to as a "seat." Certain of our larger clients, who require more sophisticated

implementation and training, also pay an initial non-refundable set-up fee. Our set-up fee is intended to recover certain costs incurred by us (principally customer service, training and other administrative costs) prior to deployment of our services. Such fees are recorded as deferred revenue and recognized over a period of 24 months, representing the estimated expected term of a client relationship. As a result of recognizing set-up fees in this manner, combined with the fact that we have more seats on an aggregate basis than clients, revenue attributable to our monthly service fee for the years ended December 31, 2001 and 2000 accounted for 90% and 85%, respectively, of total LivePerson services revenue. In addition, because we expect the aggregate number of seats to continue to grow, and because we typically do not charge a set-up fee for sales generated via Internet download, we expect the set-up fee to represent a decreasing percentage of total revenue over time. In instances where we do charge a set-up fee, we do not charge an additional set-up fee if an existing client adds more seats. Our service agreements typically have no termination date and are terminable by either party upon 30 to 90 days' notice without penalty. We recognize monthly service revenue fees and professional service fees as services are provided. Professional service fees consist of training provided to customers. Given the time required to schedule training for our clients' operators and our clients' resource constraints, we have historically experienced a lag between signing a client contract and generating revenue from that client. This lag has generally ranged from one day to 30 days. There is no lag for sales generated via Internet download, because our services are immediately available and fully functional upon download. To date, revenue from professional services has not been material.

In the first half of 2001, we began selling the LivePerson services directly via Internet download. These services are paid for almost exclusively by credit card. Credit card payments accelerate cash flow and reduce our collection risk by transferring the risk to the credit card provider. Sales executed via Internet download may occur with or without the assistance of an online sales representative, rather than through face-to-face or telephone contact which is typically required for traditional direct sales. Sales of the LivePerson services via Internet download typically have no set-up fee, because we do not provide the customer with training, and administrative costs are minimal. We recognize monthly service revenue fees from Internet downloads as services are provided.

As sales via Internet download increase, our average revenue per client tends to decline because services sold in this manner have a lower unit cost. Overall, our average revenue per client and per seat has declined, while the total number of our clients has increased. We expect this trend to continue as we generate an increasing portion of revenue via Internet downloads.

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

Prior to November 1998, when the LivePerson services were introduced, we generated revenue from services primarily related to Web-based community programming and media design. Revenue from such services was $0, $0 and $39,000 for the years ended December 31, 2001, 2000 and 1999, respectively. As of January 2000, we no longer generated any revenue from these services. Revenue generated from Web-based community programming and media design services was recognized upon completion of the project, provided that no significant obligations remained outstanding and collection of the resulting receivable was probable.

Operating Expenses

Our cost of revenue associated with programming activity consisted primarily of personnel expenses associated with outsourced programming and design. We no longer incurred these costs as of December 1998. We began developing the LivePerson services in the third quarter of 1998. We did not

allocate development costs of the LivePerson services separately. Accordingly, since November 1998, our cost of revenue has principally been associated with the LivePerson services and has consisted of:

- compensation costs relating to employees who provide customer service to our clients, consisting of 14 people at December 31, 2001 (including 13 employees of HumanClick) and 41 people at December 31, 2000 (including 18 employees of HumanClick);
- compensation costs relating to our network support staff, consisting of 3 people (including 2 employees of HumanClick) at December 31, 2001 and 11 people at December 31, 2000;
- allocated occupancy costs and related overhead; and
- the cost of supporting our infrastructure, including expenses related to leasing space and connectivity for our services, third-party network monitoring and depreciation of certain hardware and software.

Our product development expenses consist primarily of compensation and related expenses for product development personnel, consisting of 13 people (including 10 employees of HumanClick) and 40 people (including 11 employees of HumanClick) at December 31, 2001 and 2000, respectively, allocated occupancy costs and related overhead, outsourced labor and expenses for testing new versions of our software. Product development expenses are charged to operations as incurred.

Our sales and marketing expenses consist of compensation and related expenses for sales personnel and marketing personnel, consisting of 25 people (including 13 employees of HumanClick) and 58 people at December 31, 2001 and 2000, respectively, allocated occupancy costs and related overhead, advertising, sales commissions, marketing programs, 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 and human resources personnel, consisting of 14 people (including 4 employees of HumanClick) and 31 people (including 4 employees of HumanClick) at December 31, 2001 and 2000, respectively, allocated occupancy costs and related overhead, professional fees, provision for doubtful accounts and other general corporate expenses.

In 2001, we increased our allowance for doubtful accounts to approximately $1.5 million from $577,000 at December 31, 2000, principally due to an increase in accounts receivable and deteriorating aging due to slower collections. A significant portion of this increase was due to overdue accounts receivable balances from our Internet-related clients with limited operating histories, many of which began to face difficult market conditions in the past year, and, in particular, during the nine months ended September 30, 2001. During 2001, we wrote off approximately $1.3 million of previously reserved accounts, leaving an allowance of $160,000 at December 31, 2001. We base our allowance for doubtful accounts on specifically identified known doubtful accounts plus a general reserve for potential future doubtful accounts. We adjust our allowance for doubtful accounts when accounts previously reserved have been collected. We did not increase our allowance for doubtful accounts in the three months ended December 31, 2001. This is attributable to the fact that our accounts receivable collections improved in the fourth quarter, due primarily to the significantly larger percentage of our total outstanding accounts receivable now comprised of businesses with more established and proven operating histories, and to a lesser extent, to the fact that an increased number of our clients now pay us by credit card, which transfers the collection risk to the credit card provider.

Non-cash Compensation Expense

In the years ended December 31, 2000, 1999 and 1998, we recorded an aggregate of $0, $978,000 and $25,000, respectively, of non-cash compensation expense in connection with grants to consultants of options to acquire an aggregate of 458,010 shares of our common stock. The total values ascribed to such options were determined using a Black-Scholes pricing model.

During May 1999, we issued an option to purchase 94,500 shares of common stock at an exercise price of $1.60 per share to ShopNow.com Inc. (now known as Network Commerce Inc.), a client, in connection with an agreement to provide the LivePerson services to Network Commerce for two years. We were to receive subscription revenue from Network Commerce over the two-year period based on the number of seats the client was using. As discussed below, the option was amended in February 2000. The original terms of the option provided that it would vest in or before May 2001, if revenue generated by Network Commerce met certain targets. We granted the option as an incentive for entering into a two-year service agreement with us, at a point in time when the LivePerson services were new and their viability was unknown. The option had no minimum revenue guarantee, and was exercisable for a period of three years from the date of grant. We accounted for this option in accordance with Emerging Issues Task Force ("EITF") Abstract No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Pursuant to EITF No. 96-18, we valued the option at each balance sheet date using a Black-Scholes pricing model using a volatility factor of 50%, a $1.60 per share exercise price and the then fair value of our common stock as of each balance sheet date. The $566,000 value ascribed to the option reflected the market value at December 31, 1999, less amortization expense of $86,000 for the period from May 1999 through December 1999, which was recorded as net deferred cost on our December 31, 1999 balance sheet. The unamortized value ascribed to this option was adjusted at each balance sheet date to bring the total ascribed value of the option up to the then current unamortized fair value. This cost was ratably amortized over the two-year service agreement, as we believed that the achievement of the revenue targets was probable. As a result, we amortized $86,000 of the deferred costs as of December 31, 1999, of which $24,000 was offset against the $27,000 of revenue recognized from the client in 1999, and the remaining $62,000 of sales and marketing expense was reflected as a non-cash compensation expense, all of which was recorded in the fourth quarter of 1999.

In February 2000, we amended the option agreement. Under the amendment, the option became fully vested and immediately exercisable, and Network Commerce exercised the option in May 2000. Network Commerce agreed, however, that it could not sell the underlying common stock until the earlier of five years or, if certain revenue targets were met, May 19, 2001. The value ascribed to the option at the time the option agreement was amended, using a Black-Scholes pricing model, was $1,014,000, which was ratably amortized over the remaining service period of approximately fifteen months because the vesting of the option did not affect our obligation under the service agreement. In addition, the ratable amortization of the remaining deferred cost of $1,014,000 was recorded as a reduction of the revenue recognized from Network Commerce with any excess amortization recorded as sales and marketing expense, which was reflected as a non-cash compensation expense in our statement of operations. We amortized $723,000 of the deferred costs during the year ended December 31, 2000, of which $59,000 was offset against the $59,000 of revenue recognized from Network Commerce. The remaining $664,000 of sales and marketing expense was included in non-cash compensation expense in our 2000 statement of operations.

As of March 31, 2001, we determined that it was unlikely that Network Commerce would meet the remaining revenue requirements under the agreement. Accordingly, we amortized the remaining deferred cost of $291,000 during the three months ended March 31, 2001, of which $54,000 was offset against the $54,000 of revenue recognized from Network Commerce. The remaining $237,000 of sales and marketing expense was included in non-cash compensation expense in our statement of operations for the quarter ended March 31, 2001.

During 2000 and 1999, we granted or assumed stock options to purchase 5,730,727 and 3,496,245 shares of common stock at a weighted average exercise price of $3.62 and $1.37, per share, respectively, certain of which were granted at less than the deemed fair value of the common stock at the date of grant. For the years ended December 31, 2000 and 1999, we recorded deferred compensation of approximately $18.2 million and $6.2 million, respectively, in connection with these options. The

---

aggregate amount of unamortized deferred compensation related to the grant of options which was subsequently reversed against paid-in capital in connection with the forfeiture of those options associated with employees who left LivePerson during the year ended December 31, 2000, approximated $5.4 million. In 2000, we also recorded $272,000 of deferred compensation relating to the intrinsic value of unvested options assumed by us in connection with the HumanClick acquisition. These amounts are presented as deferred compensation within our consolidated financial statements and are being amortized over the vesting period, typically three to four years, of the applicable options. We amortized approximately $11.9 million and $1.6 million for the years ended December 31, 2000 and 1999, respectively, net of forfeitures or cancellations of approximately $2.0 million in connection with employees who left LivePerson in 2000.

Excluding the net non-cash compensation credit of approximately $1.7 million related to our restructuring initiatives in the first quarter of 2001, the net non-cash compensation charge of $677,000 for the year ended December 31, 2001 includes $237,000 related to the May 1999 option granted to Network Commerce (discussed above), $833,000 of amortization expense, $616,000 of charges related to acceleration of vesting of options in connection with the termination of the employment of certain employees and $1.0 million of credits due to forfeiture in connection with the termination of the employment of certain employees. The aggregate amount of unamortized deferred compensation reversed against additional paid-in capital for the year ended December 31, 2001 was approximately $2.9 million. This amount represents the forfeiture of options associated with LivePerson employees whose employment was terminated as part of our restructuring initiatives.

The net non-cash compensation expense of $13.2 million for the year ended December 31, 2000 includes $664,000 related to the May 1999 option granted to Network Commerce, $11.9 million of amortization expense, and $666,000 of charges related to the acceleration of vesting of certain employee options in connection with the termination of the employment of those employees.

In January 1999, we issued 41,667 shares of series A convertible preferred stock in the amount of $50,000 in exchange for consulting services provided by Silicon Alley Venture Partners, LLC.

Results of Operations

Due to our acquisition of HumanClick in October 2000, our significant restructuring initiatives during 2001, and our limited operating history, we believe that comparisons of our 2001, 2000 and 1999 operating results with each other, or with those of prior periods, are not meaningful and that our historical operating results should not be relied upon as indicative of future performance.

Comparison of Fiscal Years Ended December 31, 2001 and 2000

Revenue. Total revenue increased to $7.8 million for the year ended December 31, 2001, from $6.3 million for the year ended December 31, 2000. This increase was due primarily to the introduction of a new range of services, increased online marketing efforts of the LivePerson services and increased market acceptance of our services. Revenue in 2001 and 2000 included the recognition of $286,000 and $0, respectively, of set-up fees due to client attrition. Unamortized deferred fees, if any, are recognized upon termination of the agreement with the client. We cannot assure that we will achieve similar growth, if any, in future periods.

Cost of Revenue. Cost of revenue consists of compensation costs relating to employees who provide customer service to our clients, compensation costs relating to our network support staff, the cost of supporting our infrastructure, including expenses related to leasing space and connectivity for our services, as well as depreciation of certain hardware and software, and allocated occupancy costs and related overhead. Cost of revenue decreased to $6.7 million in 2001, from $7.9 million in 2000. This decrease was primarily attributable to reduced spending requirements associated with supporting our infrastructure as a result of our restructuring initiatives, including the consolidation of our clients onto a single customer application platform and the cancellation of operating leases for certain

computer equipment. The decrease is also attributable, to a lesser extent, to reduced allocated occupancy costs and related overhead.

Product Development. Our product development expenses consist primarily of compensation and related expenses for product development personnel. Product development costs decreased to $3.5 million in 2001, from $8.2 million in 2000. This decrease was primarily attributable to a decrease in outsourced labor costs and to our restructuring initiatives, which resulted in fewer employees, streamlined operations and reduced spending requirements, including relocating our software development to our Israel office.

Sales and Marketing. Our sales and marketing expenses consist of compensation and related expenses for sales and marketing personnel, as well as advertising, public relations and, to a lesser extent, trade show exhibit expenses. Sales and marketing expenses decreased to $5.1 million in 2001, from $14.5 million in 2000. This decrease was primarily attributable to reduced print advertising expense and to our restructuring initiatives, which resulted in fewer employees, streamlined operations and reduced spending requirements.

General and Administrative. Our general and administrative expenses consist primarily of compensation and related expenses for executive, accounting, human resources and administrative personnel. General and administrative expenses decreased to $5.7 million in 2001, from $7.0 million in 2000. This decrease was primarily attributable to our restructuring initiatives, which resulted in fewer employees, streamlined operations and reduced spending requirements, including the termination of our office lease agreement for our former principal executive offices, offset by an increase in our allowance for doubtful accounts.

Amortization of Goodwill and Other Intangibles. Amortization expense relates to goodwill and other intangibles recorded as a result of our acquisition of HumanClick in October 2000. We recorded amortization expense of $3.0 million in 2001, an increase from expense of $619,000 in 2000.

Non-Cash Compensation Expense, Net. Non-cash compensation expenses consist primarily of amortization of deferred stock-based compensation in 2001 and 2000. Deferred stock-based compensation represents the difference between the exercise price and the deemed fair value of certain stock options granted to employees. Deferred compensation is being amortized over the vesting period of the individual options. We recorded a non-cash compensation expense of $677,000 in 2001, a decrease from expense of $13.2 million in 2000. This decrease is due primarily to the reversal of previously recognized amortization of deferred compensation due to the forfeitures of employee stock options associated with employees who voluntarily left LivePerson in 2001, in the amount of approximately $1.0 million. The net non-cash compensation amounts for the year ended December 31, 2001 exclude the net non-cash compensation credit of $1.7 million related to our restructuring initiatives in the first quarter of 2001.

Other Income. Interest income was $538,000 and $1.8 million in 2001 and 2000, respectively, and consists of interest earned on cash and cash equivalents generated by the receipt of proceeds from our initial public offering in 2000 and preferred stock issuances in 2000 and 1999. Interest expense was $10,000 and $33,000 in 2001 and 2000, respectively. See "Part II. Item 5. Market For Registrant's Common Equity and Related Stockholder Matters—Use of Proceeds from Initial Public Offering." Other income was $109,000 and $65,000 in 2001 and 2000, respectively, and consists primarily of amortization of deferred gain on the sale-leaseback of certain computer equipment.

Net Loss. Our net loss decreased to $27.3 million in 2001, from $43.3 million in 2000.

Comparison of Fiscal Years Ended December 31, 2000 and 1999

Revenue. Total revenue increased to $6.3 million for the year ended December 31, 2000, from $615,000 for the year ended December 31, 1999. All of our revenue in 2000 was from the LivePerson services, while 94% of our revenue in 1999 was from the LivePerson services. These increases were due primarily to increased marketing efforts of the LivePerson services, increased market acceptance of our services and increased sales generated by LivePerson's expanded sales force. The growth of our sales force has allowed us to solicit more prospective clients and to respond more quickly and effectively to their inquiries. We cannot assure that we will achieve similar growth, if any, in future periods.

Revenue associated with Web-based community programming and media design services decreased to $0 in the year ended December 31, 2000, from $39,000 in the comparable period in 1999. We no longer provided these services as of January 2000; accordingly, we believe period-to-period comparisons are not meaningful.

Cost of Revenue. Cost of revenue consists of compensation costs relating to employees who provide customer service to our clients, compensation costs relating to our network support staff, the cost of supporting our infrastructure, including expenses related to leasing space and connectivity for our services, as well as depreciation of certain hardware and software, and allocated occupancy costs and related overhead. Cost of revenue increased to $7.9 million in 2000, from $856,000 in 1999. This increase was primarily attributable to costs associated with an increase in the number of LivePerson network operations personnel and client services personnel to serve an expanding client base. Our network operations organization grew to 11 people at December 31, 2000, from 5 people at December 31, 1999, and our client services organization grew to 41 people at December 31, 2000, from 17 people at December 31, 1999.

Product Development. Our product development expenses consist primarily of compensation and related expenses for product development personnel. Product development costs increased to $8.2 million in 2000, from $1.6 million in 1999. This increase was primarily attributable to an increase in the number of LivePerson product development personnel, which grew to 40 people at December 31, 2000 (including 11 employees of HumanClick) from 15 people at December 31, 1999, as well as allocated occupancy costs, related overhead and outsourced labor. These increases are primarily attributable to product enhancements and, to a lesser extent, to the development of new products.

Sales and Marketing. Our sales and marketing expenses consist of compensation and related expenses for sales and marketing personnel, as well as advertising, public relations and trade show exhibit expenses. Sales and marketing expenses increased to $14.5 million in 2000, from $4.0 million in 1999. This increase was primarily attributable to increased expenses for on-line and off-line advertising and marketing as well as increased headcount and related personnel expenses. Our sales and marketing headcount grew to 58 people at December 31, 2000 from 21 people at December 31, 1999. The increase in sales staff headcount is attributable to the expansion of our sales efforts. The increase in our marketing headcount and related expenses is due to our increasing efforts to enhance our brand recognition, and to support customer acquisition efforts.

General and Administrative. Our general and administrative expenses consist primarily of compensation and related expenses for executive, accounting, human resources and administrative personnel. General and administrative expenses increased to $7.0 million in 2000, from $1.7 million in 1999. This increase was due primarily to an increase in headcount, which grew to 31 people at December 31, 2000 (including 4 employees of HumanClick) from 15 people at December 31, 1999, and, to a lesser extent, due to insurance, professional fees, occupancy costs and depreciation.

Non-Cash Compensation Expense, Net. Non-cash compensation expenses consist primarily of amortization of deferred stock-based compensation in 2000 and 1999, as well as compensation expense incurred in connection with options and preferred stock issued to non-employees in lieu of payment for

services rendered in 1999. Deferred stock-based compensation represents the difference between the exercise price and the deemed fair value of certain stock options granted to employees. Deferred compensation is being amortized over the vesting period of the individual options. Non-cash compensation expense increased to $13.2 million in 2000, from $2.7 million in 1999.

Amortization of Goodwill and Other Intangibles. Amortization expense relates to goodwill and other intangibles recorded as a result of our acquisition of HumanClick in October 2000.

Other Income. Interest income was $1.8 million and $474,000 in 2000 and 1999, respectively, and consists of interest earned on cash and cash equivalents generated by the receipt of proceeds from our initial public offering in 2000 and preferred stock issuances in 2000 and 1999. Interest expense was $33,000 and $1,000 in 2000 and 1999, respectively. The increase in interest income, particularly since the second quarter of 1999, is due primarily to interest earned on the net proceeds from our initial public offering and the private placements of our series C and series D redeemable convertible preferred stock. See "Part II. Item 5. Market For Registrant's Common Equity and Related Stockholder Matters—Use of Proceeds from Initial Public Offering." Other income in 2000 consists primarily of amortization of deferred gain on the sale-leaseback of certain computer equipment.

Net Loss. Our net loss increased to $43.3 million in 2000, from $9.8 million in 1999.

Liquidity And Capital Resources

Since our inception, we have financed our operations principally through cash generated by private placements of convertible preferred stock and the initial public offering of our common stock. Through December 31, 2001, we have raised a total of $69.5 million in aggregate net proceeds. As of December 31, 2001, we had $10.1 million in cash and cash equivalents and marketable securities, a decrease of $11.3 million from December 31, 2000. We regularly invest excess funds in short-term money market funds, commercial paper, government securities, and short-term notes.

Net cash used in operating activities was $12.9 million in the year ended December 31, 2001 and consisted of net operating losses, non-cash items related to our restructuring initiatives, and a decrease in accounts receivable, accounts payable and deferred revenue, partially offset by an increase in accrued expenses due to our restructuring initiatives, and an increase in depreciation and amortization expenses. Net cash used in operating activities was $26.6 million in the year ended December 31, 2000 and consisted primarily of net operating losses and an increase in accounts receivable, partially offset by an increase in non-cash compensation, depreciation and amortization expenses and deferred revenue.

Net cash provided by investing activities was $2.6 million in the year ended December 31, 2001 and was primarily attributable to $4.2 million of restricted cash released pursuant to the cancellation of the lease of our former principal executive offices, which lease was terminated in September 2001. Net cash used in investing activities was $15.0 million in the year ended December 31, 2000 and was due to the purchase of fixed assets and capitalized software, the purchase of "short-term available-for-sale" investments and restricted cash requirements associated with the lease of our former principal executive offices.

Net cash provided by financing activities was $39,000 in the year ended December 31, 2001 and was primarily attributable to proceeds from the issuance of common stock in connection with the exercise of options. Net cash provided by financing activities was $47.0 million in the year ended December 31, 2000 and was primarily attributable to proceeds from our initial public offering, the sale of our series D convertible preferred stock and exercise of our warrants and stock options.

We lease facilities and certain equipment under agreements accounted for as operating leases. These leases generally require us to pay all executory costs such as maintenance and insurance. Rental

expense for operating leases for the years ended December 31, 2001 and 2000 was approximately $2.7 million and $1.4 million, respectively.

In October 2001, pursuant to our decision to relocate our principal executive offices, we entered into a lease for office space at a location in New York City. The three-year lease term commenced in November 2001, with rent of approximately $195,000 in the first year, $201,000 in the second year and $207,000 in the final year.

As of December 31, 2001, our principal commitments were approximately $846,000 under various operating leases, of which $355,000 is due in 2002. We do not currently expect that our principal commitments for the year ended December 31, 2002 will exceed $400,000 in the aggregate. Our capital expenditures are not currently expected to exceed $200,000 in 2002.

We have incurred significant costs to develop our technology and services, to hire employees in our customer service, sales, marketing and administration departments, and for the amortization of goodwill and other intangible assets, as well as non-cash compensation costs. In addition, our annual revenue growth in 2001 was less than in 2000, and our quarterly revenue declined in the second and third quarters of 2001 and did not increase materially in the first and fourth quarters of 2001. As a result, we have incurred significant net losses and negative cash flows from operations since inception, and as of December 31, 2001, had an accumulated deficit of $98.4 million. These losses have been funded primarily through the issuance of common stock in our initial public offering and, prior to the initial public offering, the issuance of convertible preferred stock.

In the first quarter of 2001, following a review of our business in connection with our acquisition of HumanClick, we commenced restructuring initiatives to streamline our operations, including the consolidation of our two San Francisco Bay area offices. The restructuring resulted in a reduction of our workforce by approximately 90 people as of the end of the first quarter of 2001. In the third quarter of 2001, in a continued effort to streamline our operations, we initiated additional restructuring initiatives. These initiatives resulted in the elimination of redundant staff positions, the consolidation of all clients onto a single application platform and the move of our principal executive offices, which included the termination of an office space lease. These initiatives resulted in a reduction of our workforce by approximately 20 people, the write-off of impaired computer equipment and software and the write-off of certain furniture, equipment and building improvements.

As a result of the various restructuring initiatives, for the year ended December 31, 2001, we recorded charges of approximately $12.7 million for expenses related to the restructuring and impairment, all of which are expected to be paid by the end of 2002. In addition, for the year ended December 31, 2001, we also recognized a net non-cash compensation credit in the amount of approximately $1.7 million associated with LivePerson employees who were terminated as part of our restructuring initiatives in first quarter of 2001. The net non-cash compensation credit of $1.7 million for the year ended December 31, 2001 represents the reversal of $3.2 million of previously recognized amortization of deferred compensation related to employee stock options which did not vest due to the termination of their employment in connection with our restructuring initiatives, offset by the acceleration of vesting of certain other employee options of $1.5 million also in connection with the restructuring initiatives. Approximately $446,000 of the $1.5 million represents additional compensation related to the intrinsic value of options at the date of modification during 2001.

We anticipate that our current cash and cash equivalents will be sufficient to satisfy our working capital and capital requirements for at least the next 12 months. However, we cannot assure you that we will not require additional funds prior to such time, and we would then seek to sell additional equity or debt securities through public financings, or seek alternative sources of financing. We cannot assure you that additional funding will be available on favorable terms, when needed, if at all. If we are unable to obtain any necessary additional financing, we may be required to further reduce the scope of our planned sales and marketing and product development efforts, which could materially adversely

affect our business, financial condition and operating results. In addition, we may require additional funds in order to fund more rapid expansion, to develop new or enhanced services or products or to invest in complementary businesses, technologies, services or products.

Recently Issued Accounting Standards

In June 1998, Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued and, as amended by SFAS No. 137, was adopted by us in the fourth quarter of 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. The adoption of this statement has not impacted our financial statements as we do not use derivative instruments.

In March 2000, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 00-2, "Accounting for Web Site Development Costs," which provided guidance on when to capitalize versus expense costs incurred to develop a Web site. The consensus is effective for Web site development costs in quarters beginning after June 30, 2000. We initially adopted the guidance as described by Issue 00-2 in 2000, which has not materially impacted our results of operations.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and subsequently, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," after its adoption.

We adopted the provisions of SFAS No. 141 as of July 1, 2001, and SFAS No. 142 effective January 1, 2002. Goodwill and intangible asset determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS No. 142 is adopted in full, will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the full adoption of SFAS No. 142. Upon adoption of SFAS No. 142, we are required to evaluate our existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141 for recognition separate from goodwill. We will be required to reassess the useful lives and residual values of all intangible assets acquired and make any necessary amortization period adjustments by the end of the first interim period after adoption, and, if an intangible asset is identified as having an indefinite useful life, we will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, SFAS No. 142 requires us to perform an assessment of whether there is an indication that goodwill is impaired as of the date of

---

adoption. To accomplish this, we must identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. We will then have up to six months from January 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of the reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit's goodwill may be impaired and we must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of the year of adoption. In the second step, we must compare the implied fair value of the reporting unit's goodwill, determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to the carrying amount of the reporting unit's goodwill, both of which would be measured as of the date of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in our statement of operations.

As of the date of adoption, we expect to have unamortized goodwill in the amount of $5.3 million, all of which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was $3.0 million and $619,000 for the years ended December 31, 2001 and 2000, respectively. Because of the extensive effort needed to comply with adopting SFAS Nos. 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on our financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of APB Opinion No. 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142, "Goodwill and Other Intangible Assets."

We adopted SFAS No. 144 on January 1, 2002. We do not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on our financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, we cannot determine the potential effects that adoption of SFAS No. 144 will have on our financial statements.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

Risks Related to Our Possible Delisting from Nasdaq

We face possible Nasdaq delisting which would result in a limited public market for our common stock and make obtaining future equity financing more difficult for us.

We must satisfy a number of requirements to maintain our listing on the Nasdaq National Market, including maintaining a minimum bid price for our common stock of $1.00 per share and maintaining a market value for our publicly-held shares of at least $5 million. A company fails to satisfy these requirements if its closing bid price remains below $1.00 per share or if the market value for the publicly-held shares remains below $5 million, in each case, for 30 consecutive business days.

On July 31, 2001, we received a letter from The Nasdaq Stock Market, Inc., containing a Nasdaq Staff Determination that we failed to comply with Nasdaq's minimum bid price requirement for continued listing set forth in Nasdaq Marketplace Rule 4450(a)(5), and that our common stock was, therefore, subject to delisting from the Nasdaq National Market. In addition, we received a letter from Nasdaq, dated September 4, 2001, notifying us of our failure to maintain a minimum market value of public float of $5 million over the preceding 30 consecutive trading days as required by the Nasdaq National Market under Nasdaq Marketplace Rule 4450(a)(2).

In October 2001, our Board of Directors determined that it would not effect the one-for-fifteen reverse split of our common stock approved by our stockholders at the Special Meeting of Stockholders held on September 11, 2001, due to the fact that on September 27, 2001, Nasdaq informed us that on such date they had implemented a moratorium on the minimum bid price and market value of public float requirements for continued listing on The Nasdaq Stock Market, which requirements were suspended until January 2, 2002. Based on the foregoing, the hearing we had requested before a Nasdaq Listing Qualifications Panel to appeal the July 2001 Nasdaq Staff Determination that our common stock failed to comply with the minimum bid price requirement was rendered moot.

On February 14, 2002, we received a letter from Nasdaq, notifying us that during the preceding 30 consecutive trading days, the bid price of our common stock had closed below the minimum bid price of $1.00 per share as required by the Nasdaq National Market under Nasdaq Marketplace Rule 4450(a)(5). The letter stated that we have until May 15, 2002 to demonstrate compliance with such rule and that, if we are not in compliance by that date, Nasdaq will notify us that our securities will be delisted from the Nasdaq National Market. If such event occurs, we may appeal the decision to a Nasdaq Listing Qualifications Panel. The letter also stated that we could apply to transfer the listing of our common stock to the Nasdaq SmallCap Market.

If a delisting from the Nasdaq National Market were to occur, shares of our common stock would likely trade on the Nasdaq SmallCap Market, or, if we failed to meet the requirements of that market, in the over-the-counter market in the so-called "pink sheets" maintained by Pink Sheets LLC or on the National Association of Securities Dealers' OTC Bulletin Board, which was established for securities that do not meet the listing requirements of the Nasdaq markets. Such alternative trading markets, and, in particular, the "pink sheets" and the OTC Bulletin Board, are generally considered less efficient than the Nasdaq National Market. Consequently, selling our common stock would be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and securities analysts' and news media coverage of us may be reduced. These factors could result in lower prices and larger spreads in the bid and ask prices for shares of common stock.

Such delisting from the Nasdaq National Market or further declines in our stock price could also greatly impair our ability to raise additional necessary capital through equity or debt financing, and significantly increase the ownership dilution to stockholders caused by our issuing equity in financing or other transactions. The price at which we issue shares in such transactions is generally based on the market price of our common stock and a decline in our stock price could result in the need for us to

issue a greater number of shares to raise a given amount of funding or acquire a given dollar value of goods or services.

In addition, if our common stock is not listed on the Nasdaq National Market, we may become subject to Rule 15g-9 under the Securities and Exchange Act of 1934, as amended. That rule imposes additional sales practice requirements on broker-dealers that sell low-priced securities to persons other than established customers and institutional accredited investors. For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. Consequently, the rule may affect the ability of broker-dealers to sell the common stock and affect the ability of holders to sell their shares of our common stock in the secondary market. Moreover, investors may be less interested in purchasing low-priced securities because the brokerage commissions, as a percentage of the total transaction value, tend to be higher for such securities, and some investment funds will not invest in low-priced securities (other than those which focus on small-capitalization companies or low-priced securities).

Risks Related to Our Business

We have a limited operating history and expect to encounter difficulties faced by early stage companies in new and rapidly evolving markets.

We have only a limited operating history providing the LivePerson services upon which to base an evaluation of our current business and future prospects. We began offering our services in November 1998 and we acquired HumanClick in October 2000; accordingly, the revenue and income potential of our business and the related market are unproven. As a result of our limited operating history as an application service provider of real-time sales and customer service technology for companies doing business on the Internet, we have only three years of historical financial data relating to the LivePerson services upon which to forecast revenue and results of operations.

In addition, because this market is relatively new and rapidly evolving, we have limited insight into trends that may emerge and affect our business. Before investing in us, you should evaluate the risks, expenses and problems frequently encountered by companies such as ours that are in the early stages of development and that are entering new and rapidly changing markets. These risks include our ability to:

- attract more clients and retain existing clients;
- sell additional seats for LivePerson Chat, which generate monthly fees, and other services to our existing clients;
- increase or maintain current pricing levels for our services;
- effectively market and maintain our brand name;
- respond effectively to competitive pressures;
- continue to develop and upgrade our technology; and
- attract, integrate, retain and motivate qualified personnel.

If we are unsuccessful in addressing some or all of these risks, our business, financial condition and results of operations would be materially and adversely affected.

We have a history of losses, we had an accumulated deficit of $98.4 million as of December 31, 2001 and we may incur losses in the future.

We have not achieved profitability, and we may, in the future, incur losses and experience negative cash flow, either or both of which may be significant. We recorded a net loss of $9.8 million for the year ended December 31, 1999, $43.3 million for the year ended December 31, 2000 and $27.3 million

---

for the year ended December 31, 2001. We had total revenue of approximately $7.8 million for the year ended December 31, 2001, and less than $6.3 million and $615,000 in the years ended December 31, 2000 and 1999, respectively. Our net loss for the year ended December 31, 2000 included a non-cash dividend of $18.0 million. As of December 31, 2001, our accumulated deficit was approximately $98.4 million. Even if we do achieve profitability, we cannot assure you that we can sustain or increase profitability on a quarterly or annual basis in the future. Failure to achieve or maintain profitability may materially and adversely affect the market price of our common stock.

We cannot predict our future capital needs to execute our business strategy and we may not be able to secure additional financing.

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

We have an unproven business model and may not generate sufficient revenue for our business to survive.

Our business model is based on the delivery of real-time sales and customer service technology and related services to companies doing business on the Internet, a largely untested business. Sales and customer service historically have been provided primarily in person or by telephone. Our business model assumes that companies doing business on the Internet will choose to provide sales and customer service via the Internet. Our business model also assumes that many companies will recognize the benefits of an outsourced application, that Internet users will choose to engage a customer service representative in a live text-based interaction, that this interaction will maximize sales opportunities and enhance the online shopping experience and that companies will seek to have their online sales and customer service technology provided by us. If any of these assumptions is incorrect, our business may be harmed. In addition, we recently began offering the LivePerson services via Internet download, which is an unproven model for the delivery of our services.

We expect that a substantial majority of our revenue will come from the LivePerson Chat service for the foreseeable future and if we are not successful in selling this service, our revenue will not increase and may decline.

The success of our business currently substantially depends, and for the foreseeable future will continue to substantially depend, on the sale of only one service, LivePerson Chat. We cannot be certain that there will be client demand for our services or that we will be successful in penetrating the market for real-time sales and customer service technology. Our revenue declined in each of the second and third quarters of 2001, and did not increase materially in the first or fourth quarters of 2001; we cannot assure you that we will experience any revenue growth in the future. A decline in the price of,

---

or fluctuation in the demand (by existing or potential clients) for, our services, is likely to cause our revenue to decline.

The success of our business requires that clients continue to use the LivePerson services and purchase additional seats.

Our LivePerson services agreements typically have no termination date and are terminable upon 30 to 90 days' notice without penalty. If a significant number of our clients, or any one client with a significant number of seats, were to terminate these services agreements, reduce the number of seats purchased or fail to purchase additional seats, our results of operations may be negatively and materially affected. Our client retention rates have recently declined as a result of a number of factors, including competition, consolidation in the Internet industry and termination of operations by certain of our clients. Dissatisfaction with the nature or quality of our services, including our new software application platform introduced in the third quarter of 2001, could also lead clients to terminate our service. We depend on monthly fees from the LivePerson services for substantially all our revenue. If our retention rate declines further, our revenue could decline unless we are able to obtain additional clients or alternate revenue sources. Further, because of the historically small number of seats sold in initial orders, we depend on sales to new clients and sales of additional seats to our existing clients.

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

We expect our quarterly revenue and operating results to fluctuate significantly in the future due to a variety of factors, including the following factors which are in part within our control, and in part outside of our control:

- market acceptance by companies doing business on the Internet of real-time sales and customer service technology;
-

our clients' business success;

- our clients' demand for seats and our other services;
- our ability to attract and retain clients;
- the amount and timing of capital expenditures and other costs relating to the expansion of our operations, including those related to acquisitions;
- the introduction of new services by us or our competitors; and
- changes in our pricing policies or the pricing policies of our competitors.

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

- seasonal factors affecting our clients' businesses;
- economic conditions specific to the Internet, electronic commerce and online media; and
- general economic and political conditions.

Many of our clients' businesses are seasonal. Our clients' demand for real-time sales and customer service technology in general and their demand for seats and our other services, in particular, may be seasonal as well. As a result, our future revenue and profits may vary from quarter to quarter.

We do not believe that period-to-period comparisons of our operating results are meaningful. You should not rely upon these comparisons as indicators of our future performance.

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

Our clients may experience adverse business conditions that could adversely affect our business.

Some of our clients may experience difficulty in supporting their current operations and implementing their business plans. These clients may reduce their spending on our services, or may not be able to discharge their payment and other obligations to us. These circumstances are influenced by general economic and industry-specific conditions, and could have a material adverse impact on our business, financial condition and results of operations. In addition, as a result of these conditions, our clients, in particular our Internet-related clients that may experience (or that anticipate experiencing) difficulty raising capital, may elect to scale back the resources they devote to customer service technology, including services such as ours. If the current environment for our clients, including, in particular, our Internet-related clients, does not improve, our business, results of operations and financial condition could be materially adversely affected. In addition, the non-payment or late payment of amounts due to us from a significant number of clients would negatively impact our financial condition. In the year ended December 31, 2001, we increased our allowance for doubtful accounts to approximately $1.5 million from $577,000 at December 31, 2000. A significant portion of this increase was due to overdue accounts receivable balances for our Internet-related clients with limited operating histories, many of which began to face difficult business conditions in the past year, and, in particular, during the nine months ended September 30, 2001. During 2001, we wrote off approximately $1.3 million of previously reserved accounts, leaving a net allowance of $160,000 at December 31, 2001. We did not increase our allowance for doubtful accounts in the three months ended December 31, 2001. This is attributable to the fact that our accounts receivable collections improved in the fourth quarter, due primarily to the significantly larger percentage of our total outstanding accounts receivable now comprised of businesses with more established and proven operating histories, and to a lesser extent, to the fact that an increased number of our clients now pay us by credit card, which transfers the collection risk to the credit card provider.

We may not be able to effectively manage our changing operations.

Since the launch of our services in November 1998, we have grown rapidly, even in light of our recent restructuring initiatives. This growth has placed a significant strain on our managerial, operational, technical and financial resources. In 2000, we replaced our existing accounting and other back-office systems at a cost of approximately $1.2 million. In 2001, in connection with our restructuring initiatives, we implemented a less expensive accounting system. The cost of this new system was immaterial. The new systems are being integrated with our operations, controls and procedures. If we are not able to successfully integrate these new systems with our existing systems, or if we incur significant additional costs in order to achieve such integration, our business could be harmed. In order to manage our growth, we must also continue to implement new or upgraded operating and financial systems, procedures and controls. Our failure to expand our operations in an efficient manner could cause our expenses to grow, our revenue to decline or grow more slowly than expected and could otherwise have a material adverse effect on our business, results of operations and financial condition.

Staff attrition could strain our managerial, operational, financial and other resources.

We had 73 employees at December 31, 1999; 181 employees at December 31, 2000; and 68 employees at December 31, 2001. In the area of technology, we had 19 employees at December 31, 1999; 40 employees at December 31, 2000; and 12 employees at December 31, 2001. Any staff attrition we experience, whether initiated by the departing employees or by us, could place a significant strain on our managerial, operational, financial and other resources. To the extent that we do not initiate or seek any staff attrition that occurs, there can be no assurance that we will be able to identify and hire adequate replacement staff promptly, if at all, and even that if such staff is replaced, we will be successful in integrating these employees. In both the first and third quarters of 2001, in addition to conducting regularly-occurring performance-related terminations, we commenced restructuring plans pursuant to which we eliminated a large number of positions in response to changes in our business needs, such as redundancies in our research and development and client support functions and the transition of a portion of our sales efforts from direct sales to more automated Internet-based sales processes. We expect to evaluate our needs and the performance of our staff on a periodic basis, and may choose to make further adjustments in the future. If the size of our staff is significantly further reduced, either by our choice or otherwise, we could face significant management, operational, financial and other constraints. For example, it may become more difficult for us to manage existing, or establish new, relationships with clients and other counterparties, or to expand and improve our service offerings. It may also become more difficult for us to implement changes to our business plan or to respond promptly to opportunities in the marketplace. Further, it may become more difficult for us to devote personnel resources necessary to maintain or improve existing systems, including our financial and managerial controls, billing systems, reporting systems and procedures. Thus, any significant amount of staff attrition could cause our business and financial results to suffer.

Our business is dependent on a few key employees, including our chief executive officer, Robert P. LoCascio.

Our future success depends to a significant extent on the continued services of our senior management team, including Robert P. LoCascio, our founder and Chief Executive Officer. The loss of the services of any member of our senior management team, in particular Mr. LoCascio, could have a material and adverse effect on our business, results of operations and financial condition. In addition, since November 2000, many members of our senior management team left LivePerson. Although we do not believe that changes in our senior management team have materially harmed our business, they have distracted us from other important tasks, and we cannot assure you that we will be able to successfully integrate newly-hired senior managers who will work together successfully with our existing management team.

If we do not successfully integrate potential future acquisitions, our business could be harmed.

In the future, we may acquire or invest in complementary companies, products or technologies. Acquisitions and investments involve numerous risks to us, including:

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

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

We could face additional regulatory requirements, tax liabilities and other risks as we expand internationally.

In October 2000, we acquired HumanClick, an Israeli-based provider of real-time online customer service applications with more than 100,000 customers around the world and 27 employees at the date of acquisition. In addition, during a portion of 2000 and 2001, we conducted operations in the United Kingdom. There are risks related to doing business in international markets, such as changes in regulatory requirements, tariffs and other trade barriers, fluctuations in currency exchange rates, more stringent rules relating to the privacy of Internet users and adverse tax consequences. In addition, there are likely to be different consumer preferences and requirements in specific international markets. Furthermore, we may face difficulties in staffing and managing any foreign operations. One or more of these factors could harm any future international operations.

If we do not succeed in attracting new personnel or retaining and motivating our current personnel, or if we are unable to outsource certain functions, our business, results of operations and financial condition will be materially and adversely affected.

We may be unable to retain our key employees or attract, integrate or retain other highly qualified employees in the future. We have experienced difficulty in hiring and retaining highly-skilled senior managers and other employees with appropriate qualifications. Also, our workforce reductions announced in the first and third quarters of 2001 may adversely affect the morale of, and our ability to retain, those employees who were not terminated. Because our stock price has suffered a significant decline, the stock options held by our employees and other equity-based compensation may have diminished effectiveness as employee retention devices. If our retention efforts are ineffective, employee turnover could increase and our ability to provide services to our clients would be materially and adversely affected.

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

Our services appear as a LivePerson-branded or a custom-created icon on our clients' Web sites. The customer service operators who respond to the inquiries of our clients' Internet users are employees or agents of our clients; they are not our employees. As a result, we have no way of controlling the actions of these operators. In addition, an Internet user may not know that the operator is an employee or agent of our client, rather than a LivePerson employee. If an Internet user were to have a negative experience in a LivePerson-powered or HumanClick-powered real-time dialogue, it is possible that this experience could be attributed to us, which could diminish our brand and harm our business. Finally, we believe the success of our services depend on the prominent placement of the icon on the client's Web site, over which we also have no control.

We may be unable to continue to build awareness of the LivePerson brand name.

Building recognition of our brand is critical to establishing the advantage of being among the first application service providers to provide real-time sales and customer service and to attracting new clients. If we fail to successfully promote and maintain our brand or incur significant expenses in promoting our brand without an associated increase in our revenue, our business, results of operations and financial condition may be materially and adversely affected.

We are dependent on technology systems that are beyond our control.

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

In addition, we rely on a third-party Web hosting service provider for Internet connectivity and network infrastructure hosting, security and maintenance. The provider has, in the past, experienced problems that have resulted in slower than normal response times and interruptions in service. If we are unable to continue utilizing the services of our existing Web hosting provider or if our Web hosting services experience interruptions or delays, it is possible that our business could be harmed.

Our service also depends on many third parties for hardware and software, which products could contain defects. Problems arising from our use of such hardware or software could require us to incur significant costs or divert the attention of our technical personnel from our product development efforts. To the extent any such problems require us to replace such hardware or software, we may not be able to do so on acceptable terms, if at all.

Technological defects could disrupt our services, which could harm our business and reputation.

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

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

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

We may be unable to respond to the rapid technological change and changing client preferences in the online sales and customer service industry and this may harm our business.

If we are unable, for technological, legal, financial or other reasons, to adapt in a timely manner to changing market conditions in the online sales and customer service industry or our clients' or Internet users' requirements, our business, results of operations and financial condition would be materially and

adversely affected. Business on the Internet is characterized by rapid technological change. In addition, the market for online sales and customer service technology is relatively new. Sudden changes in client and Internet user requirements and preferences, frequent new product and service introductions embodying new technologies, such as broadband communications, and the emergence of new industry standards and practices could render the LivePerson services and our proprietary technology and systems obsolete. The rapid evolution of these products and services will require that we continually improve the performance, features and reliability of our services. Our success will depend, in part, on our ability to:

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

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

If we are not competitive in the market for real-time sales and customer service technology, our business could be harmed.

There are no substantial barriers to entry in the real-time sales and customer service technology market, other than the ability to design and build scalable software and, with respect to outsourced solution providers, the ability to design and build scalable network architecture. Established or new entities may enter this market in the near future, including those that provide real-time interaction online, with or without the user's request.

We compete directly with companies focused on technology that facilitates real-time sales and customer service interaction. Our competitors include customer service enterprise software providers such as eGain Communications Corp., Divine, Inc., KANA Software, Inc., and RightNow Technologies, Inc., some of which offer hosted solutions. Furthermore, many of our competitors offer a broader range of customer relationship management products and services than we currently offer. We may be disadvantaged and our business may be harmed if companies doing business on the Internet choose sales and customer service technology from such providers.

We also face potential competition from larger enterprise software companies such as Oracle and Siebel Systems. In addition, established technology companies, including IBM and Microsoft, may also leverage their existing relationships and capabilities to offer real-time sales and customer service applications.

Finally, we face competition from clients and potential clients that choose to provide a real-time sales and customer service solution in-house as well as, to a lesser extent, traditional offline customer service solutions, such as telephone call centers.

We believe that competition will increase as our current competitors increase the sophistication of their offerings and as new participants enter the market. Many of our current and potential competitors have:

- longer operating histories;
- larger client bases;
- greater brand recognition;

- more diversified lines of products and services; and
- significantly greater financial, marketing and other resources.

These competitors may enter into strategic or commercial relationships with larger, more established and better-financed companies. These competitors may be able to:

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

Any delay in the general market acceptance of the real-time sales and customer service solution business model would likely harm our competitive position. Delays would allow our competitors additional time to improve their service or product offerings, and would also provide time for new competitors to develop real-time sales and customer service applications and solicit prospective clients within our target markets. Increased competition could result in pricing pressures, reduced operating margins and loss of market share.

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

Our success and ability to compete depend, in part, upon the protection of our intellectual property rights relating to the technology underlying the LivePerson services. We currently have a U.S. patent application pending relating to such technology and have not filed applications outside the U.S. The U.S. Patent and Trademark Office has issued a non-final office action rejecting our patent application. We have not yet responded to the office action; however, it is possible that:

- our pending patent application may not result in the issuance of a patent;
- any patent issued may not be broad enough to protect our intellectual property rights;
- any patent issued could be successfully challenged by one or more third parties, which could result in our loss of the right to prevent others from exploiting the invention claimed in the patent;
- current and future competitors may independently develop similar technology, duplicate our service or design around any patent we may have; and
- effective patent protection may not be available in every country in which we do business.

Further, to the extent that the invention described in our U.S. patent application was made public prior to the filing of the application, we may not be able to obtain patent protection in certain foreign countries. We also rely upon copyright, trade secret and trademark law, written agreements and common law to protect our proprietary technology, processes and other intellectual property, to the extent that protection is sought or secured at all. We currently have one common law trademark, "LivePerson", one registered U.S. trademark, "LivePerson Give Your Site A Pulse" and one pending U.S. trademark application, "HumanClick". With regard to the "HumanClick" mark, the U.S. Patent and Trademark Office published such mark for opposition on January 8, 2002, and may issue a notice of allowance with respect to such mark if no opposition was filed by February 7, 2002. However, the U.S. Patent and Trademark Office has not yet indicated whether timely opposition was filed, no final determination as to the registrability of this mark has been made, and, ultimately we may not be able to secure registration of this trademark. We do not have any trademarks registered outside the U.S., nor do we have any trademark applications pending outside the U.S. We cannot assure you that any steps we might take will be adequate to protect against infringement and misappropriation of our intellectual property by third parties. Similarly, we cannot assure you that third parties will not be able to independently develop similar or superior technology, processes or other intellectual property. The unauthorized reproduction or other misappropriation of our intellectual property rights could enable third parties to benefit from our technology without paying us for it. If this occurs, our business, results of operations and financial condition could be materially and adversely affected. In addition, disputes concerning the ownership or rights to use intellectual property could be costly and time-consuming to litigate, may distract management from operating our business and may result in our loss of significant rights.

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

Although we attempt to avoid infringing known proprietary rights of third parties, we do not conduct comprehensive patent searches to determine whether our services and technology infringe patents held by others, and we are subject to the risk of claims alleging infringement of third-party proprietary rights. If we infringe upon the rights of third parties, we may not be able to obtain licenses to use those rights on commercially reasonable terms. In that event, we would need to undertake substantial reengineering to continue offering our services. Any effort to undertake such reengineering might not be successful. In addition, any claim of infringement could cause us to incur substantial costs defending against the claim, even if the claim is invalid, and could distract our management from our business. Furthermore, a party making such a claim could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from selling our products. If any of these events occurred, our business, results of operations and financial condition would be materially and adversely affected.

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

We maintain dialogue transcripts of the text-based chats between our clients and Internet users and store on our servers information supplied voluntarily by these Internet users in exit surveys which follow the chats. We provide this information to our clients to allow them to perform Internet user analyses and monitor the effectiveness of our services. Some of the information we collect in text-based chats and exit surveys may include personal information, such as contact and demographic information. If third parties were able to penetrate our network security or otherwise misappropriate personal information relating to our clients' Internet users or the text of customer service inquiries, we could be subject to liability. We could be subject to negligence claims or claims for misuse of personal information. These claims could result in litigation which could have a material adverse effect on our business, results of operations and financial condition. We may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by such breaches.

The need to physically secure and securely transmit confidential information online has been a significant barrier to electronic commerce and online communications. Any well-publicized compromise of security could deter people from using online services such as the ones we offer, or from using them to conduct transactions which involve transmitting confidential information. Because our success depends on the general acceptance of our services and electronic commerce, we may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by these breaches.

Risks Related to Our Acquisition of HumanClick and Its Business

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

Our product development staff, help desk and online sales personnel are located in Israel. Although substantially all of our sales to date have been made to customers outside Israel, we are directly influenced by the political, economic and military conditions affecting Israel. Since the

establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has caused security and economic problems in Israel. Further, since September 2000, there has been a significant deterioration in the relationship between Israel and the Palestinian Authority and serious violence has ensued, the peace process between the parties has stagnated, and Israel's relationship with several Arab countries has been adversely affected. Moreover, hostilities during the early part of 2002 have escalated significantly, with increased attacks in Israel and an armed conflict between Israel and the Palestinians in the West Bank and Gaza. Efforts to resolve the conflict have failed to result in an agreeable solution. Continued hostilities between the Palestinian community and Israel and any failure to settle the conflict could adversely affect our operations in Israel and our business. Further deterioration of the situation into a full scale armed conflict might require more widespread military reserve service by some of our Israeli employees and might result in a significant downturn in the economic or financial condition of Israel, either of which could have a material adverse effect on our operations in Israel and our business. In addition, several Arab countries still restrict business with Israeli companies. Our operations in Israel could be adversely affected by restrictive laws or policies directed towards Israel and Israeli businesses.

If we do not successfully integrate HumanClick or the merger's benefits do not meet the expectations of financial or industry analysts, the market price for our common stock may decline.

On October 12, 2000, we acquired HumanClick with the expectation that this merger will result in significant benefits. We have no experience in managing a customer base as large as HumanClick's and very little direct experience in offering real-time, online customer service applications to small and mid-sized businesses. Furthermore, HumanClick's principal offices are located in Israel while our principal offices are located in New York; managing the business in a coordinated fashion may therefore require additional management resources. We will need to overcome these significant issues, among others, in order to realize any benefits or synergies from the mergers. Our successful execution of these post-merger events will involve considerable risk and may not be successful.

The market price of our common stock may decline, and we may lose key personnel and customers as a result of this merger if we do not successfully integrate operations and personnel of HumanClick or if we do not achieve the perceived benefits of the merger as rapidly or to the extent anticipated by financial or industry analysts.

If the costs associated with the HumanClick acquisition exceed the benefits realized, we may experience increased losses.

We cannot assure you that we will ever generate sufficient revenue from the sale of HumanClick's services, which have only recently begun to generate revenue, to offset expenses associated with the acquisition. Accordingly, if the benefits of this acquisition do not exceed the costs associated with it, including dilution to our stockholders resulting from the issuance of up to approximately 4.5 million shares of our common stock in the acquisition, our financial results could be adversely affected.

Risks Related to Our Industry

We are dependent on continued growth in the use of the Internet as a medium for commerce.

We cannot be sure that a sufficiently broad base of consumers will adopt, and continue to use, the Internet as a medium for commerce. Our long-term viability depends substantially upon the widespread acceptance and development of the Internet as an effective medium for consumer commerce. Use of the Internet to effect retail transactions is at an early stage of development. Convincing our clients to offer real-time sales and customer service technology may be difficult.

Demand for recently introduced services and products over the Internet is subject to a high level of uncertainty. Few proven services and products exist. The development of the Internet into a viable commercial marketplace is subject to a number of factors, including:

- continued growth in the number of users;
- concerns about transaction security;
- continued development of the necessary technological infrastructure;
- development of enabling technologies;
- uncertain and increasing government regulation; and
- the development of complementary services and products.

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

To the extent that the Internet continues to experience growth in the number of users and frequency of use by consumers resulting in increased bandwidth demands, we cannot assure you that the infrastructure for the Internet will be able to support the demands placed upon it. The Internet has experienced outages and delays as a result of damage to portions of its infrastructure. Outages or delays could adversely affect online sites, email and the level of traffic on the Internet. We also depend on Internet service providers that provide our clients and Internet users with access to the LivePerson services. In the past, users have experienced difficulties due to system failures unrelated to our service. In addition, the Internet could lose its viability due to delays in the adoption of new standards and protocols required to handle increased levels of Internet activity. Insufficient availability of telecommunications services to support the Internet also could result in slower response times and negatively impact use of the Internet generally, and our clients' sites (including the LivePerson or HumanClick pop-up dialogue windows) in particular. If the use of the Internet fails to grow or grows more slowly than expected, if the infrastructure for the Internet does not effectively support growth that may occur or if the Internet does not become a viable commercial marketplace, we may not achieve profitability and our business, results of operations and financial condition will suffer.

We may become subject to burdensome government regulation and legal uncertainties.

Laws and regulations directly applicable to Internet communications, commerce and advertising are becoming more prevalent. Recently, the United States Congress enacted Internet legislation relating to issues such as children's privacy, copyright and taxation. The children's privacy legislation imposes restrictions on the collection, use and distribution of personal identification information obtained online from children under the age of 13. The copyright legislation establishes rules governing the liability of Internet service providers and Web site publishers for the copyright infringement of Internet users. The tax legislation places a moratorium on certain forms of Internet taxes for three years; however, this moratorium does not apply to sales and use taxes. Additionally, the European Union has adopted a directive addressing data privacy which imposes restrictions on the collection, use and processing of personal data. Existing legislation and any new legislation could hinder the growth in use of the Internet generally and decrease the acceptance of the Internet as a medium for communication, commerce and advertising. The laws governing the Internet remain largely unsettled, even in areas where legislation has been enacted. It may take several years to determine whether and how existing laws such as those governing intellectual property, taxation and personal privacy apply to the Internet and Internet services. In addition, the growth and development of the market for Internet commerce may prompt calls for more stringent consumer protection laws, both in the U.S. and abroad, which may impose additional burdens on companies conducting business online. Our business, results of operations and financial condition could be materially and adversely affected if we do not comply with recent legislation or laws or regulations relating to the Internet that are adopted or modified in the future.

For example, the LivePerson services allow our clients to capture and save information about Internet users, possibly without their knowledge. Additionally, our service uses a tool, commonly referred to as a "cookie," to uniquely identify each of our clients' Internet users. To the extent that additional legislation regarding Internet user privacy is enacted, such as legislation governing the collection and use of information regarding Internet users through the use of cookies, the effectiveness of the LivePerson services could be impaired by restricting us from collecting information which may be valuable to our clients. The foregoing could harm our business, results of operations and financial condition.

Security concerns could hinder commerce on the Internet.

User concerns about the security of confidential information online has been a significant barrier to commerce on the Internet and online communications. Any well-publicized compromise of security could deter people from using the Internet or other online services or from using them to conduct transactions that involve the transmission of confidential information. If Internet commerce is inhibited as a result of such security concerns, our business would be harmed.

Other Risks

Our executive officers, directors and 5% or greater stockholders will be able to influence matters requiring a stockholder vote.

Our executive officers, directors and stockholders who each own greater than 5% of the outstanding common stock and their affiliates, in the aggregate, beneficially own approximately 45.4% of our outstanding common stock. As a result, these stockholders, if acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership could also have the effect of delaying or preventing a change in control.

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

If our stockholders sell substantial amounts of our common stock, including shares issuable upon the exercise of outstanding options and warrants in the public market, or if our stockholders are perceived by the market as intending to sell substantial amounts of our common stock, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. "Affiliates" of LivePerson may not sell their shares of our common stock except pursuant to an effective registration statement under the Securities Act covering the resale of those shares, or an exemption under the Securities Act, including Rule 144.

Persons who may be deemed to be affiliates of LivePerson include those persons or entities who directly or indirectly control LivePerson, such as our directors, executive officers and significant stockholders.

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

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

- variations in our quarterly operating results;

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

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currency Rate Fluctuations

Through December 31, 2001, our results of operations, financial position and cash flows have not been materially affected by changes in the relative values of non-U.S. currencies to the U.S. dollar. The functional currency for our former operations in the United Kingdom is the U.K. pound (sterling) and the functional currency of our wholly-owned Israeli subsidiary, HumanClick Ltd., is the U.S. dollar. We do not use derivative financial instruments to limit our foreign currency risk exposure.

Collection Risk

Our accounts receivable are subject, in the normal course of business, to collection risks. We regularly assess these risks and have established policies and business practices to protect against the

---

adverse effects of collection risks. In the year ended December 31, 2001, we increased our allowance for doubtful accounts to approximately $1.5 million from $577,000 at December 31, 2000, principally due to an increase in accounts receivable and deteriorating aging due to slower collections. A significant portion of this increase was due to overdue accounts receivable balances for our Internet-related clients with limited operating histories, many of which began to face difficult business conditions in the past year, and, in particular, during the nine months ended September 30, 2001. During 2001, we wrote off approximately $1.3 million of previously reserved accounts, leaving an allowance of $160,000 at December 31, 2001. We did not increase our allowance for doubtful accounts in the three months ended December 31, 2001. This is attributable to the fact that our accounts receivable collections improved in the fourth quarter, due primarily to the significantly larger percentage of our total outstanding accounts receivable now comprised of businesses with more established and proven operating histories, and to a lesser extent, to the fact that an increased number of our clients now pay us by credit card, which transfers the collection risk to the credit card provider.

Interest Rate Risk

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The unaudited supplementary data regarding quarterly results of operations are incorporated by reference to the information set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the section captioned, "Unaudited Quarterly Results of Operations."

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
LivePerson, Inc.:

We have audited the accompanying consolidated balance sheets of LivePerson, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LivePerson, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

New York, New York
February 5, 2002

LIVEPERSON, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31,	
	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,136	$ 20,449
Marketable securities	—	1,000
Accounts receivable, less allowance for doubtful accounts of $160 and $577, in 2001 and 2000, respectively	620	1,271
Prepaid expenses and other current assets	389	747
Total current assets	11,145	23,467
Property and equipment, net	915	12,883
Goodwill and other intangibles, net	5,338	8,291
Restricted cash related to lease	—	2,000
Security deposits	122	68
Other assets	107	—
Deferred costs, net	—	291
Total assets	$ 17,627	$ 47,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 592	$ 1,126
Accrued expenses	2,115	1,446
Deferred revenue	560	615
Total current liabilities	3,267	3,187
Other liabilities	89	—
Long-term deferred revenue	—	277
Deferred rent	—	304
Deferred gain on sale-leaseback	—	457
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value per share; 5,000,000 shares authorized, 0 issued and outstanding at December 31, 2001 and 2000	—	—
Common stock, $.001 par value per share; 100,000,000 shares authorized, 33,983,381 shares issued and outstanding at December 31, 2001; 33,914,613 shares shares issued and outstanding at December 31, 2000	34	34
Additional paid-in capital	113,071	119,780
Deferred compensation	(399)	(5,872)
Accumulated deficit	(98,428)	(71,167)
Accumulated other comprehensive loss	(7)	—
Total stockholders' equity	14,271	42,775
Total liabilities and stockholders' equity	$ 17,627	$ 47,000

See accompanying notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

	Year Ended December 31,		
	2001	2000	1999
Revenue:			
Service revenue	$ 7,806	$ 6,279	$ 576
Other revenue	—	—	39
Total revenue	7,806	6,279	615
Operating expenses:			
Cost of revenue, exclusive of $(193), $1,109 and $198 for the years ended December 31, 2001, 2000 and 1999, respectively, reported below as non-cash compensation expense	6,740	7,888	856
Product development, exclusive of $(181), $1,476 and $566 for the years ended December 31, 2001, 2000 and 1999, respectively, reported below as non-cash compensation expense	3,509	8,209	1,637
Sales and marketing, exclusive of $376, $4,822 and $577 for the years ended December 31, 2001, 2000 and 1999, respectively, reported below as non-cash compensation expense	5,089	14,529	3,987
General and administrative, exclusive of $675, $5,838 and $1,338 for the years ended December 31, 2001, 2000 and 1999, respectively, reported below as non-cash compensation expense	5,694	6,994	1,706
Amortization of goodwill and other intangibles	2,975	619	—
Non-cash compensation expense, net	677	13,245	2,679
Non-cash compensation credit related to restructuring, net	(1,720)	—	—
Restructuring and impairment charges	12,740	—	—
Total operating expenses	35,704	51,484	10,865
Loss from operations	(27,898)	(45,205)	(10,250)
Other income (expense):			
Other income	109	65	—
Interest income	538	1,839	474
Interest expense	(10)	(33)	(1)
Total other income, net	637	1,871	473
Net loss	(27,261)	(43,334)	(9,777)
Non-cash preferred stock dividend	—	18,000	—
Net loss attributable to common stockholders	$ (27,261)	$ (61,334)	$ (9,777)
Basic and diluted net loss per common share	$ (0.80)	$ (2.50)	$ (1.38)
Weighted average shares outstanding used in basic and diluted net loss per common share calculation	33,987,895	24,535,078	7,092,000

See accompanying notes to consolidated financial statements.

LIVEPERSON, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands, except share and per share data)

	Series A Preferred Stock		Series B Preferred Stock		Common Stock						
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 1998	—	$ —	—	$ —	7,092,000	$ 7	$ 19	$ —	$ (56)	$ —	$ (30)
Issuance of stock options in lieu of payment for services	—	—	—	—	—	—	978	—	—	—	978
Issuance of stock options to employees below fair market value	—	—	—	—	—	—	6,233	(6,233)	—	—	—
Amortization of deferred compensation	—	—	—	—	—	—	—	1,589	—	—	1,589
Issuance of stock options to a client	—	—	—	—	—	—	566	—	—	—	566

Issuance of Series A preferred stock and warrants	2,416,667	3	—	—	—	—	2,899	—	—	—	2,902
Issuance of Series A preferred stock in lieu of payment for services	41,667	—	—	—	—	—	50	—	—	—	50
Conversion of note payable into shares of Series A preferred stock	83,333	—	—	—	—	—	100	—	—	—	100
Issuance of Series B preferred stock and warrants, net of $15 issuance costs	—	—	1,142,857	1	—	—	1,585	—	—	—	1,586
Offering costs in connection with Series C redeemable preferred stock	—	—	—	—	—	—	(10)	—	—	—	(10)
Net loss	—	—	—	—	—	—	—	—	(9,777)	—	(9,777)
Balance at December 31, 1999	2,541,667	3	1,142,857	1	7,092,000	7	12,420	(4,644)	(9,833)	—	(2,046)
Offering costs in connection with Series D redeemable preferred stock	—	—	—	—	—	—	(79)	—	—	—	(79)
Non-cash preferred stock dividend	—	—	—	—	—	—	18,000	—	(18,000)	—	—
Issuance of common stock in connection with initial public offering, net of $3,899 in offering costs	—	—	—	—	4,000,000	4	28,097	—	—	—	28,101
Conversion of all outstanding convertible preferred stock in connection with initial public offering	(2,541,667)	(3)	(1,142,857)	(1)	17,962,273	18	36,976	—	—	—	36,990
Issuance of common stock upon exercise of stock options and warrants	—	—	—	—	595,984	1	833	—	—	—	834
Issuance of common stock in connection with Employee Stock Purchase Plan	—	—	—	—	25,951	—	51	—	—	—	51
Issuance of stock options to a client	—	—	—	—	—	—	534	—	—	—	534
Issuance of common stock and options in connection with HumanClick acquisition	—	—	—	—	4,238,405	4	9,139	—	—	—	9,143
Deferred stock based compensation, net of forfeitures	—	—	—	—	—	—	12,871	(12,871)	—	—	—
Deferred stock based compensation assumed in connection with HumanClick acquisition	—	—	—	—	—	—	272	(272)	—	—	—
Acceleration of employee stock options	—	—	—	—	—	—	666	—	—	—	666
Amortization of deferred compensation, net of forfeitures	—	—	—	—	—	—	—	11,915	—	—	11,915
Net loss	—	—	—	—	—	—	—	—	(43,334)	—	(43,334)
Balance at December 31, 2000	—	—	—	—	33,914,613	34	119,780	(5,872)	(71,167)	—	42,775
Issuance of common stock upon exercise of stock options and warrants	—	—	—	—	54,768	—	37	—	—	—	37
Issuance of common stock in connection with Employee Stock Purchase Plan	—	—	—	—	4,000	—	2	—	—	—	2
Issuance of common stock as settlement	—	—	—	—	10,000	—	5	—	—	—	5
Deferred stock based compensation, net of forfeitures	—	—	—	—	—	—	(7,369)	7,369	—	—	—
Acceleration of employee stock options	—	—	—	—	—	—	616	—	—	—	616
Amortization of deferred compensation, net of forfeitures	—	—	—	—	—	—	—	(176)	—	—	(176)
Net reversal of deferred compensation due to restructuring.	—	—	—	—	—	—	—	(1,720)	—	—	(1,720)
Net loss	—	—	—	—	—	—	—	—	(27,261)	—	(27,261)
Foreign currency translation	—	—	—	—	—	—	—	—	—	(7)	(7)
Comprehensive loss											(27,268)
Balance at December 31, 2001	—	$ —	—	$ —	33,983,381	$ 34	$ 113,071	$ (399)	$ (98,428)	$ (7)	$ 14,271

See accompanying notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share and per share data)

	Year Ended December 31, 2001	2000	1999
Cash flows from operating activities:			
Net loss	$ (27,261)	$ (43,334)	$ (9,777)
Adjustments to reconcile net loss to net cash used in operating activities:			
Non-cash compensation expense, net	677	13,304	2,703
Non-cash compensation credit related to restructuring, net	(1,720)	—	—
Non-cash portions of restructuring and impairment charges	9,459	—	—
Depreciation	2,348	2,316	98
Amortization of goodwill and other intangibles	2,975	619	—
Amortization of gain on sale-leaseback	(175)	(65)	—
Provision for doubtful accounts, net	860	527	85
Changes in operating assets and liabilities, net of acquisition:			
Accounts receivable	(231)	(1,333)	(540)
Prepaid expenses and other current assets	281	327	(597)
Security deposits	(54)	419	(487)
Other assets	(107)	—	—
Accounts payable	(534)	(673)	1,759
Accrued expenses	669	287	634

Deferred revenue	(255)	730	161
Deferred rent	66	304	—
Other liabilities	89	—	—
Net cash used in operating activities	(12,913)	(26,572)	(5,961)
Cash flows from investing activities:			
Purchases of property and equipment, including capitalized software	(516)	(14,841)	(2,555)
Proceeds from sale of property and equipment	106	—	—
Proceeds from sale-leaseback of property and equipment	—	2,721	—
Purchases of marketable securities available-for-sale	—	(40,802)	—
Proceeds from sale of marketable securities available-for-sale	1,000	39,802	—
Purchase of restricted cash related to leases	(2,225)	(2,000)	—
Release of cash related to lease cancellations	4,225	—	—
Cash (paid) acquired in HumanClick acquisition	(22)	150	—
Net cash provided by (used in) investing activities	2,568	(14,970)	(2,555)
Cash flows from financing activities:			
Net proceeds from issuance of common stock related to initial public offering	—	28,101	—
Net proceeds from issuance of Series A, B, C and D preferred stock and warrants to acquire common stock	—	17,921	23,468
Proceeds from issuance of common stock in connection with the exercise of warrants and options	37	834	—
Proceeds from issuance of common stock in connection with Employee Stock Option Plan	2	51	—
Deferred offering costs	—	140	(140)
Due to (from) officer	—	—	25
Net cash provided by financing activities	39	47,047	23,353
Effect of foreign exchange rate changes on cash and cash equivalents	(7)	—	—
Net (decrease) increase in cash and cash equivalents	(10,313)	5,505	14,837
Cash and cash equivalents at the beginning of the year	20,449	14,944	107
Cash and cash equivalents at the end of the year	$ 10,136	$ 20,449	$ 14,944
Supplemental disclosures:			
Cash paid during the year for:			
Interest	$ 10	$ 33	$ 1
Income taxes	—	—	—
Supplemental disclosure of non-cash investing and financing activities:			
Common stock and options issued for net assets of HumanClick business acquired	$ —	$ 9,415	$ —
Conversion of convertible preferred stock into common stock	$ —	$ 36,990	$ —
Conversion of notes payable into Series A preferred stock	$ —	$ —	$ 100
Common stock issued for non-cash consideration	$ 5	$ —	$ —

See accompanying notes to consolidated financial statements.

LIVEPERSON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000
(In thousands, except share and per share data)

(1) Summary of Operations and Significant Accounting Policies

(a) Summary of Operations

LivePerson, Inc. (the "Company" or "LivePerson") was incorporated in the State of Delaware in 1995. The Company commenced operations in 1996. The Company is an application service provider of technology that facilitates real-time sales and customer service for companies doing business on the Internet.

The Company's primary revenue source is from the sale of the LivePerson services, which is conducted within one operating segment. The Company's product development staff, help desk and online sales support are located in Israel.

(b) Principles of Consolidation

The consolidated financial statements reflect the operations of LivePerson and its wholly-owned subsidiaries (see note 2). All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. These estimates and assumptions relate to estimates of collectibility of accounts receivable, the realization of goodwill and other intangible assets, the expected term of a client relationship, accruals and other factors. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

The Company considers all highly liquid securities with original maturities of three months or less when acquired to be cash equivalents.

(e) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, generally three to five years for equipment and software. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

(f) Impairment of Long-Lived Assets

Prior to January 1, 2002, the Company accounted for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." (See note 1(x), "Recent Accounting Pronouncements," for the Company's accounting for long-lived assets beginning on January 1, 2002.) SFAS No. 121 requires that long-lived assets, including fixed assets and goodwill, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of an asset to be held and used may not be recoverable, the Company estimates the

---

undiscounted future cash flows to result from the use of the asset and its ultimate disposition. If the sum of the undiscounted cash flows is less than the carrying value, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The assessment of the recoverability of long-lived assets, including fixed assets and goodwill, will be impacted if estimated future operating cash flows are not achieved.

(g) Marketable Securities

The Company accounts for its investments in marketable securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 establishes the accounting and reporting requirements for all debt securities and for investments in equity securities that have a readily determinable fair market value. All marketable securities must be classified as one of the following: held-to-maturity, available for sale or trading securities.

The Company's marketable securities consist of available-for-sale securities. The Company's available-for-sale securities are carried at fair value, with unrealized gains and losses reported as a separate component of other comprehensive loss within stockholders' equity (deficit) until realized. Realized gains and losses are computed on the basis of the specific identification method. Realized gains and losses and unrealized declines in value judged to be other-than temporary, are included in other income, net. The cost of available-for-sale securities sold are based on the specific identification method and interest earned is included in interest income.

For the years ended December 31, 2001, 2000 and 1999, the Company did not recognize any material gains or losses upon the sale of securities. During 2001 and 2000, the fair value of the Company's available-for-sale securities approximated cost and unrealized gains and losses were insignificant.

(h) Revenue Recognition

During 1998, the Company began offering the LivePerson services. The LivePerson services facilitate real-time sales and customer service for companies doing business on the Internet. The Company charges a monthly fee for each operator access account ("seat") using the LivePerson services. Certain of the Company's larger clients, who require more sophisticated implementation and training, also pay an initial non-refundable set-up fee.

The initial set-up fee principally represents customer service, training and other administrative costs related to the deployment of the LivePerson services. Such fees are initially recorded as deferred revenue and recognized ratably over a period of 24 months, representing the Company's current estimate of the expected term of a client relationship. This estimate may change in the future. The Company does not charge an additional set-up fee if an existing client adds more seats. Unamortized deferred fees, if any, are recognized upon termination of the agreement with the customer. The Company recognized $286, $0 and $0 in 2001, 2000 and 1999, respectively, of set-up fees due to client attrition.

In the first half of 2001, the Company began selling the LivePerson services directly via Internet download. These services are paid for almost exclusively by credit card. Credit card payments accelerate cash flow and reduce the Company's collection risk, by transferring the risk to the credit card provider. Sales executed via Internet download may occur with or without the assistance of an online sales representative, rather than through face-to-face or telephone contact that is typically required for traditional direct sales. Sales of the LivePerson services via Internet download typically have no set-up fee, because the Company does not provide the customer with training and administrative costs are minimal. The Company records revenue for its traditional direct sales and Internet download sales based upon a monthly fee charged for each seat using the LivePerson services, provided that no significant Company obligations remain and collection of the resulting receivable is probable. The Company recognizes monthly service revenue fees as services are provided. The Company's service agreements typically have no termination date and are terminable by either party upon 30 to 90 days' notice without penalty.

The Company also generates revenue from commissions paid to the Company by web hosting and call center companies for revenue generated by them as a result of referrals by the Company. The Company recognizes commissions based on revenue generated from these referrals upon notification from the other party of sales attributable to LivePerson. To date, revenue from such commissions has not been material. Professional services revenue consists of training provided to customers. Revenue is recognized when services are provided and collection of the resulting receivable is probable. To date, revenue from professional services has not been material.

(i) Income Taxes

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

(j) Advertising Costs

The Company expenses the cost of advertising and promoting its services as incurred. Such costs totaled approximately $392, $4,497 and $1,935 for the years ended December 31, 2001, 2000 and 1999, respectively.

(k) Financial Instruments and Concentration of Credit Risk

The Company's business is characterized by rapid technological change, new product development and evolving industry standards. Inherent in the Company's business are various risks and uncertainties, including its limited operating history, unproven business model and the limited history of commerce on the Internet. The Company's success may depend, in part, upon the emergence of the Internet as a

commerce medium, prospective product development efforts and the acceptance of the Company's solutions by the marketplace.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable which approximate fair value at December 31, 2001 because of the short-term nature of these instruments. The Company invests its cash and cash equivalents with financial institutions that it believes are of high quality, and performs periodic evaluations of these instruments and the relative credit standings of the institutions with which it invests. At certain times, the Company's cash balances with any one financial institution may exceed Federal Deposit Insurance Corporation insurance limits. The Company believes it mitigates its risk by depositing its cash balances with high credit, quality financial institutions.

The Company's customers are primarily concentrated in the United States. The Company performs ongoing credit evaluations of its customers' financial condition (except for customers who purchase the LivePerson services via Internet download, which are paid for almost exclusively by credit card, which transfers the collection risk to the credit card provider) and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. Concentrations of credit risk are limited due to the Company's large number of customers. No single customer accounted for or exceeded 10% of revenue in 2001, 2000 or 1999 or 10% of accounts receivable in 2001 or 2000.

Although third-party Internet transmission and hosting services are readily available, the Company currently is hosting its services with one third-party Internet service provider.

(l) Stock-based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation: An Interpretation of APB Opinion No. 25" (issued in March 2000), to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123. The Company amortizes deferred compensation on a graded vesting methodology in accordance with FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Award Plans."

(m) Basic and Diluted Net Loss Per Share

The Company calculates earnings per share in accordance with the provisions of SFAS No. 128, "Earnings Per Share ("EPS")," and the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 98. Under SFAS No. 128, basic EPS excludes dilution for common stock equivalents and is computed by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding for the period. All options, warrants or other

potentially dilutive instruments issued for nominal consideration are required to be included in the calculation of basic and diluted net loss attributable to common stockholders. The Company has included 20,229 shares of common stock in the calculation of basic and diluted net loss attributable to common stockholders from October 2000 which relate to certain options that were originally issued by HumanClick for nominal consideration and subsequently assumed by the Company in connection with its acquisition of HumanClick (see note 2). Diluted EPS 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 presented is equal to basic net loss per share since all common stock equivalents are anti-dilutive for each of the periods presented.

Diluted net loss per common share for the years ending December 31, 2001, 2000 and 1999 does not include the effects of options to purchase 6,467,242, 7,669,553 and 3,612,345 shares of common stock, respectively, warrants to purchase 457,030, 457,030 and 718,749 shares of common stock, respectively, and an aggregate of 0, 0 and 13,225,431 shares of convertible preferred stock on an "as if" converted basis, respectively, as the effect of their inclusion is anti-dilutive during each period.

(n) Stock Splits

Effective March 8, 2000 and January 20, 1999, the Company authorized and implemented a 3-for-2 and 10-for-1 split, respectively, of shares of the Company's common stock in the form of a common stock dividend. Accordingly, all common share and per common share information, warrants and options in the accompanying consolidated financial statements has been retroactively restated to reflect the effect of the stock split.

On September 11, 2001, the Company's stockholders authorized a one-for-fifteen reverse split of shares of the Company's common stock. However, in October 2001, the Company's Board of Directors determined it would not effect this reverse split.

(o) Segment Reporting

The Company accounts for its segment information in accordance with the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes annual and interim reporting standards for operating segments of a company. SFAS No. 131 requires disclosures of selected segment-related financial information about products, major customers, and geographic areas. The Company is organized in a single operating segment for purposes of making operating decisions and assessing performance. The chief operating decision-maker evaluates performance, makes operating decisions, and allocates resources based on financial data consistent with the presentation in the accompanying consolidated financial statements. The Company's revenue has been earned primarily from customers in the United States.

(p) Comprehensive Loss

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" requires the Company to report in its consolidated financial statements, in addition to its net income (loss), comprehensive income (loss), which includes all changes in equity during a period from non-owner sources including, as applicable, foreign currency items, minimum pension liability

---

adjustments and unrealized gains and losses on certain investments in debt and equity securities. There were no material differences between the Company's comprehensive loss and its net loss for all periods presented.

(q) Computer Software

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 provides guidance for determining whether computer software is internal-use software and on accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. It also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. The Company adopted SOP 98-1 in 1999 and capitalized $666 as of December 31, 2001 and $3,952 as of December 31, 2000.

(r) Goodwill and Intangible Assets

Goodwill and other purchased intangible assets are stated net of accumulated amortization of $3,594 and $619 at December 31, 2001 and 2000, respectively. Goodwill and other purchased intangible assets are being amortized on a straight-line basis over the expected period of benefit of three years.

(s) Reclassifications

Certain reclassifications have been made to prior year's financial statements to conform to the current year's presentation.

(t) Deferred Rent

The Company records rent expense on a straight line basis over the term of the related lease. The difference between the rent expense recognized for financial reporting purposes and the actual payments made in accordance with the lease agreement is recognized as deferred rent liability. Rent expense charged to operations for the years ended December 31, 2001 and 2000 exceeded actual rental payments by $66 and $304, respectively (see note 9).

(u) Product Development Costs

The Company accounts for product development costs in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," under which certain software development costs incurred subsequent to the establishment of technological feasibility are capitalized and amortized over the estimated lives of the related products. Technological feasibility is established upon completion of a working model. To date, completion of a working model of the Company's products and general release have substantially coincided. As a result, the Company has not capitalized any software development costs and such costs have not been significant. Through December 31, 2001, all development costs have been charged to product development expense in the accompanying consolidated statements of operations.

(v) Foreign Currency Translation

Assets and liabilities in foreign functional currencies are translated at the exchange rate as of the balance sheet date. Translation adjustments are recorded as a separate component of stockholders' equity (deficit). Revenue, costs and expenses denominated in foreign functional currencies are translated at the weighted average exchange rate for the period. The Company's translation adjustment was $7 and insignificant for the years ended December 31, 2001 and 2000, respectively.

(w) Restructuring Activities

Restructuring activities are accounted for in accordance with the guidance provided in the consensus opinion of the Emerging Issues Task Force ("EITF"), in connection with EITF Issue 94-3 ("EITF 94-3"). EITF 94-3 generally requires, with respect to the recognition of severance expenses, management approval of the restructuring plan, the determination of the employees to be terminated and communication of benefit arrangement to employees.

(x) Recent Accounting Pronouncements

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued and, as amended by SFAS No. 137, was adopted by the Company in the fourth quarter of 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. The adoption of this statement has not impacted the Company's financial statements as it does not use derivative instruments.

In March 2000, the EITF reached a consensus on Issue 00-2, "Accounting for Web Site Development Costs," which provided guidance on when to capitalize versus expense costs incurred to develop a Web site. The consensus is effective for Web site development costs in quarters beginning after June 30, 2000. The Company initially adopted the guidance as described by Issue 00-2 in 2000, which has not materially impacted the Company's results of operations.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and subsequently, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," after its adoption.

The Company adopted the provisions of SFAS No. 141 as of July 1, 2001, and SFAS No. 142 effective January 1, 2002. Goodwill and intangible asset determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS No. 142 is adopted in full, will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the full adoption of SFAS No. 142. Upon adoption of SFAS No. 142, the Company is required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141 for recognition separate from goodwill. The Company will be required to reassess the useful lives and residual values of all intangible assets acquired and make any necessary amortization period adjustments by the end of the first interim period after adoption, and, if an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, SFAS No. 142 requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. The Company will then have up to six months from January 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of the reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of the year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to the carrying amount of the reporting unit's goodwill, both of which would be measured as of the date of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of operations.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of $5,338, all of which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was $619 and $2,975 for the years ended December 31, 2000 and 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS Nos. 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of APB Opinion No. 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142, "Goodwill and Other Intangible Assets."

The Company adopted SFAS No. 144 on January 1, 2002. Management does not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on the Company's financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS No. 144 will have on the Company's financial statements.

(2) Acquisitions

On October 12, 2000, the Company acquired HumanClick Ltd., a private company organized under the laws of the State of Israel ("HumanClick"). The functional currency for HumanClick is the U.S. dollar. This transaction was accounted for under the purchase method of accounting and, accordingly, the operating results of HumanClick were included in the Company's consolidated results of operations from the date of acquisition. In connection with the transaction, LivePerson assumed HumanClick's outstanding stock options which remain outstanding as options to purchase shares of LivePerson's common stock.

The purchase price was $9,678, which included the issuance of 4,238,405 shares of the Company's common stock valued at $9,143 and acquisition costs of $263. As of December 31, 2001, of the 4,238,405 shares issued, 1,042,866 remain subject to a repurchase option by the Company if two of the former shareholders of HumanClick are no longer employed by HumanClick under certain circumstances prior to October 12, 2003. The price pursuant to which the Company may repurchase such shares is equal to the lesser of the 30-day average price per share of the Company's common stock prior to the termination of employment, and $7 per share. One-half of the stock remaining subject to the repurchase option shall be released from the Company's repurchase option on each of

October 12, 2002 and 2003. In addition, options to purchase shares of HumanClick's common stock were exchanged for options to purchase approximately 262,000 shares of the Company's common stock. The fair value of the options, amounting to an aggregate of $265, was included in the purchase price. This amount excludes the intrinsic value of the unvested options at the date of acquisition, amounting to an aggregate of $272, which was also included in the purchase price; however, such amount was allocated to deferred compensation in accordance with FIN No. 44 and is being amortized over the remaining vesting periods.

Of the purchase price, $474 was allocated to net tangible assets. The historical carrying amounts of such net tangible assets approximated their fair values. The purchase price in excess of the fair value of the net tangible liabilities assumed in the amount of $8,932 was allocated to goodwill and intangible assets and is being amortized on a straight-line basis over an expected period of benefit of three years.

The allocation of the purchase price in connection with the HumanClick acquisition is as follows:

Current assets, primarily receivables	$	627
Property and equipment		95
Goodwill and other intangible assets		8,932
Liabilities assumed, net		(248)
Deferred compensation		272
	$	9,678

The following unaudited pro forma consolidated financial information gives effect to the acquisition of HumanClick, as if the acquisition occurred on June 24, 1999 (HumanClick's date of inception), by consolidating the results of operations of HumanClick with the results of the Company for the years ended December 31, 2000 and 1999. The Company's consolidated results of operations for the year ended December 31, 2001 include the results of HumanClick for the entire year. The unaudited pro forma consolidated financial information is not necessarily indicative of the consolidated results that would have occurred, nor is it necessarily indicative of results that may occur in the future.

	December 31,			
		2000		1999
Revenue	$	6,279	$	576
Net loss attributable to common stockholders	$	(65,012)	$	(12,990)
Net loss per share-basic and diluted	$	(2.33)	$	(1.41)
Weighted average basic and diluted shares outstanding		27,856,813		9,221,317

(3) Balance Sheet Components

Property and Equipment

Property and equipment is summarized as follows:

December 31,

	2001	2000
Computer equipment and software	$ 1,364	$ 11,528
Furniture, equipment and building improvements	68	3,509
	1,432	15,037
Less accumulated depreciation	517	2,154
Total	$ 915	$ 12,883

Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
	2001	2000
Professional services and consulting fees	$ 531	$ 244
Sales commissions	71	426
Equipment lease payments	—	557
Employee stock purchase plan payable	—	43
Payroll and related costs	348	126
Restructuring charges (see note 6)	1,040	—
Other	125	50
Total	$ 2,115	$ 1,446

(4) Capitalization

The Company had 30,000,000 shares of common stock authorized and 9,000,000 shares of preferred stock authorized as of December 31, 1999. On January 27, 2000, the Company increased the number of its authorized shares of common stock to 35,000,000 and the number of its authorized shares of preferred stock to 12,274,852. On March 8, 2000, the Company increased the number of its authorized shares of common stock to 100,000,000. Upon the closing of the initial public offering of the Company's common stock (the "IPO") on April 12, 2000, the Company filed an amended and restated certificate of incorporation that authorized 5,000,000 shares of undesignated preferred stock.

In January 1999, the Company issued 2,500,000 shares of series A convertible preferred stock ("Series A") and warrants to purchase up to 468,749 shares of common stock in a private placement at an offering price of $1.20 per Series A share and $0.001 per warrant share. Total proceeds amounted to $2,902. The warrants were exercisable at a price of $1.60 per common share and had a term of 5 years. As part of the Series A private placement, a $100 note payable, originally issued in 1998, was converted into 83,333 shares of Series A preferred stock.

In January 1999, the Company issued an additional 41,667 shares of Series A to a financial advisor in exchange for services. The Company recorded compensation expense of $50 in connection with the issuance of the shares at $1.20 per share.

In May 1999, the Company issued 1,142,857 shares of series B convertible preferred stock ("Series B") and warrants to purchase up to 250,000 shares of common stock in a private placement at an offering price of $1.40 per Series B share and $0.001 per warrant share. The warrants were exercisable at a price of $1.60 per common share and had a term of 5 years. Total proceeds, net of offering costs of $15, amounted to $1,586.

In July 1999, the Company issued 5,132,433 shares of series C redeemable convertible preferred stock ("Series C") in a private placement at an offering price of $3.70 per share. Total proceeds, net of offering costs of $10, amounted to $18,980. The Series C stock was redeemable at $3.70 per share at the option of the holder. Thirty-three percent of the Series C shares were subject to mandatory redemption beginning on July 19, 2004, an additional 17% on July 19, 2005 and the remaining 50% on July 19, 2006.

In January 2000, the Company issued an aggregate of 3,157,895 shares of series D redeemable convertible preferred stock ("Series D") at an offering price of $5.70 per share. Total proceeds to the Company, net of offering costs of $100, amounted to $17,900. The Series D stock was redeemable at $5.70 per share at the option of the holder. The difference between the price of the Series D on an "as if" converted to common stock basis of $3.80 and $11.70 (the fair value of the common stock on the date of issuance), or $7.90, multiplied by the number of shares of Series D on an "as if" converted to common stock basis represents the intrinsic value of the beneficial conversion feature, which totaled $37,421. However, as the intrinsic value of the beneficial conversion feature is greater than the $18,000 in gross proceeds received from the Series D issuance, the amount of the discount attributed to the beneficial conversion feature is limited to the $18,000 of gross proceeds received. The $18,000 beneficial conversion feature was recorded in the quarter ended March 31, 2000 as a non-cash preferred stock dividend because the Series D was, at the time it was issued, immediately convertible at the option of the preferred stockholders. The $18,000 non-cash dividend increased the Company's net loss attributable to common stockholders for the year ended December 31, 2000 by the same amount.

On April 12, 2000, the Company completed its IPO of 4,000,000 shares of its common stock at an offering price of $8.00 per share. Net proceeds to the Company totaled $28,101.

Upon the closing of the IPO on April 12, 2000, 2,541,667, 1,142,857, 5,132,433 and 3,157,895 shares of Series A, Series B, Series C and Series D convertible preferred stock, respectively, representing all of the outstanding shares of the convertible preferred stock on that date, automatically converted at a ratio of two shares of preferred stock for three shares of common stock, into an aggregate of 17,962,273 shares of common stock.

On October 12, 2000, the Company issued 4,238,405 shares of common stock in connection with its acquisition of HumanClick (see note 2).

(4) Capitalization (Continued)

The Company issued common stock warrants in connection with the issuance of the Series A and the Series B. The details of such warrants issued are as follows:

Date Of Issue	Financing Round	Number of Warrants	Exercise Price Per Common Share	Term
January 1999	Series A	468,749	$ 1.60	5 years
May 1999	Series B	250,000	$ 1.60	5 years

Of these, during the years ended December 31, 2001 and 2000, warrants to purchase 0 and 261,719 shares of common stock, respectively, at an exercise price of $1.60 per share were exercised. At December 31, 2001, warrants to purchase 457,030 shares of common stock remained outstanding.

(5) Stock Options

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 Company established a successor to the 1998 Plan, the 2000 Stock Incentive Plan (the "2000 Plan"). Under the 2000 Plan, the options which had been outstanding under the 1998 Plan were incorporated into the 2000 Plan and the Company increased 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. Options to acquire common stock granted thereunder have ten-year terms. Pursuant to the provisions of the 2000 Plan, the number of shares of common stock available for issuance thereunder automatically increases on the first trading day in each calendar year by an amount equal to three percent (3%) of the total number of shares of our common stock outstanding on the last trading day of the immediately preceding calendar year, but in no event shall such annual increase exceed 1,500,000 shares. As of December 31, 2001, approximately 11,020,000 shares of common stock were reserved for issuance under the 2000 Plan. On the first trading day in January 2002, approximately 1,020,000 additional shares of common stock were reserved for issuance under the 2000 Plan pursuant to its automatic increase provisions.

In March 2000, the Company adopted the 2000 Employee Stock Purchase Plan with 450,000 shares of common stock initially reserved for issuance. Pursuant to the Employee Stock Purchase Plan, 4,000 and 25,951 shares were issued in 2001 and 2000, respectively. Pursuant to the provisions of the Employee Stock Purchase Plan, the number of shares of common stock available for issuance thereunder automatically increases on the first trading day in each calendar year by an amount equal to one-half of one percent (0.5%) of the total number of shares of our common stock outstanding on the last trading day of the immediately preceding calendar year, but in no event shall such annual increase exceed 150,000 shares. As of December 31, 2001, 600,000 shares of common stock were reserved for issuance under the Employee Stock Purchase Plan. On the first trading day in January 2002, 150,000 additional shares of common stock were reserved for issuance under the Employee Stock Purchase Plan pursuant to its automatic increase provisions. Effective October 2001, the Company suspended the Employee Stock Purchase Plan until further notice.

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

	Options	Weighted Average Exercise Price
Options outstanding at December 31, 1997	—	—
Options granted	197,100	$ 0.67
Options cancelled	—	—
Options outstanding at December 31, 1998	197,100	$ 0.67
Options granted	3,496,245	$ 1.37
Options cancelled	(81,000)	$ 0.94
Options outstanding at December 31, 1999	3,612,345	$ 1.33
Options granted/assumed	5,730,727	$ 3.62
Options exercised	(334,265)	$ 1.25
Options cancelled	(1,339,255)	$ 3.00
Options outstanding at December 31, 2000	7,669,553	$ 2.76
Options granted/assumed	3,967,500	$ 0.51
Options exercised	(54,768)	$ 0.68
Options cancelled	(5,115,043)	$ 2.68
Options outstanding at December 31, 2001	6,467,242	$ 1.46
Options exercisable at December 31, 1999	479,960	$ 1.09

Options exercisable at December 31, 2000	1,932,288	$	2.26
Options exercisable at December 31, 2001	2,896,000	$	2.18

The Company applies APB No. 25 and related interpretations in accounting for its stock option grants to employees. Accordingly, except as mentioned below, no compensation expense has been recognized relating to these stock option grants in the consolidated financial statements. Had compensation cost for the Company's stock option grants been determined based on the fair value at the grant date for awards consistent with the method of SFAS No. 123, the Company's net loss attributable to common stockholders for each year would have been increased to the pro forma amounts presented below. The Company did not have any employee stock options outstanding prior to January 1, 1998.

	Year Ended December 31,		
	2001	**2000**	**1999**
Net loss attributable to common stockholders:			
As reported	$ (27,261)	$ (61,334)	$ (9,777)
Pro forma	$ (27,694)	$ (62,608)	$ (12,259)
Basic and diluted net loss per common share:			
As reported	$ (0.80)	$ (2.50)	$ (1.38)
Pro forma	$ (0.81)	$ (2.55)	$ (1.73)

The per share weighted average fair value of stock options granted during 2001, 2000 and 1999, was $0.44, $5.51 and $1.40, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2001, 2000 and 1999: dividend yield of zero percent for all years, risk-free interest rates of 5.0%, 6.3% and 6.0%, respectively and expected life of 5 years for all years. As permitted under the provisions of SFAS No. 123 and based on the historical lack of a public market for the Company's stock, no factor for volatility has been reflected in the option pricing calculation for 1999. During 2001 and 2000, the Company used a volatility factor of 125.0% and 122.3%, respectively.

During December 1998, the Company granted options to purchase 93,750 shares of common stock at an exercise price of $0.67 per share, the then fair market value of the Company's common stock, to a consultant for services performed. These options are exercisable for a period of 5 years. The Company recorded an expense of $25 in connection with the issuance of the fully vested options using a Black-Scholes pricing model using a volatility factor of 40%.

During April 1999, the Company granted options to purchase an aggregate of 64,260 shares of common stock at an exercise price of $0.67 per share, to four consultants for services performed. These options are exercisable for a period of 10 years. The Company recorded an expense of $32 in connection with the issuance of the fully vested options using a Black-Scholes pricing model using a volatility factor of 50% and a deemed fair value of $1.08 per share.

During May 1999, the Company issued an option to purchase 94,500 shares of common stock at an exercise price of $1.60 per share to a client in connection with an agreement by the Company to provide services to the client for a two-year period. The Company was receiving subscription revenue from the client over the two-year period based on the number of seats the client was using. There was no minimum guarantee. This option originally provided that it would vest in or before May 2001 if the client met certain defined revenue targets and was exercisable for a period of three years from the date of grant. The Company accounted for this option in accordance with EITF Abstract No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Pursuant to EITF No. 96-18, the Company valued the option at each balance sheet date using a Black-Scholes pricing model using a volatility factor of 50%, a $1.60 per share exercise price and the then fair value of the Company's common stock as of each balance sheet date. The $566 value ascribed to the option reflected the market value at December 31, 1999, less amortization expense of $86 for the period from May 1999 through December 1999, which was recorded as net deferred cost on the Company's December 31, 1999 balance sheet. The unamortized value ascribed to this option was adjusted at each balance sheet date to bring the total ascribed value of the option up to the then current unamortized fair value. This cost was ratably amortized over the two-year service agreement, as the Company believed that the achievement of the revenue targets was probable. As a result, the Company amortized $86 of the deferred costs as of December 31, 1999, of which $24 was offset against the $27 of revenue recognized from the client in 1999, and the remaining $62 of sales and marketing expense was reflected as a non-cash compensation expense, all of which was recorded in the fourth quarter of 1999.

In February 2000, the Company amended the option agreement with the client, whereby the option became fully vested and immediately exercisable. The client exercised the option in May 2000. However, the client was precluded from selling the underlying common stock until the earlier of five

years or, if certain revenue targets were met, May 19, 2001. The value ascribed to the option at the time the option agreement was amended, using a Black-Scholes pricing model, was $1,014, which was ratably amortized over the remaining service period of approximately fifteen months because the vesting of the option did not affect the Company's obligation under the service agreement. In addition, the ratable amortization of the remaining deferred cost of $1,014 was recorded as a reduction of the revenue recognized from the client, with any excess amortization recorded as sales and marketing expense, which was reflected as a non-cash compensation expense in the Company's statement of operations. The Company amortized $723 of the deferred costs during the year ended December 31, 2000, of which $59 was offset against the $59 of revenue recognized from the client. The remaining $664 of sales and marketing expense was included in non-cash compensation expense in the Company's 2000 statement of operations.

As of March 31, 2001, the Company determined that it was unlikely that the client would meet the remaining revenue requirements under the agreement. Accordingly, the Company has amortized the remaining deferred cost of $291 during the three months ended March 31, 2001, of which $54 was offset against the

$54 of revenue recognized from the client. The remaining $237 of sales and marketing expense was included in non-cash compensation expense in the Company's statement of operations for the quarter ended March 31, 2001.

During 2000 and 1999, the Company granted or assumed stock options to purchase 5,730,727 and 3,496,245 shares of common stock at a weighted average exercise price of $3.62 and $1.37, per share, respectively, certain of which were granted at less than the deemed fair value of the common stock at the date of grant. For the years ended December 31, 2000 and 1999, the Company recorded deferred compensation of $18,241 and $6,233, respectively, in connection with the options granted at below the deemed fair-market value. The aggregate amount of unamortized deferred compensation related to the grant of options which was subsequently reversed against paid-in capital in connection with the forfeiture of those options granted at below the deemed fair-market value and associated with employees who left the Company during the year ended December 31, 2000, was approximately $5,370. In 2000, the Company also recorded $272 of deferred compensation relating to the intrinsic value of unvested options assumed by the Company in connection with the HumanClick acquisition. These amounts are presented as deferred compensation within the consolidated financial statements and are being amortized over the vesting period, typically three to four years, of the applicable options. The Company amortized $11,915 and $1,589 for the years ended December 31, 2000 and 1999, respectively, net of forfeitures or cancellations of $2,023 in connection with employees who left the Company in 2000.

The net non-cash compensation amounts for the years ended December 31, 2001 and 2000 consist of:

	2001	2000
May 1999 option granted to a client (discussed above)	$ 237	$ 664
Amortization	833	13,938
Acceleration of deferred compensation charges related to certain employee terminations	616	666
Reversal of previously amortized deferred compensation charges due to forfeitures of employee stock options	(1,009)	(2,023)
Total	$ 677	$ 13,245

(5) Stock Options (Continued)

The net non-cash compensation amounts for the year ended December 31, 2001 exclude the net non-cash compensation credit of $1,720 related to the Company's restructuring initiatives in the first quarter of 2001 (see note 6).

The aggregate amount of unamortized deferred compensation reversed against additional paid-in capital for the year ended December 31, 2001 was approximately $2,938. This amount represents the forfeiture of options associated with the Company's employees whose employment was terminated as part of the Company's restructuring initiatives.

The net non-cash compensation expense of $13,245 for the year ended December 31, 2000 includes $664 related to the May 1999 option granted to a client (discussed above), $11,915 of amortization expense, and $666 of charges related to the acceleration of vesting of certain employee options in connection with the termination of the employment of those employees.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$ 0.00- $1.00	4,046,989	8.31	$ 0.45	1,255,746	$ 0.68
$ 1.01- $2.00	1,453,434	6.38	$ 1.85	956,139	1.85
$ 2.01- $5.00	532,444	6.41	$ 3.46	308,682	3.35
$ 5.01-$11.00	434,375	7.68	$ 7.22	375,433	7.09
	6,467,242		$ 1.46	2,896,000	$ 2.18

The following table summarizes information about stock options outstanding and exercisable at December 31, 2000:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$ 0.00- $1.00	1,573,640	6.16	$ 0.69	808,565	$ 0.69
$ 1.01- $2.00	3,335,934	8.80	$ 1.91	631,436	1.90
$ 2.01- $5.00	1,652,782	9.21	$ 2.99	216,563	3.53
$ 5.01-$11.00	1,107,197	9.35	$ 7.90	275,725	6.71
	7,669,553		$ 2.76	1,932,288	$ 2.26

The following table summarizes information about stock options outstanding and exercisable at December 31, 1999:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$ 0.67	1,241,010	8.95	$ 0.67	329,960	$ 0.67
$ 0.80	588,960	4.24	$ 0.80	—	—
$ 1.60	94,500	2.38	$ 1.60	—	—
$ 2.00	1,687,875	9.79	$ 2.00	150,000	2.00
	3,612,345		$ 1.33	479,960	$ 1.09

(6) Restructuring and Impairment Charges

In the first quarter of 2001, following a review of the Company's business in connection with its acquisition of HumanClick, the Company commenced restructuring initiatives to streamline its operations, including the consolidation of its two San Francisco Bay area offices. The restructuring resulted in a reduction of the Company's workforce by approximately 90 people as of the end of the first quarter of 2001.

In the third quarter of 2001, in a continued effort to streamline its operations, the Company initiated additional restructuring initiatives. These initiatives resulted in the elimination of redundant staff positions, the consolidation of all clients onto a single application platform and the decision to relocate its principal executive offices, which included the termination of an office space lease (see note 9). These initiatives resulted in a reduction of the Company's workforce by approximately 20 people, the write-off of impaired computer equipment and software and the write-off of certain furniture, equipment and building improvements.

As a result of the various restructuring initiatives, for the year ended December 31, 2001, the Company recorded restructuring and impairment charges of approximately $12,740. In addition, for the year ended December 31, 2001, the Company also recognized a net non-cash compensation credit in the amount of approximately $1,720 associated with LivePerson employees who were terminated as part of the Company's restructuring initiatives in the first quarter of 2001. The net non-cash compensation credit of $1,720 for the year ended December 31, 2001 represents the reversal of $3,228 of previously recognized amortization of deferred compensation related to options of employees which did not vest due to their termination of employment in connection with the Company's restructuring initiatives, offset by the acceleration of vesting of certain other employee options of $1,508 also in connection with the restructuring initiatives. Approximately $446 of the $1,508 represents additional compensation related to the intrinsic value of options at the date of modification recorded during the first quarter of

2001. The allocation of the restructuring and impairment charges as of December 31, 2001 is as follows:

	Balance as of January 1, 2001	Provision for the year ended December 31, 2001	Net (utilization) reversals during the year ended December 31, 2001	Balance as of December 31, 2001
Severance	$ —	$ 1,843	$ (1,788)	$ 55
Contract terminations (a)	—	654	331	985
Write-off of fixed assets	—	10,030	(10,030)	—
Other	—	213	(213)	—
Total	—	12,740	(11,700)	1,040
Non-cash compensation credit, net	—	(1,720)	1,720	—
Net restructuring and impairment charges	$ —	$ 11,020	$ (9,980)	$ 1,040

(a) For the year ended December 31, 2001, the Company recorded a net provision of $654. This amount is comprised of contract termination provisions of $2,504 offset by the reversal of $369 and $283 of deferred rent and deferred gain on sale-leaseback, respectively, associated with certain terminated lease obligations, and a $1,198 benefit related to favorable settlements associated with certain contract terminations provided for in the first quarter of 2001.

(7) Valuation and Qualifying Accounts

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions/ Write-offs	Balance at End of Period
For the year ended December 31, 2001 Allowance for doubtful	$ 577	$ 875	$ (1,292)	$ 160

accounts				
For the year ended December 31, 1999: Allowance for doubtful accounts	$ 15	$ 85	$ (15)	$ 85
For the year ended December 31, 2000: Allowance for doubtful accounts	$ 85	$ 527	$ (35)	$ 577

(8) Income Taxes

The Company has adopted the cash method of accounting for income tax purposes. There is no provision for federal, state or local income taxes for any periods presented, because the Company has incurred losses since inception. The Company has recorded a full valuation allowance against its

deferred tax assets because management believes that, after considering all of the available objective evidence, it is not more likely than not that these assets will be realized.

At December 31, 2001 and 2000, the Company had approximately $59,600 and $34,400, respectively, of federal net operating loss ("NOL") carryforwards available to offset future taxable income. Such carryforwards expire in various years through 2021. Under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), the utilization of net operating loss carryforwards may be limited under the change in stock ownership rules of the Code. The U.S. Tax Reform Act of 1986 contains provisions that limit the NOL carryforwards available to be used in the future to offset income upon the occurrence of certain events, including a significant change of ownership. Management has not determined whether a Section 382 change has occurred.

The effects of temporary differences and tax loss carryforwards that give rise to significant portions of federal deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000 are presented below:

	2001	2000
Deferred tax assets:		
Net operating loss carry forwards	$ 25,941	$ 14,808
Accounts payable and accrued expenses	1,226	1,124
Deferred revenue	246	591
Non-cash compensation	832	6,634
Plant and equipment	—	81
Goodwill amortization	1,261	217
Other	8	3
Gross deferred tax assets	29,514	23,458
Less: valuation allowance	(28,957)	(22,654)
Net deferred tax assets	557	804
Deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	(189)	—
Accounts receivable	(209)	(502)
Prepaid expenses	(159)	(302)
Gross deferred tax liabilities	(557)	(804)
Net deferred taxes	$ —	$ —

(9) Commitments and Contingencies

The Company leases facilities and certain equipment under agreements accounted for as operating leases. These leases generally require the Company to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the years ending December 31, 2001, 2000 and 1999 were approximately $2,749, $1,432 and $311, respectively.

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

Year ending December 31,	
2002	$ 355
2003	299
2004	192

Total minimum lease payments	$	846

In March 2000, the Company entered into a lease for two floors at a location in New York City. The Company was contingently liable under standby letters of credit related to this lease. These letters of credit were required to be secured by certificates of deposits which were presented as long-term restricted cash as of December 31, 2000.

In September 2001, as part of the Company's restructuring initiatives, the Company determined that its office space exceeded its current requirements (see note 6). Accordingly, and in connection with the Company's decision to relocate its principal executive offices in New York City, the Company entered into an agreement to terminate the lease relating to its former principal executive offices. Under the terms of this agreement, the Company cancelled all its future rental commitments related to the lease and the landlord released the certificates of deposit held as security. Accordingly, the Company reclassified the certificates of deposit from long-term restricted cash, which totaled $4,225 as of September 2001, to cash and cash equivalents. As of December 31, 2001, the Company was no longer contingently liable under any standby letters of credit.

In October 2001, following a decision to relocate its principal executive offices, the Company entered into a lease for office space at a location in New York City. The three-year lease term commenced in November 2001, with rent of approximately $195 in the first year, $201 in the second year and $207 in the final year.

In October 2000, the Company entered into a sale-leaseback agreement whereby certain computer equipment was sold and leased back by the Company. The Company received proceeds of $2,700 from the sale. The gain on the sale of $522 was deferred and will be recognized on a straight-line basis over the initial term of the lease. Under the terms of the agreement, the Company was required to make monthly rental payments of approximately $118 over a two-year lease period. At the expiration of the initial lease term, the Company had the option of purchasing any and or all units of equipment for an amount equal to the fair market value of such units as of the end of the applicable term. The Company also had the option of entering into a mutually agreeable renewal agreement. The lease-back is being accounted for as an operating lease. During 2001, the Company terminated its lease obligation and recognized $283 of the deferred gain on the sale-leaseback in connection with the Company's 2001 restructuring initiatives (see note 6).

(10) Legal Proceedings

On December 12, 2001, Compaq Financial Services Corporation, a subsidiary of Compaq Computer Corporation, filed a complaint against the Company in the Supreme Court of the State of New York in New York County. The complaint alleges that the Company is in default of an operating lease for computer equipment. Compaq is seeking to recover approximately $2.0 million in damages, fees and expenses. The Company has served an answer asserting affirmative defenses and counterclaims for fraud and negligent misrepresentation, and seeks damages and fees. Compaq has moved for summary judgement on its claims, and the Company has filed papers in opposition to the motion. The motion is currently pending.

On November 16, 2001, Corio, Inc. filed a demand for arbitration against the Company with the American Arbitration Association in San Francisco County, California. The demand is related to a hosted software service contract terminated during 2001. Corio is seeking to recover approximately $1.4 million in damages, fees and expenses. The Company has filed an answer denying liability and asserting a counterclaim for breach of contract, and seeks a refund of all amounts paid to Corio, approximately $1.5 million.

Although the Company intends to defend vigorously each of the matters described above, and believes that the Company has provided adequate reserves in connection with each of the claims, the Company cannot assure you that the Company's defense in either case will be successful and, if it is not, that the Company's ultimate liability in connection with either or both of these claims will not exceed the Company's reserves.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 is incorporated by reference from the definitive proxy statement for our 2002 Annual Meeting of Stockholders, to be filed not later than April 30, 2002.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated by reference from the definitive proxy statement for our 2002 Annual Meeting of Stockholders, to be filed not later than April 30, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 with respect to the security ownership of certain beneficial owners and management is incorporated by reference from the definitive proxy statement for our 2002 Annual Meeting of Stockholders, to be filed not later than April 30, 2002.

The information required by this Item 12 with respect to the securities authorized for issuance under equity compensation plans is incorporated by reference from the section captioned "Securities Authorized for Issuance Under Equity Compensation Plans" in Item 5, "Market for Registrant's Common Equity and Related Stockholder Matters."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is incorporated by reference from the definitive proxy statement for our 2002 Annual Meeting of Stockholders, to be filed not later than April 30, 2002.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

1. Financial Statements.

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

2. Financial Statement Schedules.

   None.

3. Exhibits.

Number	Description
2.1	Stock Purchase Agreement, dated as of October 12, 2000, among LivePerson, HumanClick Ltd. and the shareholders of HumanClick Ltd. named in Schedule I thereto (incorporated by reference to Exhibit 2 to LivePerson's Current Report on Form 8-K, dated October 12, 2000 and filed October 19, 2000)
3.1	Fourth Amended and Restated Certificate of Incorporation (incorporated by reference to the identically-numbered exhibit to LivePerson's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed March 30, 2001 (the "2000 Form 10-K"))

3.2	Second Amended and Restated Bylaws, as amended (incorporated by reference to the identically-numbered exhibit to the 2000 Form 10-K)
4.1	Specimen common stock certificate (incorporated by reference to the identically-numbered exhibit to LivePerson's Registration Statement on Form S-1, as amended (Registration No. 333-96689) ("Registration No. 333-96689"))
4.2	Second Amended and Restated Registration Rights Agreement, dated as of January 27, 2000, by and among LivePerson, the several persons and entities named on the signature pages thereto as Investors, and Robert LoCascio (incorporated by reference to the identically-numbered exhibit to Registration No. 333-96689)
4.3	See Exhibits 3.1 and 3.2 for further provisions defining the rights of holders of common stock of LivePerson
10.1	Employment Agreement between LivePerson and Robert P. LoCascio, dated as of January 1, 1999 (incorporated by reference to the identically-numbered exhibit to Registration No. 333-96689)*
10.2	Employment Agreement between LivePerson and Timothy E. Bixby, dated as of June 23, 1999 (incorporated by reference to Exhibit 10.3 to Registration No. 333-96689)*
10.3	2000 Stock Incentive Plan (incorporated by reference to the identically-numbered exhibit to the 2000 Form 10-K)*
10.4	Employee Stock Purchase Plan (incorporated by reference to the identically-numbered exhibit to the 2000 Form 10-K)*
10.5	Agreement of Lease between Vornado 330 West 34th Street L.L.C. as Landlord and LivePerson as Tenant, dated as of March 8, 2000 (incorporated by reference to Exhibit 10.8 to Registration No. 333-96689)
10.5.1	Surrender Agreement between Vornado 330 West 34th Street L.L.C. and LivePerson, dated as of September 20, 2001 (incorporated by reference to the identically-numbered exhibit to LivePerson's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 and filed November 14, 2001)
10.6	Master Lease and Financing Agreement (with exhibits and schedules) by and between Compaq Financial Services Corporation and LivePerson, dated as of August 28, 2000 (incorporated by reference to the identically-numbered exhibit to the 2000 Form 10-K)

10.7.1	Employment Agreement between HumanClick Ltd. and Eitan Ron, dated as of October 12, 2000*
10.7.2	Letter Agreement between LivePerson, Inc. and Eitan Ron, dated October 12, 2000*
10.7.3	Escrow Agreement by and among LivePerson, Inc., HumanClick Ltd., Eitan Ron (as agent for the shareholders of HumanClick Ltd.) and First Union National Bank (as escrow agent), dated as of October 12, 2000*
10.7.4	Repurchase Option Agreement by and among LivePerson, Inc., Eitan Ron, Tal Goldberg and First Union National Bank (as escrow agent), dated as of October 12, 2000*
21.1	Subsidiaries
23.1	Consent of KPMG LLP

* Management contract or compensatory plan or arrangement

(b) No reports on Form 8-K were filed in the quarter ended December 31, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 29, 2002.

LIVEPERSON, INC.

By: /s/ ROBERT P. LOCASCIO

Robert P. LoCascio
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 29, 2002.

Signature	Title(s)
/s/ ROBERT P. LOCASCIO Robert P. LoCascio	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)
/s/ TIMOTHY E. BIXBY Timothy E. Bixby	President, Chief Financial Officer, Secretary and Director (principal financial and accounting officer)
/s/ RICHARD L. FIELDS Richard L. Fields	Director
/s/ EMMANUEL GILL Emmanuel Gill	Director
/s/ WYCLIFFE K. GROUSBECK Wycliffe K. Grousbeck	Director
/s/ KEVIN C. LAVAN Kevin C. Lavan	Director
/s/ ROBERT W. MATSCHULLAT Robert W. Matschullat	Director

EXHIBIT INDEX

Number	Description
2.1	Stock Purchase Agreement, dated as of October 12, 2000, among LivePerson, HumanClick Ltd. and the shareholders of HumanClick Ltd. named in Schedule I thereto (incorporated by reference to Exhibit 2 to LivePerson's Current Report on Form 8-K, dated October 12, 2000 and filed October 19, 2000)
3.1	Fourth Amended and Restated Certificate of Incorporation (incorporated by reference to the identically-numbered exhibit to LivePerson's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed March 30, 2001 (the "2000 Form 10-K"))
3.2	Second Amended and Restated Bylaws, as amended (incorporated by reference to the identically-numbered exhibit to the 2000 Form 10-K)
4.1	Specimen common stock certificate (incorporated by reference to the identically-numbered exhibit to LivePerson's Registration Statement on Form S-1, as amended (Registration No. 333-96689) ("Registration No. 333-96689"))
4.2	Second Amended and Restated Registration Rights Agreement, dated as of January 27, 2000, by and among LivePerson, the several persons and entities named on the signature pages thereto as Investors, and Robert LoCascio (incorporated by reference to the identically-numbered exhibit to Registration No. 333-96689)
4.3	See Exhibits 3.1 and 3.2 for further provisions defining the rights of holders of common stock of LivePerson
10.1	Employment Agreement between LivePerson and Robert P. LoCascio, dated as of January 1, 1999 (incorporated by reference to the identically-numbered exhibit to Registration No. 333-96689)*
10.2	Employment Agreement between LivePerson and Timothy E. Bixby, dated as of June 23, 1999 (incorporated by reference to Exhibit 10.3 to Registration No. 333-96689)*
10.3	2000 Stock Incentive Plan (incorporated by reference to the identically-numbered exhibit to the 2000 Form 10-K)*
10.4	Employee Stock Purchase Plan (incorporated by reference to the identically-numbered exhibit to the 2000 Form 10-K)*
10.5	Agreement of Lease between Vornado 330 West 34th Street L.L.C. as Landlord and LivePerson as Tenant, dated as of March 8, 2000 (incorporated by reference to Exhibit 10.8 to Registration No. 333-96689)
10.5.1	Surrender Agreement between Vornado 330 West 34th Street L.L.C. and LivePerson, dated as of September 20, 2001 (incorporated by reference to the identically-numbered exhibit to LivePerson's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 and filed November 14, 2001)
10.6	Master Lease and Financing Agreement (with exhibits and schedules) by and between Compaq Financial Services Corporation and LivePerson, dated as of August 28, 2000 (incorporated by reference to the identically-numbered exhibit to the 2000 Form 10-K)

10.7.1	Employment Agreement between HumanClick Ltd. and Eitan Ron, dated as of October 12, 2000*
10.7.2	Letter Agreement between LivePerson, Inc. and Eitan Ron, dated October 12, 2000*
10.7.3	Escrow Agreement by and among LivePerson, Inc., HumanClick Ltd., Eitan Ron (as agent for the shareholders of HumanClick Ltd.) and First Union National Bank (as escrow agent), dated as of October 12, 2000*
10.7.4	Repurchase Option Agreement by and among LivePerson, Inc., Eitan Ron, Tal Goldberg and First Union National Bank (as escrow agent), dated as of October 12, 2000*
21.1	Subsidiaries
23.1	Consent of KPMG LLP

* Management contract or compensatory plan or arrangement

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 10.7.1

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement"), is made and entered into this 12th day of October, 2000, by and between HumanClick Ltd. a private company organized under the laws of the State of Israel, with principal offices located at 33 Bnei Zion, Israel 60910 (the "Company"), and Eitan Ron (the "Executive").

WITNESSETH

WHEREAS, LivePerson, Inc., (hereinafter "LivePerson") is acquiring all of the shares of the Company pursuant to a certain Stock Purchase Agreement dated October 12th, 2000, (referred to herein as the "Acquisition"); and

WHEREAS, the Executive served as Chief Executive Officer of the Company prior to the Acquisition; and

WHEREAS, the Executive's continuing personal services are critical to maintaining the value of the shares being acquired by the Company in the Acquisition; and,

WHEREAS, the Executive and the Company desire to enter into a formal Employment Agreement to fully recognize the contributions of Executive to the Company and to assure continuous harmonious performance of the affairs of the Company.

NOW, THEREFORE, in consideration of the mutual promises, terms, provisions, and conditions contained herein, the parties agree as follows:

1. *Position.*

The Company hereby agrees to employ the Executive to serve in the role of General Manager of the Company, subject to the limitations set forth herein. The Executive accepts such employment upon the terms and conditions set forth herein, and further agrees to perform to the best of his abilities the duties generally associated with his position, as well as such other duties commensurate with his position as General Manager as may be reasonably assigned by the Board of Directors of the Company (the "Board"). The Executive shall, at all times during the Term, report directly to the Board. The Executive shall perform his duties diligently and faithfully and shall devote his full business time and attention to such duties.

2. *Term of Employment and Renewal.*

The term of Executive's employment under this Agreement will commence on the date of this Agreement (the "Effective Date"). Subject to the provisions of Section 8 of this Agreement, the term of Executive's employment hereunder shall be for a term of three (3) years from the Effective Date (the "Term").

3. *Compensation and Benefits.*

(a) *Salary.* Commencing on the Effective Date, the Company agrees to pay the Executive a base salary at an annual rate of One Hundred Ten Thousand Dollars ($110,000) for the first year of the Term, payable in such installments as is the policy of the Company (the "Salary"), but no less frequently than monthly. Thereafter, the Company will review the Executive's Salary on an annual basis, and, at its discretion, may increase the Executive's Salary but in no event diminish the amount of Executive's Salary below the initial rate, or below the increased rates unless all of the Executive's peer executives undergo substantially equivalent decreases.

The Executive acknowledges and agrees that his position with the Company is one that requires a special measure of personal trust as defined in the Work and Rest Hours Law, 5711-1951, and, therefore, the provisions of such law shall not apply to the Executive and the Executive shall not be

---

entitled to compensation for working more than forty-five (45) hours per week, beyond the compensation set forth in this Section 3.

(b) *Bonus.* The Executive shall be eligible to receive annual bonuses at the discretion of the Chief Executive Officer and Compensation Committee of the Board according to performance goals appropriate for the Executive's position and role to be issued by the Company.

(c) *Benefits.* The Executive shall be entitled to participate in all employee benefit plans applicable for the Executive's level which the Company provides or may establish from time to time for the benefit of its employees, including, without limitation, group life, medical, surgical, dental and other health insurance, short and long-term disability, deferred compensation, profit-sharing and similar plans. The Company will pay on the Executive's behalf at the Company's sole cost and expense a sum equal to $13^1/3$% (thirteen and one-third percent) of the Executive's Salary each month for executives' insurance. The Executive will contribute a sum equal to 5% (five percent) of his monthly Salary for each month for the insurance for the provident fund in accordance with custom and practice. All payments provided for in this Section will be made in such amounts and in such timely fashion as to guarantee the Executive the full rights and benefits of such insurance at all times during the Term and thereafter in accordance with law and practice. Ownership of all accounts and insurance policies provided for in this Section shall be in the name of the Executive and on termination of this Agreement will be released to the Executive to be applied towards any obligation of the Company to make severance payments to the Executive. The Company will pay, at its sole cost and expense, a sum equal to $7^1/2$% (seven and one-half percent) of the Executive's monthly Salary on behalf of the Executive to an Advanced Study Fund in which the Company participates. The Executive will pay a sum equal to $2^1/2$% (two and one-half percent) of his monthly Salary, at his expense, into said fund, as is standard practice. All amounts paid to the Advanced Study Fund under this Section will not exceed the amounts exempt from tax under the income tax regulations applicable to payments to Advanced Study Funds. During the Term, the Company shall extend to the Executive's use a leased car as shall be reasonably elected by the Executive and shall bear all expenses associated with the use of the car. The Company shall gross-up any tax applicable on the use of the car by the Executive according to the then applicable law. The Executive shall be entitled to annual Recreation Pay per year according to the then prevailing applicable law or custom at the minimum amount required by law. The Executive shall also be entitled to fifteen (15) business days paid vacation per year. Annual vacations may be accumulated and/or redeemed as provided under the law. The Executive shall be entitled to Sick Leave according to the then prevailing applicable law. The Company may purchase one or more "key man" insurance policies on the Executive's life, each of which will be payable to and owned by the Company. The Company, in its sole discretion, may select the amount and type of key man life insurance purchased, and the Executive will have no interest in any such policy. The Executive will cooperate with the Company in securing this key man insurance, by submitting to all required medical examinations, supplying all information and executing all documents required in order for the Company to secure the insurance.

(d) *Expenses.* The Company shall pay or reimburse the Executive for all reasonable out-of-pocket expenses actually incurred by him during the Term in performing services hereunder, provided that the Executive properly accounts for such expenses in accordance with the Company's policies.

4. *Non-Competition and Non-Solicitation.*

The Executive acknowledges that the Company has invested substantial time, money and resources in the development and retention of its Proprietary Information (including trade secrets) as defined in the Company's Proprietary Information and Intellectual Property Agreement referenced in Section 10 of this Agreement, customers, accounts and business partners, and further acknowledges that during the course of the Executive's employment with the Company the Executive has had and will have access to

the Company's Inventions and Confidential Information (including trade secrets), and will be introduced to existing and prospective customers, accounts and business partners of the Company. The Executive acknowledges and agrees that any and all "goodwill" associated with any existing or prospective customer, account or business partner belongs exclusively to the Company, including, but not limited to, any goodwill created as a result of direct or indirect contacts or relationships between the Executive and any existing or prospective customers, accounts or business partners. The Executive expressly acknowledges that the provisions of this Section 4 are necessary to protect the investment by the Company in HumanClick. Additionally, the parties acknowledge and agree that Executive possesses skills that are special, unique or extraordinary and that the value of the Company depends upon his use of such skills on its behalf.

In recognition of this, the Executive covenants and agrees that:

(a) During the Term, and for a period of one (1) year after termination of this Agreement, the Executive may not, without the prior written consent of the Board, (whether as an employee, agent, servant, owner, partner, consultant, independent contractor, representative, stockholder or in any other capacity whatsoever) participate in any business that offers products or services competitive in any way to those offered by the Company or that were under active development or consideration by the Company during the Term.

(b) During the Term, and for a period of one (1) year after termination of this Agreement, the Executive may not entice, solicit or encourage any Company employee to leave the employ of the Company or any independent contractor to sever its engagement with the Company, absent prior written consent to do so from the Board.

(c) During the Term, and for a period of one (1) year after termination of this Agreement, the Executive may not, directly or indirectly, entice, solicit or encourage any customer or prospective customer of the Company to cease doing business with the Company, reduce its relationship with the Company or refrain from establishing or expanding a relationship with the Company.

5. *Non-Disparagement.*

The Executive and the Company hereby agree that during the Term, and at all times thereafter, the Executive will not make any statement that is disparaging about the Company, any of its officers, directors, or shareholders, including, but not limited to, any statement that disparages the products, services, finances, financial condition, capabilities or other aspects of the business of the Company and the Company shall not make such statements with respect to the Executive, including, but not limited to, any statement that disparages his ability, services, morality standards or other aspects of his employment. The Executive further agrees that during the same period the Executive will not engage in any conduct that is intended to inflict harm upon the professional or personal reputation of the Company or any of its officers, directors, shareholders or employees.

6. *Provisions Necessary and Reasonable.*

(a) The Executive agrees that (i) the provisions of Sections 4 and 5 of this Agreement are necessary and reasonable to protect the Company's Confidential Information, Inventions, and goodwill; (ii) the specific temporal, geographic and substantive provisions set forth in Section 4 of this Agreement are reasonable and necessary to protect the Company's business interests; and (iii) in the event of any breach of any of the covenants set forth herein, the Company would suffer substantial irreparable harm and would not have an adequate remedy at law for such breach. In recognition of the foregoing, the Executive agrees that in the event of a breach or threatened breach of any of these covenants, in addition to such other remedies as the Company may have at law, without posting any bond or security, the Company shall be entitled to seek and obtain equitable relief, in the form of specific performance, and/or temporary, preliminary or permanent injunctive relief, or any other equitable remedy which then may be available. The seeking of such injunction or order shall not affect

the Company's right to seek and obtain damages or other equitable relief on account of any such actual or threatened breach.

(b) If any of the covenants contained in Sections 4 and 5 hereof, or any part thereof, are hereafter construed to be invalid or unenforceable, the same shall not affect the remainder of the covenant or covenants, which shall be given full effect without regard to the invalid portions.

(c) If any of the covenants contained in Sections 4 and 5 hereof, or any part thereof, are held to be unenforceable by a court of competent jurisdiction because of the temporal or geographic scope of such provision or the area covered thereby, the parties agree that the court making such determination shall have the power to reduce the duration and/or geographic area of such provision and, in its reduced form, such provision shall be enforceable.

7. *Representations Regarding Prior Work and Legal Obligations.*

(a) The Executive represents that the Executive has no agreement or other legal obligation with any prior employer, or any other person or entity, that restricts the Executive's ability to accept employment with, or to perform any function for, the Company.

(b) The Executive has been advised by the Company that at no time should the Executive divulge to or use for the benefit of the Company any trade secret or confidential or proprietary information of any previous employer. The Executive expressly acknowledges that the Executive has not divulged or used any such information for the benefit of the Company.

(c) The Executive acknowledges that the Executive has not and will not misappropriate any Invention that the Executive played any part in creating while working for any former employer.

(d) The Executive acknowledges that the Company is basing important business decisions on these representations, and affirms that all of the statements included herein are true.

8. *Termination and Severance.*

Notwithstanding the provisions of Section 2 of this Agreement, the Executive's employment hereunder may terminate under the following circumstances:

(a) *Termination by the Company for Cause.* The Company may terminate this Agreement for Cause at any time, upon written notice to the Executive setting forth in reasonable detail the nature of such Cause. For purposes of this Agreement, Cause is defined as (i) the Executive's willful and material breach of the terms of this Agreement; (ii) the Executive's commission of any felony or any crime involving moral turpitude; (iii) gross negligence or willful misconduct by the Executive in connection with his duties hereunder; or (iv) the Executive's willful refusal to perform his duties hereunder. Upon the termination for Cause of Executive's employment, the Company shall have no further obligation or liability to the Executive other than for salary earned under this Agreement prior to the date of termination, and any accrued but unused vacation or other benefits.

(b) *Termination by the Company Without Cause.* The Executive's employment hereunder may be terminated without Cause by the Company upon written notice to the Executive, provided, however, that if the Company terminates the Executive's employment without Cause, or the Executive terminates his employment for Good Reason, as defined below, the Company shall continue to pay the Executive the Salary and shall provide health coverage, under the same conditions as exist at the time of termination, for a six (6) month period. As a condition of receiving severance benefits pursuant to this Agreement, the Executive shall execute and deliver to the Company prior to his receipt of such benefits a general release substantially in the form attached hereto as Exhibit A.

(c) *Termination by the Executive.* The Executive may terminate his employment hereunder upon one (1) month's written notice to the Company. In the event of termination by the Executive pursuant to this subsection 8(c), the Company may elect to pay the Executive during the notice period (or for

any remaining portion of that period) the Salary and benefits at the rate of compensation the Executive was receiving immediately before such notice of termination was tendered in lieu of actual notice. The Executive may also terminate his employment hereunder for "Good Reason," within forty (40) days of the occurrence of any of the following events: (i) a material reduction in salary other than an across-the-board Company action reducing base salary; (ii) a relocation of the Executive's worksite to a location not in the State of Israel, (iii) a change in the Executive's title, or (iv) Mr. Robert LoCascio is no longer an active executive of LivePerson. The Executive shall give the Company twenty (20) days' written notice and opportunity to cure prior to any termination for Good Reason based on the grounds specified above.

(d) *Death.* In the event of the Executive's death during the Term of this Agreement, the Executive's employment hereunder shall immediately and automatically terminate, and the Company shall have no further obligation or duty to the Executive or his estate or beneficiaries other than for the Salary earned under this Agreement to the date of termination and any payments or benefits due under Company policies or benefit plans.

(e) *Disability.* The Company may terminate the Executive's employment hereunder, upon written notice to the Executive, in the event that the Executive becomes disabled during the Term through any condition of either a physical or psychological nature and, as a result, is, with or without reasonable accommodation, unable to perform the essential functions of the services contemplated hereunder for (a) a period of ninety (90) consecutive days, or (b) for shorter periods aggregating one hundred twenty (120) days during any twelve (12) month period during the Term. Any such termination shall become effective upon mailing or hand delivery of notice that the Company has elected its right to terminate under this subsection 8(e), and the Company shall have no further obligation or duty to the Executive other than for salary earned under this Agreement prior to the date of termination and any payments or benefits due under Company policies or benefit plans.

9. *Choice of Law.*

The validity, interpretation and performance of this Agreement shall be governed by, and construed in accordance with, the internal law of the State of Israel, without giving effect to conflict of law principles. Both parties agree that the exclusive venue for any action, demand, claim or counterclaim relating to the terms and provisions of Sections 4 and 5 of this Agreement, or to their breach, shall be in the state or federal courts located in the State of Israel, the City of Tel Aviv and that such courts shall have personal jurisdiction over the parties to this Agreement.

10. *Confidentiality and Other Agreements.*

As a condition to the Company's performance of its obligations hereunder, Executive shall enter into and execute contemporaneously with the execution hereof, the Company's Proprietary Information and Intellectual Property Agreement.

11. *Miscellaneous.*

(a) *Assignment.* The Executive acknowledges and agrees that the rights and obligations of the Company under this Agreement may be assigned by the Company to any successors in interest. The Executive further acknowledges and agrees that this Agreement is personal to the Executive and that the Executive may not assign any rights or obligations hereunder.

(b) *Withholding.* All salary and bonus payments required to be made by the Company to the Executive under this Agreement shall be subject to withholding taxes, social security and other payroll deductions in accordance with the applicable Israeli law.

(c) *Entire Agreement.* This Agreement, the Restricted Stock Option Agreement, and the Proprietary Information and Intellectual Property Agreement set forth the entire agreement between

the parties and supersedes any prior communications, agreements and understandings, written or oral, with respect to the terms and conditions of the Executive's employment.

(d) *Amendments.* Any attempted modification of this Agreement will not be effective unless signed by an officer of the Company and the Executive.

(e) *Waiver of Breach.* The Executive understands that a breach of any provision of this Agreement may only be waived by an officer of the Company. The waiver by the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

(f) *Severability.* If any provision of this Agreement should, for any reason, be held invalid or unenforceable in any respect by a court of competent jurisdiction, then the remainder of this Agreement, and the application of such provision in circumstances other than those as to which it is so declared invalid or unenforceable, shall not be affected thereby, and each such provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

(g) *Notices.* Any notices, requests, demands and other communications provided for by this Agreement shall be in writing and shall be effective when delivered by private messenger, private overnight mail service, or facsimile as follows (or to such other address as either party shall designate by notice in writing to the other in accordance herewith):

If to the Company:

HumanClick, Ltd.
33 Bnei Zion
Israel 60910
Attn: Chief Executive Officer

With a copy to:
Brobeck, Phleger & Harrison LLP
1633 Broadway, 47th Floor
New York, New York 10019
Attn: Brian B. Margolis, Esq.

If to Executive:
Eitan Ron
1 Moshe Sne Street
Ra'anana, Israel

(h) *Survival.* The Executive and the Company agree that certain provisions of this Agreement shall survive the expiration or termination of this Agreement and the termination of the Executive's employment with the Company. Such provisions shall be limited to those within this Agreement which, by their express and implied terms, obligate either party to perform beyond the termination of the Executive's employment or termination of this Agreement.

(i) *Disclosure and Confidentiality.* The Executive agrees to provide, and agrees that the Company similarly may provide in its discretion, a copy of the covenants contained in this Agreement to any business or enterprise which the Company may directly or indirectly own, manage, operate, finance, join, control or in which the Company participates in the ownership, management, operation, financing or control, or with which the Company may be connected or may become connected as an officer, director, executive, partner, principal, agent, representative, consultant or otherwise. The Executive also agrees that the Company may disclose a copy of this Agreement if legally required to do so, and in connection with a partnering transaction or financing, assuming that an appropriate confidentiality agreement is in place. The Executive further agrees not to disclose the existence or terms of this

Agreement to any person other than the Executive's immediate family and legal, financial or accounting professional.

(j) *Arbitration of Disputes.* Any controversy, dispute or question which may at any time in the future arise between the parties, which relates to the correct interpretation of this Agreement or the fulfillment of this Agreement or the rights and obligations of the parties hereunder or any aspect of the Executive's relationship with the Company including the cessation thereof (other than disputes with respect to alleged violations of the covenants contained in Sections 4 and 5 hereof, and the Company's pursuit of the remedies described in Section 6 hereof in connection therewith) will be submitted to a sole arbitrator who shall be selected by agreement of the parties. In the event that the parties cannot agree upon an arbitrator within seven (7) days, an arbitrator shall be appointed by the President of the Tel Aviv District of the Israel Bar Association. The arbitration proceedings shall be held in Tel Aviv and shall be conducted in the English language. The arbitrator will have the power to issue interim orders and to award fees to the prevailing party and will not be bound by the rules of evidence. The signatures of the parties hereto shall be deemed as a deed of submission to arbitration.

(k) *Rights of Other Individuals.* This Agreement confers rights solely on the Executive and the Company. This Agreement is not a benefit plan and confers no rights on any individual or entity other than the undersigned.

(l) *Headings.* The parties acknowledge that the headings in this Agreement are for convenience of reference only and shall not control or affect the meaning or construction of this Agreement.

(m) *Advice of Counsel.* The Executive and the Company hereby acknowledge that each party has had adequate opportunity to review this Agreement, to obtain the advice of counsel with respect to this Agreement, and to reflect upon and consider the terms and conditions of this Agreement. The parties further acknowledge that each party fully understands the terms of this Agreement and has voluntarily executed this Agreement.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the day and year set forth below.

EXECUTIVE	HumanClick Ltd.
/s/ EITAN RON	/s/ ILLEGIBLE
Eitan Ron	Title: Powered by the Board and the General Meeting

QuickLinks

EXHIBIT 10.7.1

QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 10.7.2

LIVEPERSON, INC.
462 Seventh Avenue, 10th Floor
New York, New York 10018
October 12, 2000

Eitan Ron
1 Moshe Sne Street, Ra'anana
Israel

Dear Mr. Ron:

This letter is provided to you in connection with your Employment Agreement with HumanClick Ltd., a private company organized under the laws of the State of Israel ("HumanClick"), of even date herewith (the "Employment Agreement"), concurrent with the purchase by LivePerson, Inc., a Delaware corporation ("LivePerson"), of all of the issued and outstanding capital stock of HumanClick pursuant to that certain Stock Purchase Agreement, of even date herewith, by and between LivePerson, HumanClick and the shareholders of HumanClick named in Schedule I thereto.

By this letter, LivePerson hereby agrees that (i) it will cause HumanClick to fulfill its obligations pursuant to the Employment Agreement, and (ii) in the event that you are entitled to any payments pursuant to the Employment Agreement and HumanClick fails to pay you any such amounts due, LivePerson will pay such amounts and at the times as required under the Employment Agreement.

LIVEPERSON, INC.

By: /s/ ROBERT P. LOCASCIO

Name: Robert P. LoCascio
Title: President

QuickLinks

EXHIBIT 10.7.3

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (this "***Agreement***") is entered into as of October 12, 2000, by and among LivePerson, Inc., a Delaware corporation ("***LP***"), First Union National Bank, as Escrow Agent (the "***Escrow Agent***"), HumanClick Ltd., a private company organized under the laws of the State of Israel ("***HumanClick***"), and Eitan Ron, as Shareholders' Agent, on behalf of each of the Shareholders of HumanClick listed on Schedule A hereto (collectively, the "***Shareholders***").

WHEREAS, LP, HumanClick and the Shareholders have entered into a Stock Purchase Agreement dated as of October 12, 2000 (the "***Stock Purchase Agreement***");

WHEREAS, the Stock Purchase Agreement provides that an escrow account will be established to secure various obligations of the Shareholders on the terms and subject to the conditions set forth in the Stock Purchase Agreement and set forth herein; and

WHEREAS, LP, Escrow Agent, HumanClick and the Shareholders' Agent (the "***Parties***") desire to establish the terms and conditions pursuant to which such escrow account will be established and maintained.

NOW, THEREFORE, the Parties hereto hereby agree as follows:

1. *Defined Terms.* Capitalized terms used in this Agreement and not otherwise defined shall have the meanings given them in the Stock Purchase Agreement.

2. *Appointments.* First Union National Bank hereby accepts its appointment as Escrow Agent hereunder. LP hereby appoints its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Secretary to act, either jointly or individually, on behalf of LP for all purposes hereunder (each, an "***LP Agent***"). Each of the Shareholders has heretofore appointed Eitan Ron as its agent and representative to act on behalf of the Shareholders on all matters relating to this Agreement, upon the terms and subject to the conditions hereinafter set forth (the "***Shareholders' Agent***"). The actions of an LP Agent or the Shareholders' Agent under or pursuant to this Agreement shall be binding on LP and the Shareholders, respectively.

3. *Consent of Shareholders.* Pursuant to the Stock Purchase Agreement, the Shareholders have consented to the establishment of this escrow to secure certain obligations under Article VIII of the Stock Purchase Agreement and certain other obligations in the manner set forth therein.

4. *Escrow and Indemnification.*

(a) *Escrow of Shares of Parent Common Stock.* As soon as reasonably practicable after the Effective Time, LP shall deposit, on behalf of the Shareholders, with the Escrow Agent one or more certificates representing an aggregate of twenty-five percent (25%) of the Purchaser Shares (the "***Escrow Shares***") to be issued pursuant to Section 2.03 of the Stock Purchase Agreement, issued in the name of the Escrow Agent in the respective amounts set forth on Schedule A hereto. The Escrow Agent agrees to accept delivery of the Escrow Shares and to hold the Escrow Shares in an escrow account (the "***Escrow Account***"), on the terms and subject to the conditions of this Agreement. The Escrow Account shall not be an interest bearing account.

(b) *Distributions and Dividends.* All dividends and other distributions on Escrow Shares or additional shares of capital stock issued on or with respect to the Escrow Shares as a result of stock splits, stock dividends or other similar capital adjustments to, or recapitalizations on, the Escrow Shares shall be delivered by LP to the Escrow Agent and retained in the Escrow Account subject to the terms hereof and shall constitute Escrow Shares.

(c) *Voting of Shares and Other Rights.* All voting rights with respect to Escrow Shares may be exercised by the Shareholders in accordance with their proportionate interests therein, and the Escrow Agent shall from time to time execute and deliver to the Shareholders such proxies, consents or other documents as may be necessary to enable the Shareholders to exercise such rights. In the absence of any exercise of such voting rights with respect to Escrow Shares by the Shareholders, the Escrow Agent shall not vote any of the Escrow Shares.

(d) *Transferability; Sale.* The interest of the Shareholders in the Escrow Shares shall not be assignable or transferable so long as such Escrow Shares are held by the Escrow Agent hereunder; *provided, however,* that the Escrow Agent may sell, transfer, or otherwise dispose of the Escrow Shares pursuant to Sections 5 and 6 hereof, and as otherwise provided in this Agreement.

5. *Release of Escrow Shares.*

(a) At any time, and from time to time, prior to twelve (12) months after the Effective Date (the "***Termination Date***"), LP may make claims, in the manner set forth in Section 6 hereof, for payment against the Escrow Shares if it (or any other Indemnified Person) has paid or incurred Damages and is entitled to indemnification under Article VIII of the Stock Purchase Agreement. The Shareholders' Agent, on behalf of each of the Shareholders, agrees that the Shareholders shall indemnify and hold harmless any Indemnified Person for such Damages pursuant to Section VIII of the Stock Purchase Agreement. Any of the Escrow Shares to be released pursuant to this Section 5(a) shall be valued in accordance with the terms of this Agreement.

(b) As soon as possible after the Termination Date, upon delivery of a notice executed jointly by both an LP Agent and the Shareholders' Agent to the Escrow Agent (which notice shall not be withheld unless pursuant to the matters provided for in Section 5(c) below), the Escrow Agent shall deliver and/or submit for transfer, delivery and assignment to an Israeli trustee to be designated in writing by the Shareholders' Agent within thirty days of the date hereof (the "Israeli Trustee"), for the benefit of each of the Shareholders, such Shareholder's pro rata portion of the Escrow Shares not subject to outstanding Claim Notices (as defined herein).

(c) Notwithstanding the foregoing, if on the Termination Date an LP Agent has previously given any Claim Notices (as defined herein) that have not then been resolved in accordance with Section 6 below, the Escrow Agent shall retain in the Escrow Account an amount of Escrow Shares having a Fair Market Value (as defined in Section 7 hereof) equal to the aggregate Claimed Amount (as defined herein) covered by all such Claim Notices that have not then been resolved. Any Escrow Shares retained in escrow pursuant to this Section 5(c) shall be disbursed in accordance with the terms of the resolution of any claims relating to any of the Escrow Shares retained hereunder.

6. *Administration of Escrow Account for Indemnification Claims.* With respect to indemnification claims, the Escrow Agent shall administer the Escrow Account as follows:

(a) The release of Escrow Shares shall be applied to each Shareholder in the proportion that the Escrow Shares of such Shareholder bears to the sum of Escrow Shares then remaining in the Escrow. In lieu of releasing any fractional Escrow Shares, any fraction of a released Escrow Share that would otherwise be released shall be rounded to the nearest whole share of Parent Common Stock (with one-half of a share being rounded upward).

(b) If an Indemnified Person has incurred or suffered Damages for which it is entitled to indemnification by the Shareholders under the Stock Purchase Agreement, the LP Agent shall, prior to the Termination Date, give written notice of such claim (a "***Claim Notice***") to the Shareholders' Agent with a copy to the Escrow Agent. Each Claim Notice shall state the amount of Damages claimed (the "***Claimed Amount***") and the basis for such claim.

(c) Claims for indemnification involving a claim or legal proceeding by a third party shall be made in accordance with the procedures set forth in the Stock Purchase Agreement and the provisions of this Section 6. For indemnification claims not involving any claim or legal proceeding by a third party, the procedures herein alone shall apply. Within twenty (20) business days of receipt by the Shareholders'

Agent of a Claim Notice, the Shareholders' Agent shall provide to the party providing the Claim Notice (with a copy to the Escrow Agent) a written response (the "***Response Notice***") in which the Shareholders' Agent shall either: (i) agree that Escrow Shares having a Fair Market Value (as computed pursuant to Section 7 below) equal to the full Claimed Amount may be released from the Escrow Account to the Indemnified Person, (ii) agree that Escrow Shares having a Fair Market Value equal to part, but not all, of the Claimed Amount may be released from the Escrow Account to the Indemnified Person, or (iii) contest that any of the Escrow Shares may be released from the Escrow Account to the Indemnified Person. The Shareholders' Agent may contest the release of Escrow Shares having a Fair Market Value equal to all or a portion of the Claimed Amount only if the Shareholders' Agent has a good faith belief that all or such portion of the Claimed Amount does not constitute Damages for which the Indemnified Person is entitled to indemnification under the Stock Purchase Agreement. If no Response Notice is delivered to, and received by the Escrow Agent prior to twenty (20) business days of receipt of the Claim Notice by the Shareholders' Agent, the Shareholders' Agent shall be deemed to have agreed that Escrow Shares having a Fair Market Value equal to all of the Claimed Amount may be released to the Indemnified Person from the Escrow Account. Notwithstanding any terms of this Agreement to the contrary, no Claim Notice or Response Notice shall be deemed to have been delivered to the Escrow Agent until it is actually received by the Escrow Agent at the address set forth in Section 12 hereof.

(d) If the Shareholders' Agent agrees (or is deemed to have agreed) that Escrow Shares having a Fair Market Value equal to all of the Claimed Amount may be released from the Escrow Account to the Indemnified Person, the Escrow Agent shall promptly thereafter transfer, deliver and assign to the Indemnified Person the Escrow Shares having a Fair Market Value equal to the Claimed Amount (or such lesser amount of Escrow Shares as are then held in the Escrow Account).

(e) If the Shareholders' Agent agrees that Escrow Shares having a Fair Market Value equal to part, but not all, of the Claimed Amount (the "***Partial Agreed Amounts***") may be released from the Escrow Account to the Indemnified Person, the Escrow Agent promptly shall transfer, deliver and assign to the Indemnified Person Escrow Shares having a Fair Market Value equal to the sum of all Partial Agreed Amounts (or such lesser amount of Escrow Shares as are then held in the Escrow Account).

(f) If the Shareholders' Agent contests the release of Escrow Shares having a Fair Market Value equal to all or part of the Claimed Amount (the "***Contested Amount***"), the Shareholders' Agent and the Indemnified Person or LP Agent, as applicable, shall attempt promptly and in good faith to agree upon the rights of the parties with respect to the Contested Amount. If the parties should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties and delivered to the Escrow Agent and, if such agreement provides that all or a portion of the Contested Amount is to be paid to the LP Agent, the Escrow Agent shall promptly transfer, assign and deliver to the Indemnified Person from the Escrow Account an amount of Escrow Shares having a Fair Market Value equal to the amount so agreed. If no such agreement can be reached within 15 days, the matter shall be settled by binding arbitration in New York City, New York. Notwithstanding the foregoing, the parties may defer arbitration to a mutually agreeable later date. All claims shall be settled by a single arbitrator mutually agreeable to the LP Agent and the Shareholders' Agent, or if they cannot agree on a single arbitrator in 20 days, by three arbitrators, in accordance with the Commercial Arbitration Rules then in effect of the American Arbitration Association (the "***AAA Rules***"). One of such arbitrators shall be chosen by the LP Agent, one shall be chosen by the Shareholders' Agent and the third shall be chosen by the first two arbitrators selected pursuant to this sentence. The Party against whom a judgment is made or against whom an award is entered shall pay the costs of arbitration and the other Party's reasonable out of pocket costs and expenses, including without limitation, reasonable attorney's fees. The arbitrator's decision shall relate solely to whether the Indemnified Person is entitled to receive the Contested Amount (or a portion thereof) pursuant to the applicable terms of the

Stock Purchase Agreement and this Agreement. The final decision of the arbitrator, or a majority of the arbitrators in the case of three arbitrators, shall be furnished to the Shareholders' Agent and the LP Agent in writing and shall constitute a conclusive determination of the issue in question, binding upon the Shareholders and LP, and shall not be contested by any of them. Such decision may be used in a court of law only for the purpose of seeking enforcement of the arbitrator's award. Either the Shareholders' Agent or an LP Agent may deliver a memorandum to the Escrow Agent setting forth such arbitrator's decision in accordance with the second sentence of this paragraph. The parties hereto agree that all arbitration proceedings conducted pursuant to this Agreement shall be held confidential.

(g) After delivery of a Response Notice that the Claimed Amount is contested by the Shareholders' Agent, the Escrow Agent shall continue to hold in the Escrow Account an amount of Escrow Shares having a Fair Market Value sufficient to cover the Contested Amount (up to the amount of Escrow Shares then available in the Escrow Account), notwithstanding the occurrence of the Termination Date, until (i) delivery of a copy of a settlement agreement executed by an LP Agent and the Shareholders' Agent setting forth instructions to the Escrow Agent as to the release of Escrow Shares that shall be made with respect to the

Contested Amount or (ii) delivery of a copy of the final award of the arbitrator, or a majority of the arbitrators in the case of three arbitrators, and the memo referenced in the last sentence of the preceding paragraph setting forth instructions to the Escrow Agent as to the release of Escrow Shares that shall be made with respect to the Contested Amount. The Escrow Agent shall thereupon release Escrow Shares from the Escrow Account (up to the amount of Escrow Shares then available in the Escrow Account) in accordance with such agreement or instructions.

7. *Valuation of Escrow Shares.* For purposes of this Agreement, the Fair Market Value of each of the Escrow Shares shall be seven dollars ($7.00) per share, with appropriate adjustment to take into account any stock split, reverse stock split, stock dividend, recapitalization or other similar capital adjustments with respect to LP's common stock. The Fair Market Value shall be calculated as set forth above jointly by the LP Agent and the Shareholders' Agent, and the results of such calculation shall be provided to the Escrow Agent.

8. *Fees and Expenses of the Escrow Agent.* LP hereby agrees to pay the Escrow Agent's reasonable fees and expenses, including attorneys fees, travel expenses, postal and delivery charges, and all other out-of-pocket expenses incurred, in accepting and performing its appointment as Escrow Agent hereunder (collectively, the "***Escrow Agent Expenses***").

9. *General Terms and Standards Regarding the Escrow Agent.* Notwithstanding any terms of this Agreement to the contrary, each term of this Agreement, including without limitation each of the stated duties and responsibilities of the Escrow Agent set forth herein, shall be subject to the following terms and conditions:

(a) The duties, responsibilities and obligations of the Escrow Agent shall be limited to those expressly set forth in this Agreement (and the duty to exercise reasonable care in the physical safekeeping of any property held in escrow hereunder), and no implied duties, responsibilities or obligations shall be read into this Agreement against the Escrow Agent. Without limiting the generality of the foregoing, the Escrow Agent shall have no duty to take action to preserve or exercise rights in any property held by it hereunder (including, without limitation, against prior parties or otherwise).

(b) The Escrow Agent shall not be subject to, bound by, charged with notice of or be required to comply with or interpret any agreement or document (including without limitation the Stock Purchase Agreement) between or among the interested parties (whether or not reference to any such other agreement or documents is expressed herein) other than this Agreement.

(c) The Escrow Agent shall in no instance be under any duty to give any property held by it hereunder any greater degree of care than it gives its own similar property. The Escrow Agent shall not

be required to invest any funds held hereunder, and shall not be obligated to pay interest on uninvested funds. All amounts received by the Escrow Agent (and any credits to the Escrow Account) shall be conditional upon collection (and actual receipt by the Escrow Agent of final payment). In no event shall the Escrow Agent have any obligation to advance funds.

(d) The Escrow Agent may rely upon, and shall be protected in acting or refraining from acting upon, any written notice, instruction, statement, request, waiver, order, judgement, certification, consent, receipt or other paper or document furnished to it (not only as to genuineness, but also as to its due execution and validity, the genuineness of signatures appearing thereon and as to the truth and accuracy of any information therein contained), which it in good faith believes to be genuine and signed or presented by the proper person.

(e) Neither the Escrow Agent nor any of its directors, officers or employees shall be liable to anyone for any error of judgment, or for any act done or step taken or omitted to be taken by it or any of its directors, officers or employees, or for any mistake of fact or law, or for anything which it, or any of its directors, officers or employees, may do or refrain from doing in connection with or in the administration of this Agreement, unless and except to the extent the same constitutes gross negligence, bad faith or willful misconduct on the part of the Escrow Agent. In no event shall the Escrow Agent be liable for any indirect, punitive, special or consequential damages, or any amount in excess of the value of the Escrow Shares (as of the date of the action or omission giving rise to liability).

(f) The Escrow Agent shall not be deemed to have notice of any fact, claim or demand with respect hereto unless actually known by an officer charged with responsibility for administering this Agreement or unless in writing received by the Escrow Agent and making specific reference to this Agreement.

(g) No provision of this Agreement shall require the Escrow Agent to expend or risk its own funds, or to take any legal or other action hereunder which might in its judgement involve it in, or require it to incur in connection with the performance of its duties hereunder, any expense or any financial liability unless it shall be furnished with indemnification acceptable to it.

(h) Any permissive right of the Escrow Agent to take any action hereunder shall not be construed as duty.

(i) All indemnifications contained in this Agreement shall survive the resignation or removal of the Escrow Agent, and shall survive the termination of this Agreement.

(j) The Escrow Agent is not responsible for the recitals appearing in this Agreement. The recitals shall be deemed to be statements of the interested parties to this Agreement.

(k) The Escrow Agent has no responsibility for the sufficiency of this Agreement for any purpose. Without limiting the foregoing, if any security interest is referred to herein, the Escrow Agent shall have no responsibility for, and makes no representation or warranty as to, the creation, attachment or perfection of any such security interest or the sufficiency of this Agreement therefor.

(l) Nothing in this Agreement shall obligate the Escrow Agent to qualify to do business or act in any jurisdiction in which it is not presently qualified to do business, or be deemed to impose upon the Escrow Agent the duties of a trustee. The duties of the Escrow Agent under this Agreement are strictly ministerial in nature.

(m) In no event shall the Escrow Agent have any liability for any failure or inability of any of the interested parties to perform or observe his or its duties under the Agreement, or by reason of a breach of this Agreement by either of the interested parties. In no event shall the Escrow Agent be obligated to take any action against any of the interested parties to compel performance hereunder.

(n) The Escrow Agent shall in no instance be obligated to commence, prosecute or defend any legal proceedings in connection herewith. The Escrow Agent shall be authorized and entitled, however, in any instance to commence, prosecute or defend any legal proceedings in connection herewith, including without limitation any proceeding it may deem necessary to resolve any matter or dispute, to obtain a necessary declaration of rights, or to appoint a successor upon resignation (and after failure by the interested parties to appoint a successor, as provided in Section 13).

(o) Whenever the terms hereof call for any notice, payment or other action on a day which is not a business day, such payment or action may be taken, or such notice given, as the case may be, on the next succeeding business day. As used herein, "business day" shall mean any day other than a Saturday or Sunday, or any other day on which the Escrow Agent is closed for business.

(p) In the event of any ambiguity or uncertainty under this Agreement, or in any notice, instruction, or other communication received by the Escrow Agent hereunder, the Escrow Agent may, in its reasonable discretion, refrain from taking action, and may retain the Escrow Shares, until and unless it receives written instruction signed by all interested parties, or a decision by a court of competent jurisdiction which eliminates such uncertainty or ambiguity.

(q) If at any time Escrow Agent is served with any judicial or administrative order, judgement, decree, writ or other form of judicial administrative process which in any way relates to or affects the Escrow Shares (including but not limited to orders of attachment or garnishment or other forms of levies or injunctions or stays relating to the Escrow Shares), Escrow Agent is authorized to comply therewith in any manner as it or its legal counsel reasonably deems appropriate; and if the Escrow Agent complies with any such judicial or administrative order, judgement, decree, writ or other form of judicial or administrative process, Escrow Agent shall not be liable to any of the Parties hereto or to any other person or entity notwithstanding that though such order, judgement, decree, writ or process may be subsequently modified, annulled, set aside, vacated, found to have been without proper jurisdiction, or otherwise determined to have been without legal force or effect.

(r) The Escrow Agent shall have no liability for the actions or omissions of any transfer agent, book-entry depository, nominee, correspondent, subagent or subcustodian, except to the extent that such action or omission of any transfer agent, book-entry depository, nominee, correspondent, subagent or subcustodian was caused by the Escrow Agent's own gross negligence, bad faith or willful misconduct.

(s) The parties understand that the Escrow Shares are not subject to an effective registration statement at the time of this Agreement, and that the Escrow Agent shall not be responsible for fluctuations in the market in connection with any transfer of the shares.

10. *Indemnification.*

(a) *General.* Each of the Shareholders (jointly and severally as a group) and LP, jointly and severally, hereby covenant and agree to indemnify the Escrow Agent for, and to defend and hold harmless the Escrow Agent from and against, any and every loss, liability, damage, claim, cost and expense of any nature incurred or suffered by the Escrow Agent and arising out of or in connection with this Agreement or the administration of this Agreement or the performance or observance by the Escrow Agent of its responsibilities or services under this Agreement (including but not limited to reasonable attorneys fees and other costs and expenses of defending or preparing to defend against any claim or liability), unless and except to the extent such loss, liability, damage, cost or expense shall be caused by the Escrow Agent's own willful misconduct, bad faith or gross negligence; provided, that any indemnification payment required to be made to the Escrow Agent by the Shareholders should be made from, and as a charge against, the Escrow Account.

(b) *Tax-Related Matters.* Each of the Shareholders (jointly and severally as a group) and LP, jointly and severally, agree to assume any and all obligations imposed now or hereafter by any

applicable tax law with respect to the payment of Escrow Shares under this Agreement, and, without limiting the generality of Section 10(a) above, hereby agree to indemnify and hold the Escrow Agent harmless from and against any taxes, additions for late payment, interest, penalties and other expenses, that may be assessed against the Escrow Agent on any such payment or other activities under this Agreement. LP and each of the Shareholders undertake to instruct the Escrow Agent in writing with respect to the Escrow Agent's responsibility for withholding and other taxes, assessments or other governmental charges, certifications and governmental reporting in connection with its acting as Escrow Agent under this Agreement. Each of the Shareholders (severally as a group) and LP, jointly and severally, agree to indemnify and hold the Escrow Agent harmless from any liability on account of taxes, assessments or other governmental charges, including without limitation the withholding or deduction of or the failure to withhold or deduct same, and any liability for failure to obtain proper certifications or to properly report to governmental authorities, to which the Escrow Agent may be or become subject in connection with or which arises out of this Agreement, including costs and expenses (including reasonable legal fees), interest and penalties. The interested parties shall each promptly provide Escrow Agent with appropriate IRS Forms W-9 for taxpayer identification number certifications, or Forms W-8 for nonresident alien certifications in connection with any payments to be made to them.

11. *Termination.* If this Agreement is not terminated pursuant to Section 5 above, this Agreement shall terminate upon the later of the Termination Date or the distribution by the Escrow Agent of all of the Escrow Account in accordance with this Agreement, provided that the provisions of Sections 9 and 10 above shall survive such termination.

12. *Notices.* All notices, requests, demands, and other communications under this Agreement shall be in writing and shall be deemed to have been duly given on the date of service if served personally on the party to whom notice is to be given, on the first business day following the date of transmittal of services via telecopy to the party to whom notice is to be given, or on the fifth day after mailing if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid, or by an internationally recognized courier service, and properly addressed as follows (or at such other address for a party as shall be specified by like notice):

To LP at:	LivePerson, Inc. 462 Seventh Avenue

	New York, New York 10018 Attention: Timothy E. Bixby
With a copy to:	Brobeck, Phleger & Harrison LLP 1633 Broadway, 47th Floor New York, NY 10019 Attention: Brian Margolis, Esq. Telecopy No.: (212) 586-7878
To the Shareholders Agent:	Eitan Ron c/o HumanClick Ltd. P.O. Box 193 Bnei Zion, Israel 60910 Telecopier: (972) 9-741-2311
With a copy to:	Zellermayer, Pelossof, Adv. Europe House 37 Shaul Hamelech Tel Aviv, Israel 64928 Attention: Guy Even Ezra, Esq. Telecopier: (972) 3-695-2884

To Escrow Agent at:	First Union National Bank One World Trade Center, 47th Floor New York, NY 10048 Attention: Corporate Trust Group

Notwithstanding anything herein to the contrary, any party may give any notice, request, demand, claim or other communication hereunder by personal delivery or telecopy, but no such notice, request, demand, claim or other communication shall be deemed to have been duly given unless and until it actually is received by the party for whom it is intended. Any party may change the address to which notices, requests, demands, claims and other communications hereunder are to be delivered by giving the other parties notice in the manner herein set forth. Copies of any notice, request, demand, claim or other communication hereunder by personal delivery or telecopy given to the Escrow Agent by either party, shall be delivered to the other party as soon thereafter as practicable.

13. *Successor Escrow Agent.* In the event the Escrow Agent becomes unavailable or unwilling to continue in its capacity herewith, the Escrow Agent may resign and be discharged from its duties or obligations hereunder by delivering a resignation to the parties, not less than 60 days prior to the date when such resignation shall take effect. LP may appoint a successor Escrow Agent with the consent of the Shareholders' Agent, which shall not be unreasonably withheld. If, within such notice period, LP provides to the Escrow Agent written instructions with respect to the appointment of a successor Escrow Agent and directions for the transfer of any Escrow Shares then held by the Escrow Agent to such successor, the Escrow Agent shall act in accordance with such instructions and promptly transfer such Escrow Shares to such designated successor. If no successor is so appointed, the Escrow Agent may apply to a court of competent jurisdiction for such appointment.

14. *General.*

(a) *Governing Law, Assigns.* This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York without regard to conflict-of-law and choice of law principles and shall be binding upon, and inure to the benefit of, the parties and their respective successors and assigns.

(b) *Counterparts.* This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(c) *Entire Agreement.* Except for the provisions of the Stock Purchase Agreement referenced herein, this Agreement constitutes the entire understanding and agreement of the Parties with respect to the subject matter of this Agreement and supersedes all prior agreements or understandings, written or oral, between the Parties with respect to the subject matter hereof.

(d) *Waivers.* No waiver by any party hereto of any condition or of any breach of any provision of this Escrow Agreement shall be effective unless in writing. No waiver by any party of any such condition or breach, in any one instance, shall be deemed to be a further or continuing waiver of any such condition or breach or a waiver of any other condition or breach of any other provision contained herein.

(e) *Amendment.* This Agreement may be amended only with the written consent of an LP Agent, the Escrow Agent and the Shareholders' Agent.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Parties have duly executed this Escrow Agreement as of the day and year first above written.

LIVEPERSON, INC.

By: /s/ ROBERT P. LOCASCIO

Name: Robert P. LoCascio
Title: President

HUMANCLICK LTD.

By: /s/ EITAN RON

Name: Eitan Ron
Title: CEO

By: /s/ TAL GOLDBERG

Name: Tal Goldberg
Title: President

FIRST UNION NATIONAL BANK,
as Escrow Agent

By: /s/ MICHELLE MENA

Name: Michelle Mena
Title: Corporate Trust Officer

EITAN RON,
as Shareholders' Agent

By: /s/ EITAN RON

Schedule A
ESCROW SHARES

Name of Registered Holder	Certificate Number	Number of Shares
Eitan Ron		260,717
Tal Goldberg		260,717
Halakoch Hane'eman Hashmonim Vetisha Ltd.		17,230
J. Even Ezra Ltd.		176,905
Had-Noa Holdings Ltd.		6,821
Gilbridge Holdings Ltd.		312,691
Philippe Lang		17,341
Max Herzberg		7,183

QuickLinks

EXHIBIT 10.7.3

QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 10.7.4

REPURCHASE OPTION AGREEMENT

THIS AGREEMENT is made this 12th day of October 2000, between LivePerson, Inc., a Delaware corporation (the "Company"), Eitan Ron and Tal Goldberg (each a "Founder" and together, the "Founders"), and First Union National Bank, as Escrow Agent (the "Escrow Agent").

WHEREAS, reference is made to the Stock Purchase Agreement, dated as of the date hereof, by and among the Company, HumanClick Ltd. ("HumanClick") and the shareholders listed on the signature pages thereto (the "Shareholders") (the "Purchase Agreement"), pursuant to which the shareholders, including the Founders, have agreed to exchange their shares of HumanClick for shares of the Company's common stock, $0.001 par value per share (the "Common Stock"), of which 2,085,732 shares of Common Stock will be acquired by the Founders (the Founders' Stock);

WHEREAS, the execution and delivery of this Agreement is a condition precedent to the transactions contemplated by the Purchase Agreement; and

WHEREAS, the parties hereto desire to agree upon the terms upon which the Founders' Stock may be repurchased by the Company in the event a Founder's employment with HumanClick is terminated.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. *Repurchase Option.*

(a) In the event of (i) the voluntary termination which is not Good Reason termination, or (ii) involuntary termination for Cause, of a Founder's employment with or services to HumanClick, the Company shall have, upon the date of such termination (as reasonably fixed and determined by the Company), an irrevocable, exclusive option ("Repurchase Option") for a period of ninety (90) days (subject to Section 1(d) hereof) from such date to repurchase, at a price equal to the lower of (i) the average closing price for a share of the Company's Common Stock as quoted on the Nasdaq Stock Market for the 30 trading days following the date of such termination (the "Market Price") and (ii) seven dollars ($7.00) per share, all or any portion of such Founders' Stock that are Unreleased Founders' Stock (as hereinafter defined). The Company may exercise its Repurchase Option by giving written notice to the applicable Founder (with a copy to the Escrow Agent) and, at the option of the Company, (i) by delivering to such Founder a check in the amount of the repurchase price for the Founders' Stock being repurchased, or (ii) by canceling such of the applicable Founder's indebtedness to the Company equal to the repurchase price for the Founders' Stock being repurchased, or (iii) a combination of (i) and (ii) equal to the repurchase price for the Founders' Stock being repurchased. Upon delivery of such notice and payment of the repurchase price, the Company shall become the legal and beneficial owner of the Founders' Stock being repurchased (and all rights and interests therein or relating thereto) and shall have the right to retain and transfer to its own name the number of shares of Founders' Stock being repurchased.

(b) Whenever the Company shall have the right to repurchase Founders' Stock hereunder, the Company may designate and assign one or more employees, officers, directors or shareholders of the Company or other persons or organizations to exercise all or a part of the Repurchase Option and purchase all or a part of such Founders' Stock.

(c) Notwithstanding the provisions of Section 1(a) hereunder, in the event of (a) the sale of all or substantially all of the assets of the Company, or (b) the consummation of a consolidation or a merger in which the Company is not the surviving entity (other than a consolidation or merger in which the shareholders of the Company immediately before the consolidation or merger hold, immediately after the consolidation or merger, securities representing more than 50% of the voting power and equity of the surviving entity) (such events, a "Change-in-Control Event"), the Repurchase Option shall be exercisable by the Company or its successors and assigns at a per share price equal to the higher of:

(i) the per share price paid in such transaction, and (ii) the lower of (x) the Market Price and (y) seven dollars ($7.00) per share.

(d) Notwithstanding the provisions of Section 1(a) hereunder, in the event of the (i) voluntary termination which is not for Good Reason, or (ii) involuntary termination for Cause, of a Founder's employment with or services to HumanClick, prior to the Termination Date (as that term is defined in that certain Escrow Agreement, dated of even date hereof, by and among the Company, HumanClick Ltd., First Union National Bank (as Escrow Agent), and Eitan Ron (as Shareholders' Agent) (the "Escrow Agreement")), then the Repurchase Option period for any Unreleased Founders' Stock that has been held in escrow pursuant to the Escrow Agreement shall end on the later of three business days after (x) the date on which a Founder's shares are first released pursuant to Section 5(b) of the Escrow Agreement (the "Release Date") or (y) the date after the Release Date on which there are no shares subject to Outstanding Claim Notices under the Escrow Agreement or (z) the date that is 30 days after the date of such termination.

2. *Release of Shares From Repurchase Option.*

(a) Seventy-five percent (75%) of each Founders' Stock shall be subject to the Company's Repurchase Option as of the Closing Date (as defined in the Purchase Agreement) (the "Vesting Start Date"); provided that it is understood that such portion of each Founders' Stock shall be inclusive of the shares held in escrow pursuant to the Escrow Agreement. The Founders' Stock subject to the Repurchase Option of each Founder shall be released from the Company's Repurchase Option as follows: (i) the portion (if any) of each Founder's shares subject to the Escrow Agreement which have not been released to Indemnified Parties in satisfaction of Damages shall be released from the Company's Repurchase Option at the first anniversary of the Vesting Start Date; and (ii) one-third of the shares of such Founder's Founders' Stock subject to the Repurchase Option shall be released from the Company's Repurchase Option at the second and third anniversary of the Vesting Start Date (respectively), provided that in each case the applicable Founder's employment by or services to HumanClick has not been terminated voluntarily (excluding voluntary termination for Good Reason) or for Cause prior to the date of any such release and the Company has not exercised its Repurchase Option pursuant to Section 1 hereunder. On the termination of the employment of a Founder by HumanClick not for Cause or in case of termination due to death or disability or by the Founder for Good Reason, all Unreleased Founders' Stock held by such Founder shall be immediately released from the Company's Repurchase Option and shall be delivered to such Founder.

(b) Any of the shares of Founders' Stock which have not yet been released from the Company's Repurchase Option are referred to herein as "Unreleased Founders' Stock." Unreleased Founders' Stock shall be deemed to exclude any shares released to any Indemnified Party or subject to Claim Notices on the

Release Date under the Escrow Agreement; provided that if any shares subject to a Claim Notice on the Release Date are to be subsequently released to the Founders (or a trustee) pursuant to the Escrow Agreement, such released shares shall then be deemed to be Unreleased Founders' Stock until released from the Company's Repurchase Option pursuant to the terms of this Agreement and with joint written direction provided to the Escrow Agent executed by both parties in the form attached hereto as *Exhibit A.*

(c) The shares of Founders' Stock which have been released from the Company's Repurchase Option shall be delivered to an Israeli trustee, the identity of which shall be delivered to the Company and the Escrow Agent within 30 days of the date hereof (the "Israeli Trustee"), for the benefit of the applicable Founder at such Founder's request.

(d) Employment with HumanClick constitutes at-will employment. This Agreement shall not confer upon any Founder any right with respect to continuation of employment by HumanClick, nor shall it interfere with or affect in any manner the right or power of HumanClick, or a parent or subsidiary of HumanClick, to terminate any Founder's employment at any time or for any reason, with or without

---

Cause. For purposes of this Agreement, "Cause" and "Good Reason" shall have the meaning attributed to such term in such Founder's Employment Agreement (as defined in the Purchase Agreement).

3. *Restriction on Transfer.* Except for the escrow described in Section 4 or transfer of the Unreleased Founders' Stock to the Company or its assignees contemplated by this Agreement, none of the shares of Unreleased Founders' Stock or any beneficial interest therein shall be transferred, encumbered or otherwise disposed of in any way until the release of such Founders' Stock from the Repurchase Option in accordance with the provisions of this Agreement.

4. *Escrow of Shares.*

(a) The Founders' Stock subject to the Repurchase Option shall be held by the Escrow Agent, along with stock assignments executed by each Founder in blank, until the expiration of the Company's option to repurchase such Founders' Stock as set forth above. The fees of the Escrow Agent shall be paid by the Company.

(b) The Escrow Agent is hereby directed to permit transfer of the Founders' Stock only in accordance with this Agreement or instructions signed by both parties. In the event further instructions are desired by the Escrow Agent, the Escrow Agent shall be entitled to rely upon directions executed by a majority of the authorized number of the Company's Board of Directors. The Escrow Agent shall have no liability for any act or omission hereunder while acting in good faith in the exercise of the Escrow Agent's own judgment. In the event the Escrow Agent is directed to transfer the Founders' Stock to the Founders, the Escrow Agent shall transfer such shares to the Israeli Trustee for the benefit of the applicable Founder with the joint written direction executed by both parties in the form attached hereto as *Exhibit A.*

(c) If the Company or any assignee exercises its Repurchase Option hereunder, the Escrow Agent, upon receipt of written notice of such option exercise from the proposed transferee and a written evidence that the amounts due for the shares have been paid to the Founder, shall take all steps necessary to accomplish such transfer.

(d) When the Repurchase Option has been exercised or expires unexercised or a portion of the Founders' Stock has been released from such Repurchase Option, upon the applicable Founder's request the Escrow Agent shall promptly cause a new certificate to be issued for such released Founders' Stock and shall deliver such certificate to the Israeli Trustee for the benefit of the applicable Founder with the joint written direction executed by both parties in the form attached hereto as *Exhibit A.*

(e) Subject to the terms hereof, the applicable Founder shall have all the rights of a shareholder with respect to such Founders' Stock subject to the Repurchase Option while they are held in escrow, including without limitation, the right to vote the shares of Founders' Stock subject to the Repurchase Option and receive any cash dividends declared thereon. If, from time to time during the term of the Company's Repurchase Option, there is (i) any stock dividend, stock split or other change in the Founders' Stock subject to the Repurchase Option, or (ii) any merger or sale of all or substantially all of the assets of or other acquisition of the Company, any and all new, substituted or additional securities to which each Founder is entitled by reason of the Purchaser's ownership of the Shares shall be immediately subject to this escrow, deposited with the Escrow Agent and included thereafter as "Founders' Stock subject to the Repurchase Option" for purposes of this Agreement and the Company's Repurchase Option.

5. *General Terms and Standards Regarding the Escrow Agent.* Notwithstanding any terms of this Agreement to the contrary, each term of this Agreement, including without limitation each of the

---

stated duties and responsibilities of the Escrow Agent set forth herein, shall be subject to the following terms and conditions:

(a) The duties, responsibilities and obligations of the Escrow Agent shall be limited to those expressly set forth in this Agreement (and the duty to exercise reasonable care in the physical safekeeping of any property held in escrow hereunder), and no implied duties, responsibilities or obligations shall be read into this Agreement against the Escrow Agent. Without limiting the generality of the foregoing, the Escrow Agent shall have no duty to take action to preserve or exercise rights in any property held by it hereunder (including, without limitation, against prior parties or otherwise).

(b) The Escrow Agent shall not be subject to, bound by, charged with notice of or be required to comply with or interpret any agreement or document (including without limitation the Purchase Agreement) between or among the interested parties (whether or not reference to any such other agreement or documents is expressed herein) other than this Agreement.

(c) The Escrow Agent shall in no instance be under any duty to give any property held by it hereunder any greater degree of care than it gives its own similar property. The Escrow Agent shall not be required to invest any funds held hereunder, and shall not be obligated to pay interest on uninvested funds. All amounts received by the Escrow Agent (and any credits to the Escrow Account) shall be conditional upon collection (and actual receipt by the Escrow Agent of final payment). In no event shall the Escrow Agent have any obligation to advance funds.

(d) The Escrow Agent may rely upon, and shall be protected in acting or refraining from acting upon, any written notice, instruction, statement, request, waiver, order, judgement, certification, consent, receipt or other paper or document furnished to it (not only as to genuineness, but also as to its due execution and validity, the genuineness of signatures appearing thereon and as to the truth and accuracy of any information therein contained), which it in good faith believes to be genuine and signed or presented by the proper person.

(e) Neither the Escrow Agent nor any of its directors, officers or employees shall be liable to anyone for any error of judgment, or for any act done or step taken or omitted to be taken by it or any of its directors, officers or employees, or for any mistake of fact or law, or for anything which it, or any of its directors, officers or employees, may do or refrain from doing in connection with or in the administration of this Agreement, unless and except to the extent the same constitutes gross negligence, bad faith or willful misconduct on the part of the Escrow Agent. In no event shall the Escrow Agent be liable for any indirect, punitive, special or consequential damages, or any amount in excess of the value of the Unreleased Founders' Stock (as of the date of the action or omission giving rise to liability).

(f) The Escrow Agent shall not be deemed to have notice of any fact, claim or demand with respect hereto unless actually known by an officer charged with responsibility for administering this Agreement or unless in writing received by the Escrow Agent and making specific reference to this Agreement.

(g) No provision of this Agreement shall require the Escrow Agent to expend or risk its own funds, or to take any legal or other action hereunder which might in its judgement involve it in, or require it to incur in connection with the performance of its duties hereunder, any expense or any financial liability unless it shall be furnished with indemnification acceptable to it.

(h) Any permissive right of the Escrow Agent to take any action hereunder shall not be construed as duty.

(i) All indemnifications contained in this Agreement shall survive the resignation or removal of the Escrow Agent, and shall survive the termination of this Agreement.

(j) The Escrow Agent is not responsible for the recitals appearing in this Agreement. The recitals shall be deemed to be statements of the interested parties to this Agreement.

(k) The Escrow Agent has no responsibility for the sufficiency of this Agreement for any purpose. Without limiting the foregoing, if any security interest is referred to herein, the Escrow Agent shall have no responsibility for, and makes no representation or warranty as to, the creation, attachment or perfection of any such security interest or the sufficiency of this Agreement therefor.

(l) Nothing in this Agreement shall obligate the Escrow Agent to qualify to do business or act in any jurisdiction in which it is not presently qualified to do business, or be deemed to impose upon the Escrow Agent the duties of a trustee. The duties of the Escrow Agent under this Agreement are strictly ministerial in nature.

(m) In no event shall the Escrow Agent have any liability for any failure or inability of any of the interested parties to perform or observe his or its duties under the Agreement, or by reason of a breach of this Agreement by either of the interested parties. In no event shall the Escrow Agent be obligated to take any action against any of the interested parties to compel performance hereunder.

(n) The Escrow Agent shall in no instance be obligated to commence, prosecute or defend any legal proceedings in connection herewith. The Escrow Agent shall be authorized and entitled, however, in any instance to commence, prosecute or defend any legal proceedings in connection herewith, including without limitation any proceeding it may deem necessary to resolve any matter or dispute, to obtain a necessary declaration of rights, or to appoint a successor upon resignation (and after failure by the interested parties to appoint a successor, as provided in Section 10).

(o) Whenever the terms hereof call for any notice, payment or other action on a day which is not a business day, such payment or action may be taken, or such notice given, as the case may be, on the next succeeding business day. As used herein, "business day" shall mean any day other than a Saturday or Sunday, or any other day on which the Escrow Agent is closed for business.

(p) In the event of any ambiguity or uncertainty under this Agreement, or in any notice, instruction, or other communication received by the Escrow Agent hereunder, the Escrow Agent may, in its reasonable discretion, refrain from taking action, and may retain the Unreleased Founders' Stock, until and unless it receives written instruction signed by all interested parties, or a decision by a court of competent jurisdiction which eliminates such uncertainty or ambiguity.

(q) If at any time Escrow Agent is served with any judicial or administrative order, judgement, decree, writ or other form of judicial administrative process which in any way relates to or affects the Unreleased Founders' Stock (including but not limited to orders of attachment or garnishment or other forms of levies or injunctions or stays relating to the Unreleased Founders' Stock), Escrow Agent is authorized to comply therewith in any manner as it or its legal counsel reasonably deems appropriate; and if the Escrow Agent complies with any such judicial or administrative order, judgement, decree, writ or other form of judicial or administrative process, Escrow Agent shall not be liable to any of the Parties hereto or to any other person or entity notwithstanding that though such order, judgement, decree, writ or process may be subsequently modified, annulled, set aside, vacated, found to have been without proper jurisdiction, or otherwise determined to have been without legal force or effect.

(r) The Escrow Agent shall have no liability for the actions or omissions of any transfer agent, book-entry depository, nominee, correspondent, subagent or subcustodian, except to the extent that such action or omission of any transfer agent, book-entry depository, nominee, correspondent, subagent or subcustodian was caused by the Escrow Agent's own gross negligence, bad faith or willful misconduct.

(s) The parties understand that the Unreleased Founders' Stock is not subject to an effective registration statement at the time of this Agreement, and that the Escrow Agent shall not be responsible for fluctuations in the market in connection with any transfer of the shares.

6. *Indemnification.*

(a) *General.* Each of the Founders (jointly and severally as a group) and the Company, jointly and severally, hereby covenant and agree to indemnify the Escrow Agent for, and to defend and hold harmless the Escrow Agent from and against, any and every loss, liability, damage, claim, cost and expense of any nature incurred or suffered by the Escrow Agent and arising out of or in connection with this Agreement or the administration of this Agreement or the performance or observance by the Escrow Agent of its responsibilities or services under this Agreement (including but not limited to reasonable attorneys fees and other costs and expenses of defending or preparing to defend against any claim or liability), unless and except to the extent such loss, liability, damage, cost or expense shall be caused by the Escrow Agent's own willful misconduct, bad faith or gross negligence.

(b) *Tax-Related Matters.* Each of the Founders (jointly and severally as a group) and the Company, jointly and severally, agree to assume any and all obligations imposed now or hereafter by any applicable tax law with respect to this Agreement, and, without limiting the generality of Section 6(a) above, hereby agree to indemnify and hold the Escrow Agent harmless from and against any taxes, additions for late payment, interest, penalties and other expenses, that may be assessed against the Escrow Agent on any payment or other activities under this Agreement. The Company and each of the Founders undertake to instruct the Escrow Agent in writing with respect to the Escrow Agent's responsibility for withholding and other taxes, assessments or other governmental charges, certifications and governmental reporting in connection with its acting as Escrow Agent under this Agreement. Each of the Founders (severally as a group) and the Company, jointly and severally, agree to indemnify and hold the Escrow Agent harmless from any liability on account of taxes, assessments or other governmental charges, including without limitation the withholding or deduction of or the failure to withhold or deduct same, and any liability for failure to obtain proper certifications or to properly report to governmental authorities, to which the Escrow Agent may be or become subject in connection with or which arises out of this Agreement, including costs and expenses (including reasonable legal fees), interest and penalties. The interested parties shall each promptly provide Escrow Agent with appropriate IRS Forms W-9 for taxpayer identification number certifications, or Forms W-8 for nonresident alien certifications in connection with any payments to be made to them.

7. *Legends.* The share certificate(s) evidencing the Founders' Stock issued hereunder shall be endorsed with the following legends:

(a) Any legend required to be placed thereon pursuant to the Purchase Agreement.

(b) THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A REPURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SHAREHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(c) Any legend required to be placed thereon by applicable state securities laws.

8. *Adjustment for Stock Split.* All references to the number of shares of Founders' Stock and the purchase price of the shares of Founders' Stock in this Agreement shall be appropriately adjusted to reflect any stock split, stock dividend or other change in the Founders' Stock that may be made by the Company after the date of this Agreement.

9. *Notices.* All notices, requests, demands, and other communications under this Agreement shall be in writing and shall be deemed to have been duly given on the date of service if served personally on the party to whom notice is to be given, on the first business day following the date of transmittal of services via telecopy to the party to whom notice is to be given, or on the fifth day after mailing if mailed to the party to whom notice is to be given, by first class mail, registered or certified,

postage prepaid, or by an internationally recognized courier service, and properly addressed as follows (or at such other address for a party as shall be specified by like notice):

To the Company at:	LivePerson, Inc. 462 Seventh Avenue New York, New York 10018 Attention: Timothy E. Bixby
With a copy to:	Brobeck, Phleger & Harrison LLP 1633 Broadway, 47th Floor New York, NY 10019 Attention: Brian Margolis, Esq. Telecopy No.: (212) 586-7878
To the Founders:	Eitan Ron c/o HumanClick Ltd. P.O. Box 193 Bnei Zion, Israel 60910 Telecopier: (972) 9-741-2311
With a copy to:	Zellermayer, Pelossof, Adv. Europe House 37 Shaul Hamelech Tel Aviv, Israel 64928 Attention: Guy Even Ezra, Esq. Telecopier: (972) 3-695-2884

To Escrow Agent at:	First Union National Bank One World Trade Center, 47th Floor New York, NY 10048 Attention: Corporate Trust Group

Notwithstanding anything herein to the contrary, any party may give any notice, request, demand, claim or other communication hereunder by personal delivery or telecopy, but no such notice, request, demand, claim or other communication shall be deemed to have been duly given unless and until it actually is received by the party for whom it is intended. Any party may change the address to which notices, requests, demands, claims and other communications hereunder are to be delivered by giving the other parties notice in the manner herein set forth. Copies of any notice, request, demand, claim or other communication hereunder by personal delivery or telecopy given to the Escrow Agent by either party, shall be delivered to the other party as soon thereafter as practicable.

10. *Successor Escrow Agent.* In the event the Escrow Agent becomes unavailable or unwilling to continue in its capacity herewith, the Escrow Agent may resign and be discharged from its duties or obligations hereunder by delivering a resignation to the parties, not less than 60 days prior to the date when such resignation shall take effect. The Company may appoint a successor Escrow Agent with the consent of the Founders, which shall not be unreasonably withheld. If, within such notice period, the Company provides to the Escrow Agent written instructions with respect to the appointment of a successor Escrow Agent and directions for the transfer of any Unreleased Founders' Stock then held by the Escrow Agent to such successor, the Escrow Agent shall act in accordance with such instructions and promptly transfer such Unreleased Founders' Stock to such designated successor. If no successor is so appointed, the Escrow Agent may apply to a court of competent jurisdiction for such appointment.

---

11. *General Provisions.*

(a) This Agreement shall be governed by the internal laws of the State of New York without reference to such State's principles of conflicts of law. This Agreement and the Purchase Agreement (including all exhibits and schedules thereto) represent the entire agreement between the parties with respect to the issuance and sale of the Purchaser Shares (as defined in the Purchase Agreement) to the Shareholders, and may only be modified or amended in writing signed by all parties.

(b) The rights and benefits of the Company under this Agreement shall be transferable to the Company's successor and assigns upon a Change-in-Control Event, or to any one or more persons or entities with the prior written consent of the Founders, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by, the Company's successors and assigns. The rights and obligations of the Founders under this Agreement may only be assigned with the prior written consent of the Company.

(c) Either party's failure to enforce any provision or provisions of this Agreement shall not in any way be construed as a waiver of any such provision or provisions, nor prevent that party thereafter from enforcing each and every other provision of this Agreement. The rights granted both parties herein are cumulative and shall not constitute a waiver of either party's right to assert all other legal remedies available to it under the circumstances.

(d) The Founders agree upon request to execute any further documents or instruments necessary or desirable to carry out the purposes or intent of this Agreement.

(e) The Founders understand that each of the Founders (and not the Company) shall be responsible for each Founder's own federal, state, local or foreign tax liability and any of the Founder's other tax consequences that may arise as a result of the transactions contemplated by this Agreement. The Founders shall rely solely on the determinations of the Founders' tax advisors or their own determinations, and not on any statements or representations by the Company or any of its agents, with regard to all such tax matters.

(f) The Company undertakes to execute the joint written direction in the form attached hereto as *Exhibit A* whenever required pursuant to the terms of this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first set forth above.

COMPANY	**FOUNDERS**
LivePerson, Inc. a Delaware corporation	Eitan Ron
By: /s/ ROBERT P. LOCASCIO	/s/ EITAN RON
(Signature)	(Signature)
Robert P. Locascio	Eitan Ron
(Print Name)	(Print Name)
President	
(Print Title if signing on behalf of an entity)	
ESCROW AGENT	Tal Goldberg

First Union National Bank

/s/ TAL GOLDBERG

(Signature)

Tal Goldberg

(Print Name)

By: /s/ MICHELLE MENA

(Signature)

Michelle Mena

(Print Name)

Corporate Trust Officer

(Print Title if signing on behalf of an entity)

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED I, , hereby sell, assign and transfer unto , ( ) shares of the Common Stock of LivePerson, Inc. standing in my name of the books of said corporation represented by Certificate No. herewith and do hereby irrevocably constitute and appoint attorney to transfer the said stock on the books of the within named corporation with full power of substitution in the premises.

Dated: Signature:

INSTRUCTION: Please do not fill in any blanks other than the signature line. The purpose of this assignment is to enable the Company to exercise its "Repurchase Option" set forth in the Agreement without requiring additional signatures on the part of the Purchaser.

EXHIBIT A

[Date]

First Union National Bank
One World Trade Center, 47th Floor
New York, NY 10048

RE: First Union National Bank as Escrow Agent for LivePerson, Inc.
(the "Company") and Eitan Ron and Tal Goldberg (each, a "Founder")
Repurchase Option Agreement dated October 12, 2000 (the "Agreement")

First Union National Bank, as Escrow Agent, is hereby authorized to release to [Israeli Trustee], [Number of Shares], pursuant to Section of the Agreement. The Company and the Founder signing below agree to said release.

Shares should be delivered to the [Israeli Trustee] in accordance with Section of the Agreement.

By: LivePerson, Inc.

[Name]
Authorized Representative

Title

By: [Founder]

[Name]
Authorized Representative

Title

QuickLinks

EXHIBIT 10.7.4

QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 21.1

Subsidiaries of LivePerson, Inc.

HumanClick Ltd.—Israel

QuickLinks

Subsidiaries of LivePerson, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to incorporation by reference in the registration statement (No. 333-34230) on Form S-8 of LivePerson, Inc. of our report dated February 5, 2002, relating to the consolidated balance sheets of LivePerson, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2001, which report appears in the December 31, 2001 Annual Report on Form 10-K of LivePerson, Inc.

/s/ KPMG LLP

New York, New York
March 28, 2002

QuickLinks