LIVEPERSON

13 Annual Report

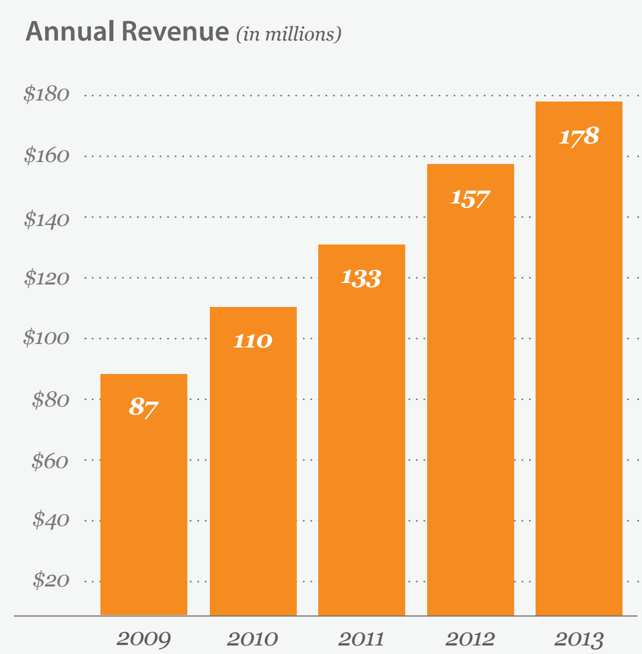
Create Meaningful Connections

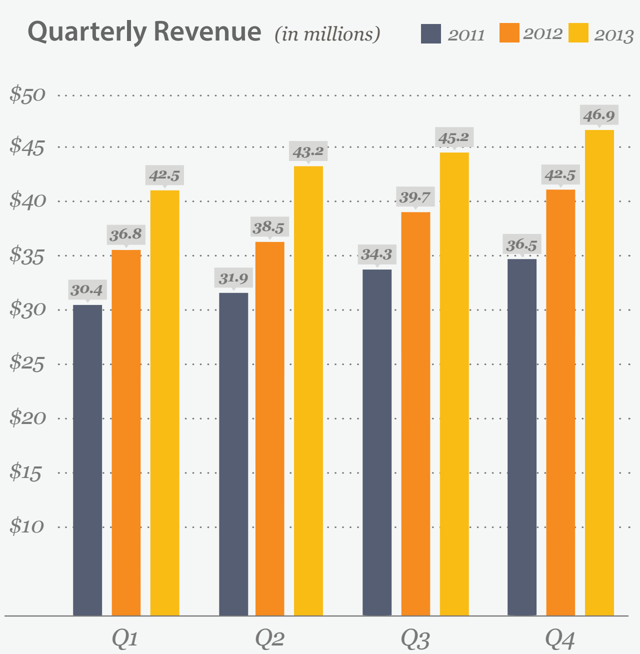
About LivePerson

LivePerson, Inc. (NASDAQ: LPSN, TASE: LPSN) offers a cloud-based platform that enables businesses to proactively connect in real-time with their customers via chat, voice, and content delivery at the right time, through the right channel, including websites, social media, and mobile devices. This "intelligent engagement" is driven by real-time behavioral analytics, producing connections based on a true understanding of business objectives and customer needs.

More than 8,500 companies rely on LivePerson's platform to increase conversions and improve customer experience, including Cisco, Hewlett-Packard, IBM, Microsoft, Verizon, Sky, Walt Disney, PNC and Orbitz.

LivePerson is headquartered in New York City with offices in Atlanta, Amsterdam, London, Melbourne, San Francisco, Santa Monica, Tokyo and Tel Aviv.





Safe Harbor Statement

Statements in this report regarding LivePerson that are not historical facts are forward-looking statements and 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, including but not limited to financial guidance, 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 quarter and year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change. Although these expectations may change, we are under no obligation to inform you if they do. Actual events or results may differ materially from those contained in the projections or forward-looking statements. Readers are referred to the reports and documents filed from time to time with the SEC, including the Annual Report on Form 10-K enclosed herein, for a discussion of these and other important risk factors that could cause actual results to differ from those discussed in forward-looking statements.

Dear Fellow Shareholder,

Every great technology company follows its own path of development and growth. As the past few decades have taught us, the most successful organizations are in a relentless and disciplined pursuit of breakthrough insights into how their marketplace can be transformed. Throughout 2013 LivePerson tightly embraced its vision of the evolving economic and social realities of digital commerce and customer engagement while bolstering efforts to drive global adoption of our LiveEngage platform.

More simply, we sought to demonstrate the competitive advantages of personal relationships in digital commerce. We believe that meaningful connections, unlike products and services, cannot be commoditized and provide a true competitive advantage for brands around the world.

Growing Our Business and Building a World-Class Organization

I am pleased to report that during 2013 LivePerson made substantial progress in fostering transformational change in digital commerce. Yes, this is a grand ambition and we recognize that altering fundamental attitudes and behaviors is never easy. Nevertheless, we continue to move ahead and create new standards of customer engagement for our clients, and currently monitor nearly two billion site visits and facilitate nearly 22 million connections every month for an increasingly diverse group of organizations.

A critical element in building a world-class organization was putting the right team in place, acquiring the necessary competencies to design and develop the platform that organizations need. By investing in extraordinary talent we enhanced our ability to execute our company's overall goals, including: delivering continued growth in our core business, deepening relationships within our existing base of customers and expanding our global footprint.

As we worked to further advance our LiveEngage platform during the year we also closed a record 638 deals, which included several of the largest midmarket contracts in LivePerson's history, and added over 160 new brands to our client roster. As a result, revenue from our core midmarket and enterprise business operations grew 18% over the previous year.

Influencing Hearts and Minds with Digital Engagement

While these business and financial milestones are important and gratifying, we take enormous pride in seeing how LivePerson's innovations are becoming integrated into our clients' marketing activities in the United States and internationally.

Specifically, we are helping our clients to rethink and establish new relationships with their customers, using the LiveEngage platform to engage visitors more intelligently on their sites. Having access to real-time, easy-to-use analytics our customers can further differentiate their products and services while making better informed decisions about their marketing activities.

The early response has been exciting as we see our innovative platform beginning to change traditional digital commerce mindsets and gain interest globally. During 2013, we added new channel partners in Japan, Mexico, Italy, Australia and Hungary. We also signed a strategic partnership with one of the largest digital marketing agencies in the world, and concluded agreements with two leading business process outsourcing firms to bring LivePerson's solutions to a broad base of accounts.

Humanizing Digital Commerce: Reaching the Top of the Pyramid

These results are very encouraging, yet we believe that greater opportunities lie ahead for LivePerson. Our optimism is based on our view that digital culture is at the precipice of a dramatic new stage of development, as the convergence of big-data, the proliferation of platforms, and the behavior of the millennial generation is creating a demand for new online experiences.

When speaking to brand managers about the benefits LivePerson offers, we often describe the customer buying experience as a three-stage pyramid. We start by looking at the base of our pyramid where the focus is on the fundamentals of commerce: who has the best price, the fastest shipping and the widest selection of goods. The challenge, we believe, is that each of these features can be replicated and then surpassed by competitors.

The second level of the pyramid is more sophisticated and aims to address more than just the transactional needs of consumers. Visitors are offered a slightly more personalized landing page or perhaps sleeker navigation, richer content—all to enhance the consumer shopping experience. While fun and sometimes helpful, this type of digital experience is often still impersonal and largely self-serve.

Finally, we take a look at the top of the pyramid. This is where we see the emotional potential of digital commerce, and where we believe its future truly lies. At this stage genuine conversations take place, intuitive assistance is offered, and actual human connections form. Consumers are engaged by a company representative, one who addresses an issue or request quickly, immediately if possible. It should be an engaging and meaningful experience for the customer, one that fosters an emotional bond with the brand. This is what we strive to deliver.

When we look at this model, we believe that digital commerce has yet to achieve the top of the pyramid. We will continue to work with our global customer base to help them achieve this vision, and potentially transform the landscape of digital commerce. We believe that by striving to achieve the complete pyramid, both brands and consumers will experience exciting new realities. It's based on everything we know about how digital commerce is evolving and also what we learned from a few thousand years of history—*human* beings seek *human* connection, even from the largest of brands.

Limitations of Search: Generated Traffic Does Not Build Loyalty

All our thinking about where digital commerce should be heading is shaped by our extensive experience. Over the past 18 years we have worked with over 8,500 brands, including 400 of the largest companies in the world, and we believe that to-date technology advancements have not dramatically improved the online shopping experience.

Regrettably in our view, many websites still focus primarily on search engine optimization and search engine marketing, and are not fully optimized to engage meaningfully with today's digital consumer. We believe that too many brands are primarily focused on creating content optimized for search marketing, rather than focusing on offering a richer, more innovative consumer experience. Often, the consumer's online experience is still one of "search", "scroll" and "click". This approach, we believe, is not cost efficient; it does not build brand loyalty, and has really not changed all that much since the 1990s. In our business, we have seen clients achieve remarkable ROI when they invest in creating rich digital engagement experiences that drive meaningful connections with their customers. We believe that this is where the future lies.

We believe the current state of digital commerce also misses certain demographic realities and does not speak effectively to millions of young consumers. These individuals, who grew up exploring the Internet, operate according to a new set of communication rules—connecting primarily through mobile, video, and text message. We believe they want a more direct and meaningful experience with both their peers and favorite brands—a connection that's on their terms and on the channel of their choice.

We also feel this yearning for more connection has universal application. After nearly two decades of working with thousands of clients to engage millions of customers, it's become apparent to us that seemingly everyone places enormous value on richer, more personal interactions. Brands that respond to their customers' interests with respect, care and humanity are consistently rewarded with greater loyalty and positive business results.

LivePerson Vision: Goals for LiveEngage

It's an exciting and productive period at LivePerson, as vision and practice are coming together with the launch of LiveEngage. We are designing, delivering and implementing a new generation of best practices in digital commerce aimed at providing companies with the tools they need to create a personalized, seamless experience for their customers, across all digital channels.

Our LiveEngage platform is designed to deliver on this vision, as we continue to pursue our strategic goals of:

1. Increasing conversion rates by making the digital shopping experience a rich, personal and proactive experience for the consumer, powered by the insights and intelligence we garner from our platform.
2. Enabling our clients to create direct, meaningful connections with their customers to build greater brand loyalty.
3. Empowering our customers to make the digital shopping experience equivalent or superior to the brick and mortar experience—in a truly rich, seamless way, through: video, chat, voice and personalized content.
4. Working closely with our 8,500 customers to provide the thought leadership they seek to bring new innovations to digital commerce.

In 2013, LivePerson made significant strides executing against these goals, bringing our multi-channel digital engagement platform to the market and partnering with our clients to provide flexible, scalable solutions that enable them to meaningfully connect with their customers.

2014: A Year of Focused Execution

My highest priority in 2014 will be execution—fully implementing the many building blocks we have put in place as we look to achieve the next phase of LivePerson's strategic vision. A critical part of this effort will be continuing to expand functionality, including enhanced intelligence and analytics, which are the foundation of our LiveEngage platform.

I have complete confidence in our team, and want to thank everyone at LivePerson for their dedication to our mission, and commitment to our core values of "Be an Owner" and "Help Others" on a daily basis. The enthusiasm expressed throughout the organization for achieving LivePerson's vision is tangible, and strengthens our foundation for continued execution and innovation.

Best regards,

Rob
rob@liveperson.com

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2013

OR

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

For the Transition Period from   to   .

Commission File Number 000-30141

LIVEPERSON, INC.

(Exact Name of Registrant As Specified in Its Charter)

Delaware	**13-3861628**
(State of Incorporation)	(I.R.S. Employer Identification Number)

475 Tenth Avenue, 5th Floor,
New York, New York 10018
(Address of Principal Executive Offices) (Zip Code)
(212) 609-4200
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share	The NASDAQ Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

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

Large accelerated filer ☐   Accelerated filer ☒   Non-accelerated filer ☐   Smaller reporting company ☐

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2013 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $446,033,101 (computed by reference to the last reported sale price on The Nasdaq Global Select Market on that date). The registrant does not have any non-voting common stock outstanding.

On February 28, 2014, 54,720,689 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2014 Annual Meeting of Stockholders, to be filed not later than April 30, 2014, are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

LIVEPERSON, INC.

2013 ANNUAL REPORT ON FORM 10-K

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

STATEMENTS IN THIS REPORT ABOUT LIVEPERSON, INC. THAT ARE NOT HISTORICAL FACTS ARE FORWARD-LOOKING STATEMENTS BASED ON OUR CURRENT EXPECTATIONS, ASSUMPTIONS, ESTIMATES AND PROJECTIONS ABOUT LIVEPERSON AND OUR INDUSTRY. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL FUTURE EVENTS OR RESULTS TO DIFFER MATERIALLY FROM SUCH STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON OUR CURRENT EXPECTATIONS, WHICH MAY NOT PROVE TO BE ACCURATE. MANY OF THESE STATEMENTS ARE FOUND IN THE "BUSINESS" AND "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" SECTIONS OF THIS FORM 10-K. WHEN USED IN THIS FORM 10-K, THE WORDS "ESTIMATES," "EXPECTS," "ANTICIPATES," "PROJECTS," "PLANS," "INTENDS," "BELIEVES" AND VARIATIONS OF SUCH WORDS OR SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL FORWARD-LOOKING STATEMENTS, INCLUDING, WITHOUT LIMITATION, OUR EXAMINATION OF HISTORICAL OPERATING TRENDS, ARE BASED UPON OUR CURRENT EXPECTATIONS AND VARIOUS ASSUMPTIONS. OUR EXPECTATIONS, BELIEFS AND PROJECTIONS ARE EXPRESSED IN GOOD FAITH, AND WE BELIEVE THERE IS A REASONABLE BASIS FOR THEM, BUT WE CANNOT ASSURE YOU THAT OUR EXPECTATIONS, BELIEFS AND PROJECTIONS WILL BE REALIZED. ANY SUCH FORWARD-LOOKING STATEMENTS ARE MADE PURSUANT TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. IT IS ROUTINE FOR OUR INTERNAL PROJECTIONS AND EXPECTATIONS TO CHANGE AS THE YEAR OR EACH QUARTER IN THE YEAR PROGRESS, AND THEREFORE IT SHOULD BE CLEARLY UNDERSTOOD THAT THE INTERNAL PROJECTIONS AND BELIEFS UPON WHICH WE BASE OUR EXPECTATIONS MAY CHANGE PRIOR TO THE END OF EACH QUARTER OR THE YEAR. ALTHOUGH THESE EXPECTATIONS MAY CHANGE, WE ARE UNDER NO OBLIGATION TO INFORM YOU IF THEY DO. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN THE PROJECTIONS OR FORWARD-LOOKING STATEMENTS. IMPORTANT FACTORS THAT COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE FORWARD-LOOKING STATEMENTS WE MAKE IN THIS FORM 10-K ARE SET FORTH IN THIS FORM 10-K, INCLUDING THE FACTORS DESCRIBED IN THE SECTION ENTITLED "ITEM 1A — RISK FACTORS." IF ANY OF THESE RISKS OR UNCERTAINTIES MATERIALIZE, OR IF ANY OF OUR UNDERLYING ASSUMPTIONS ARE INCORRECT, OUR ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS THAT WE EXPRESS IN OR IMPLY BY ANY OF OUR FORWARD-LOOKING STATEMENTS. WE DO NOT UNDERTAKE ANY OBLIGATION TO REVISE THESE FORWARD-LOOKING STATEMENTS TO REFLECT FUTURE EVENTS OR CIRCUMSTANCES.

PART I

Item 1. Business

Overview

LivePerson, Inc. (''LivePerson'', the ''Company'', ''we'' or ''our'') is a leading provider of digital engagement solutions offering a cloud-based platform which enables businesses to proactively connect with consumers through chat, voice, and content delivery, across multiple channels and screens, including websites, social media, tablets and mobile devices. Our engagements are driven by intelligence derived from a broad set of consumer and business data, including historical, behavioral, operational, and third party data. Each engagement is based on proprietary analytics and a real-time understanding of consumer needs and business objectives. LivePerson's products, coupled with our domain knowledge and industry expertise, have been proven to maximize the effectiveness of the online engagement channel by increasing sales, as well as consumer satisfaction and loyalty ratings for our customers, while also enabling them to reduce consumer service costs.

LivePerson monitors and analyzes a valuable set of online consumer behavioral data on behalf of our customers. Spanning the breadth of an online visitor session starting from an initial keyword search, through actions on our customer's website, and even into a shopping cart and an executed sale, this data enables us to develop unique insights into consumer behavior during specific transactions and within a customer's user base. Based on our internal measures, on average during 2013, we monitored approximately 2.2 billion visitor sessions per month across our customers' websites. Currently this session data is primarily used to proactively engage consumers in order to increase online conversion rates and average order values, and we continue to invest in products that can leverage the value of this data to provide new and innovative solutions for our customers in the future.

More than 8,500 companies, including Cisco, Hewlett-Packard, IBM, Microsoft, Verizon, Sky, Walt Disney, PNC and Orbitz, employ our technology to keep pace with rising consumer expectations for service and relevance through the online channel. LivePerson has unique insight into consumer behavior, which we offer our customers through our intelligent engagement products and our consulting services.

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

- increase conversion rates and reduce abandonment by intelligently engaging website visitors;
- redirect spending from driving traffic to spending on visitor conversions;
- accelerate the sales cycle, drive repeat business and increase average order values;
- increase consumer satisfaction and improve the overall digital experience, drive retention and loyalty while reducing consumer service costs;
- refine and improve performance by understanding which initiatives deliver the highest rate of return; and
- lower operating costs in the call center by deflecting costly phone and email interactions and improving agent efficiency.

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

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

LivePerson was incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced in November 1998. In April 2000, the company completed an initial public offering and is currently traded on The NASDAQ Global Select Market and the Tel Aviv Stock Exchange. LivePerson is headquartered in New York City, with offices in Atlanta, Amsterdam, London, Melbourne, San Francisco, Santa Monica, Tokyo and Tel Aviv.

Market Opportunity

While many sectors of the global economy are challenged to maintain historical growth rates, worldwide e-commerce continues to grow steadily, and the U.S. is no different. According to Forrester Research, ''online retail in 2013 will reach $262 billion a rise of 13% over 2012's $231 billion in online sales and representing 8% of total retail pie. Looking forward, we expect eCommerce to grow at a compound annual growth rate of 9% between 2013 and 2017.''

The rise of online video and social media has stimulated Internet advertising spending, which is projected to exceed $105 billion in 2014, according to J.P. Morgan. Furthermore, according to the most recent Forrester Research report, of online adults that use customer service, 43% of U.S. consumers used chat for customer service, which increased from 30% that used chat for customer service in 2009. Chat adoption has increased to roughly one in three seniors and has risen to more than half of online consumers ages 18 to 32. At 63%, chat has the highest satisfaction rate among all online customer service channels in the Forrester survey.

According to the latest eConsultancy report, for every $92 spent by retailers to attract a visitor to their website, approximately $1 is spent on efforts to convert each visitor. We believe that conversion rates can be improved through optimized on-site engagement, and that this represents an opportunity for our engagement solutions, both on-site and in mobile channels.

Mobile commerce is growing rapidly, and proving to be a critical channel for retailers to engage their customers. According to a 2013 Forrester survey, retailers that participated said that, on average, they experienced a 129% lift in year-over-year sales from smartphones and a 178% lift from tablets. In addition, Forrester noted that retailers reported ''2013 online sales growth was 29% higher than in 2012 and that most of their key metrics, such as site conversion rates, had improved in the same time frame. Mobile continues to grow, comprising a greater percent of overall web sales, and as a result is the top investment initiative planned for the coming year.''

We believe that the positive trends in e-commerce described above, along with the diversifying channels of consumer engagement worldwide, offer LivePerson opportunities to expand. LivePerson continues to deliver increased value to customers through its core product while also seeking to expand its product set as well as the availability and integration of its core product through different channels, such as mobile and social. By seeking to offer our solutions through different channels of engagement, we are improving the convenience and accessibility of our solutions, responding to the reality of today's online market.

We also believe that demographic shifts favor LivePerson's current and planned offerings. We are seeing the younger generation of consumers adopt and use multiple technologies for online communications such as email, social networking and text messaging, and create and share user-generated content. Take the example of SnapChat with over 400 million messages exchanged each day, this is a strong indicator of how younger consumers prefer to communicate. Another example is Line, a two year old messaging application that lets people exchange information and play games with their friends. It already has 230 million registered users — a milestone that Facebook did not reach until it was five years old, which may in turn accelerate the demand for LivePerson's online, real-time customer engagement solutions. Not only does this shift in behavior around messaging/chat technologies demonstrate a strong appetite for this type of communication, but according to Goldman Sachs, by 2018, we'll be seeing roughly as much mobile commerce ($626 billion) as we saw in e-commerce last year. LivePerson is uniquely positioned to work brands and help capitalize on this shift in behavior, and optimize their mobile platforms to deliver a robust customer engagement offering, across multiple platforms.

Strategy

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

Strengthening Our Position in Both Existing and New Markets and Growing Our Recurring Revenue Base. LivePerson plans to continue to develop its market position by increasing its customer base, and expanding within its existing installed base. We will continue to focus primarily on key target markets: financial services, retail, telecommunications, technology and travel/hospitality within both our enterprise and midmarket sectors, as well as the small business (SMB) sector. Healthcare, insurance and energy utilities are new target industries and natural extensions of our primary target markets. As the online community is increasingly exposed to the benefits and functionality of our solutions, we intend to capitalize on our growing base of existing customers by collaborating with them to optimize our added value and effectiveness. Continuing to grow our customer base will enable us to strengthen our recurring revenue stream.

Leveraging Our Platform Across Multiple Applications and Partners. In developing our chat product over the last 15 years, we have created highly reliable and secure data gathering and analytic capabilities that are coupled with a sophisticated rules-based segmentation engine. In 2011, we packaged these technologies together into LiveEngage, a real-time data and intelligence platform powering our full suite of applications, adding voice and content engagement solutions to our market-leading chat product. By leveraging these existing assets we provide our customers with the same capabilities across all engagement channels. In addition, we have opened up access to our platform and our products with application programming interfaces (APIs) that allow third parties to develop on top of our platform. Customers, eco-system partners, and value added resellers can utilize these APIs to build our capabilities into their own applications and to enhance our applications with their services.

Expanding the Engagement Tools and Capabilities We Provide to Our Customers. We have created, and will continue to create, new proprietary applications and also provide third-party tools and capabilities through our partner eco-system. Today, our customers intelligently engage with approximately two percent of their website visitors via chat. As part of our strategy, we are striving to provide our customers with the ability to intelligently engage a greater proportion of their website visitors in new ways, such as with the delivery of personalized content and the use of voice and video. In addition to developing our own applications, we continue to cultivate a partner eco-system capable of offering additional applications and services to our customers. These include partners that augment the data used in our rules engine, provide complementary services, such as translation and virtual agents, and partners that expand our reach to social and mobile channels. At the end of 2013, we had approximately 100 partners in our eco-system and we continue to see growing adoption of these third-party applications by our customer base.

Maintaining Market Leadership in Technology and Security Expertise. As described above, we are devoting significant resources to creating new products and enabling technologies designed to accelerate innovation and delivery of new products and technologies to our customer base. We evaluate emerging technologies and industry standards and continually update our technology in order to retain our leadership position in each market we serve. We monitor legal and technological developments in the area of information security and confidentiality to ensure our policies and procedures meet or exceed the demands of the world's largest and most demanding corporations. We believe that these efforts will allow us to effectively anticipate changing customer and consumer requirements in our rapidly evolving industry.

Expanding our International Presence. In 2013, we continued our investment in direct sales and services personnel to expand our customer base in the United Kingdom and Western Europe, including expansion within several of the largest financial services and telecommunications companies in this region. We also saw positive growth in the Asia Pacific region, notably in Australia, building on momentum from our acquisition of Australian reseller partner Engage Pty Ltd. in late 2012. In the fourth quarter of 2013, LivePerson also established operations in Japan, with the formation of LivePerson Japan Kabushiki Kaisha, and announced strategic partnerships with Information Services International-Dentsu, Ltd. (ISID), Vixia, and Dentsu Razorfish, group subsidiaries of Dentsu Inc., Japan's largest advertising agency. We continue to evaluate partnership opportunities and sales and marketing strategies to support further expansion into the Asia-Pacific region.

Continuing to Build Brand Recognition. As a pioneer of real-time, intelligent engagement, LivePerson enjoys strong brand recognition and credibility. We strategically target decision makers and influencers within key vertical markets, leveraging customer successes to generate increased awareness and demand for online engagement tools. In addition, we continue to develop relationships with the media, industry analysts and relevant business associations to reinforce our position and leadership within the industry. Our brand name is also visible to both business users and consumers. When a consumer engages in a text-based chat on a customer's website, our brand name is usually displayed on the LivePerson dialogue window. We believe that this high-visibility placement will continue to create brand awareness for our solutions.

Increasing the Value of Our Service to Our Customers. We regularly add both new products and services, and new features and functionality to our existing services to further enhance value to our customers. Because we directly manage the server infrastructure, we can make new features available to our customers immediately upon release, without customer or end-user installation of software or hardware. We continue to enhance our reporting, analysis and administrative tools as part of our overall portfolio of services, as well as our ability to capture, analyze and report on the substantial amount of online activity data we collect on behalf of our customers to further our customers' online strategies. Our customers may use these capabilities to increase productivity, manage call center staffing, develop one-to-one marketing tactics and pinpoint consumer engagement opportunities. Through these and other innovations, we intend to reinforce our value proposition to customers, which we believe will result in additional revenue from new and existing customers over time.

Evaluating Strategic Alliances and Acquisitions When Appropriate. We have successfully integrated several acquisitions over the past decade. In addition to our acquisition of Engage referenced above, most recently we acquired mobile engagement start-up LookIO, Inc. (''LookIO'') and the technology and intellectual property assets of Israel-based start-up, Amadesa, Ltd. (''Amadesa''). While we have in the past, and may from time to time in the future, engage in discussions regarding acquisitions or strategic alliances or to acquire other companies that can accelerate our growth or broaden our product offerings, we currently have no binding commitments with respect to any future acquisitions or strategic alliances.

Products and Services

LivePerson's hosted platforms support and manage intelligent, real-time online interactions for businesses. Our business-to-business services are all managed from a single agent desktop. By supplying a complete, unified consumer history, our solutions enable businesses to deliver a relevant, timely, personalized, and seamless consumer experience. In addition to product offerings, LivePerson provides professional services and value-added business consulting to support complete deployment and optimization of our enterprise solutions.

LiveEngage. LiveEngage, LivePerson's hosted engagement platform delivers actionable insights, empowering businesses to get the most out of their existing digital platforms by intelligently engaging consumers based on a real-time understanding of consumer needs. By seamlessly integrating chat, voice, messaging, and video to create a multi-channel, multimedia engagement platform, LiveEngage combines sophisticated technology with robust business intelligence to produce compelling, measurable results for e-commerce, marketing, and contact center executives. LiveEngage combines real time on-site and off-site behavioral data with a broad set of consumer and business data, including historical, operational, demographic and third-party data enabling proprietary analytics to target end users with compelling engagement options at any step in the conversion funnel and throughout the customer lifecycle.

LiveEngage enables customers to maximize online revenue opportunities, improve conversion rates and reduce shopping cart abandonment by proactively engaging the right visitor, using the right channel, at the right time. Our solution identifies segments of website visitors who demonstrate the highest propensity to convert, and engages them in real-time with relevant content and offers, helping to generate incremental sales. LiveEngage also reduces costs in the contact center by identifying consumers who may be struggling with their self-help experience, and proactively connecting them to a live consumer care specialist. This comprehensive solution blends a proven value-based methodology with an active rules-based engagement engine and deep domain expertise to increase first contact resolution, improve consumer satisfaction, and reduce attrition rates.

Professional Services. The mission of our Professional Services team is to help customers optimize the performance of our products in order to drive incremental value through their online sales and/or service channel(s). This talented group utilizes their deep domain expertise and years of hands-on experience to provide customers with detailed analyses and measurements of their LivePerson deployment that drive strategies and decisions on how to optimize the chat channel and broaden intelligent engagement of their consumers. Deliverables of the team include scorecards that measure and chart performance trends, analyses and recommendations for web design and process improvement, transcript reviews to discover both voice of the consumer insight and agent improvement opportunities, custom training of call center agents and management, and ongoing management of chat programs to ensure alignment with current business practices and objectives. The team's value-added methodology and approach to guiding customers towards chat channel optimization is an important component of the LivePerson offering, and gives our customers a competitive advantage in the online world.

Customers

Our business operations customer base includes Fortune 500 companies, dedicated Internet businesses, a broad range of online merchants, as well as numerous universities, libraries, government agencies and not-for-profit organizations. Our solutions benefit organizations of all sizes conducting business or communicating with consumers online. We plan to continue to focus on key target markets: financial services, retail, telecommunications, technology, and travel/hospitality industries, as well as the SMB sector, within the United States and Canada, Latin America, Europe and the Asia-Pacific region. We continue to increase our investment in sales and support personnel in the United Kingdom, Australia and Western Europe, particularly France and Germany. We are also working with sales and support partners as we expand our investment in the Asia-Pacific region.

No single customer accounted for or exceeded 10% of our total revenue in 2013.

Sales and Marketing

Sales

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

Direct Sales. Our sales process focuses on how our solutions and industry expertise deliver financial and operational value that support our customers' strategic initiatives. Our sales and marketing-focused solutions are targeted at business executives whose primary responsibility is maximizing digital consumer acquisition. These executives have a vested interest in improving the overall digital experience, increasing conversion rates, increasing application completion rates and increasing average order value, as well as enhancing consumer satisfaction. The value proposition for our customer service-focused solutions appeals to professionals who hold both top and bottom line responsibility for consumer service and technical support functions within their organization, as well as enhancing consumer satisfaction. Our proactive service solution enables these organizations to provide effective consumer service by deflecting costly phone calls and emails to the more cost efficient chat channel. Our personalization solution is targeted at marketing and e-commerce professionals who are tasked with providing a personalized consumer experience to drive a multitude of business outcomes onsite. LivePerson supports any organization with a company-wide strategic initiative to improve the overall online consumer experience. For our large and more complex customers, our sales methodology often begins with research and discovery meetings that enable us to develop a deep understanding of the value drivers and key performance metrics of a prospective customer. We then present an analytical review detailing how our solutions and industry expertise can affect these value drivers and metrics. Once we validate solution capabilities and prove financial return on investment, we transition to a program management model wherein we work hand-in-hand with the customer, providing detailed analysis, measurements and recommendations that help optimize their performance and ensure ongoing program success.

Indirect Sales. Resources within our organization are focused on developing partnerships to generate revenues via referral partnerships and indirect sales through channel partners. By maximizing market coverage via partners who provide lead referrals and complementary products and services, we believe this channel supports revenue opportunities without incurring the costs associated with traditional direct sales.

Customer Support

Our Professional Services group provides deployment support and ongoing business consulting to enterprise and midmarket customers and maintains involvement throughout the engagement lifecycle. All LivePerson customers have access to 24/7 help desk services through chat, email and phone.

Marketing

Our marketing efforts in support of our business operations are organized around the needs, trends and characteristics of our existing and prospective customer base. Our deep relationship with existing customers fosters continuous feedback and critical data analysis, thereby allowing us to develop and refine marketing programs that drive adoption across multiple customer segments. We have a global team, spread across key geographies in Western Europe, Asia-Pacific and North America that is focused on marketing our brand, products and services to executives responsible for the digital channel and consumer service operations of their organization. The global team is committed to marketing in a common voice, but is focused on delivering very localized campaigns depending on the region. Our focus is on the financial services, retail, telecommunications, technology, and travel/hospitality industries, as well as SMBs. Our integrated marketing strategy is focused on driving demand, building customer and consumer advocacy, driving adoption of our LiveEngage platform, and supporting key areas of business including small business, international and the channel. We aim to achieve this by delivering high-level thought leadership campaigns, industry event participation, personalized lead generation campaigns to reach potential and existing customers using mediums such as paid and organic search, direct email and mail, industry- and category-specific tradeshows and events, and telemarketing.

Our marketing strategy also encompasses a strategic communications approach that integrates, public relations, social media, and analyst/influencer relations. We are focused on using those channels to communicate our brand value, to those key stakeholders, to increase overall brand and technology awareness. Communications seeks to highlight key customer success stories, and promote executive thought leadership via contributed content, speaking opportunities and press interviews, to raise LivePerson's profile and reinforce our position as an industry leader.

Competition

The markets for online engagement technology and online consumer services are intensely competitive and characterized by aggressive marketing, evolving industry standards, rapid technology developments, and frequent new product introductions. LivePerson's business solutions compete directly with companies that facilitate real-time sales, email management, searchable knowledgebase applications and consumer service interaction. These markets remain fairly saturated with small companies that compete on price and features. LivePerson faces competition from online interaction solution providers, including SaaS providers such as Oracle RightNow (an Oracle company), Talisma, eGain and TouchCommerce. We believe that our long-standing relationships with customers, particularly at the enterprise level, and our online selling expertise, including knowledge of online consumer purchasing habits, sophisticated methodologies to efficiently engage online consumers and reporting capabilities that measure return on investment differentiate us from existing competitors. In addition, we believe that our security and ability to handle such high volumes of traffic without degrading the experience of our customers' visitors are significant advantages. We believe that as the scope, size and sophistication of our customers' requirements increase, our competitors' relative strengths as compared to our offerings decline. We also face potential competition from Web analytics and online engagement service providers, and other enterprise software and SaaS solutions companies such as Adobe, Oracle, Google and SAP. In addition, established technology and/or consumer-oriented companies such as Google, Microsoft, Salesforce.com and Yahoo! may leverage their existing relationships and capabilities to offer online engagement solutions that facilitate real-time assistance. The most significant challenges facing any new market entrant include the ability to design and build scalable software that can support the world's most highly-trafficked websites, and, with respect to outsourced solution providers, the ability to design, build and manage a highly secure and scalable network infrastructure.

LivePerson's consumer operations compete with companies that provide cross category advice such as About.com, Google HelpOuts and Yahoo Answers. The consumer operations also compete with niche players offering advice in specific vertical categories.

Finally, LivePerson competes with in-house online engagement solutions, as well as, to a lesser extent, traditional offline consumer service solutions, such as telephone call centers.

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

- stronger brand recognition;
- a wider range of products and services; and
- greater financial, marketing and research and development resources.

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

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

Any change in the general market acceptance of the real-time customer engagement, sales, marketing or customer service solutions business model or in online, real-time consumer advice services may harm our competitive position. Our competitors may at any time improve their services or product offerings, or develop real-time sales, marketing, customer service and Web analytics applications or competitive consumer service offerings and solicit prospective customers within our target markets. Increased competition could result in pricing pressure, reduced operating margins and loss of market share.

Technology

Three key technological features distinguish the LivePerson services:

- We support our customers through a secure, scalable server infrastructure. In North America, our primary servers are hosted in a fully-secured, top-tier, third-party server center located in the Mid-Atlantic United States, and are supported by a top-tier backup server facility located in the Western United States. In Europe, our primary servers are hosted in a fully-secured, top-tier, third-party server center located in the United Kingdom and are supported by a top-tier backup server facility located in The Netherlands. Nearly all of our larger customers outside of the United States are hosted within our UK-based hosting facility. By managing our servers directly, we maintain greater flexibility and control over the production environment allowing us to be responsive to customer needs and to continue to provide a superior level of service. Utilizing advanced network infrastructure and protocols, our network, hardware and software are designed to accommodate our customers' demand for secure, high-quality 24/7 service, including during peak times such as the holiday shopping season.
- As a hosted service, we are able to add additional capacity and new features quickly and efficiently. This has enabled us to provide these benefits simultaneously to our entire customer base. In addition, it allows us to maintain a relatively short development and implementation cycle.
- As a SaaS provider, we focus on the development of tightly integrated software design and network architecture. We dedicate significant resources to designing our software and network architecture based on the fundamental principles of security, reliability and scalability.

Software Design. Our software design is based on client-server architecture. As a SaaS provider, our customers either use a standard Web browser or install only the LivePerson Agent Console (Windows or Java-based) on their operators' workstations. Visitors to our customers' websites require only a standard Web browser and do not need to download software from LivePerson in order to interact with our customers' operators or to use the LivePerson services.

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

- Java
- JSON (JavaScript Object Notation)
- REST (Representational State Transfer)
- XML (Extensible Mark-up Language)
- HTML (Hypertext Mark-up Language)
- SQL (Structured Query Language)
- HTTP (Hypertext Transfer Protocol)

Network Architecture. The software underlying our services is integrated with scalable and reliable network architecture. Our network is scalable; we do not need to add new hardware or network capacity for each new LivePerson customer. This network architecture is hosted in co-location facilities with redundant network connections, servers and other infrastructure, enabling superior availability. Our backup server infrastructure housed at separate locations provides our primary hosting facilities with effective disaster recovery capability. We maintain the highest level of compliance with standards such as SOC2 and PCI. For increased security, through a multi-layered approach, we use advanced firewall architecture and industry-leading encryption standards and employ third-party experts to further validate our systems' security. We also enable our customers to further encrypt their sensitive data using more advanced encryption algorithms.

Government Regulation

We are subject to a number of foreign and domestic laws and regulations that apply to the conduct of business on the Internet and the management of customer and consumer data such as, but not limited to, laws and regulations relating to user privacy, freedom of expression, data privacy, electronic contracts, electronic payment, content and quality of products and services, taxation, advertising, internet neutrality, information security and intellectual property rights. We post on our website our privacy policies and practices concerning the use and disclosure of user data, and we observe data security protocols and other business practices in an effort to comply with applicable laws. Expansion and interpretation of user privacy and data security laws, and their application to the Internet in the U.S. and foreign jurisdictions, is ongoing and unsettled. There is a risk that these laws may be interpreted and applied differently in any given jurisdiction in a manner that is not consistent with our current practices, which could cause us to incur substantial costs and otherwise negatively impact our business.

Various U.S. and foreign jurisdictions impose laws regarding the collection and use of data. For instance, some U.S. states have enacted legislation designed to protect consumers' privacy by prohibiting the distribution of "spyware" over the Internet. Such legislation typically focuses on restricting the proliferation of software that, when installed on an end user's computer is used to intentionally and deceptively take control of the end user's machine. We do not believe that the data monitoring methods employed by our technology constitute "spyware" or that our data monitoring methods are prohibited by applicable laws. However, federal, state and foreign laws and regulations, many of which can be enforced by government entities or private parties, are constantly evolving and can be subject to significant changes in application and interpretation. So, if, for example, the scope of the previously mentioned "spyware" legislation were changed to include Web analytics, such legislation could be deemed to apply to the technology we use and could potentially restrict our ability to conduct our business.

Domestic and foreign governments are also considering restricting the collection and use of Internet visitor data more generally. For example, some jurisdictions, including the U.S., are considering whether the collection of even anonymous data may invade the privacy of web site visitors. If laws or regulations are enacted that limit data collection or use practices related to anonymous data, we and/or our customers may be required to obtain the express consent of web visitors in order for our technology to perform certain of its basic functions that are based on the collection and use of technical data. Requirements that a website must first obtain consent from its Web visitors before using our technology could reduce the amount and value of the services we provide to customers, which might impede sales and/or cause some existing customers to discontinue using our services. We could also need to expend considerable effort and resources to develop new product features and/or procedures to comply with any such legal requirements.

Both existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products or services, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to inquiries or investigations, claims or other remedies, including but not limited to fines or demands that we modify or cease existing business practices.

Businesses using our products may collect data from their web users, for example, when those web users contact them with inquiries. Federal, state and foreign government bodies and agencies, however, have adopted, and are considering adopting other, laws and regulations regarding the collection, use and disclosure of data obtained from consumers that currently affect or may affect our business customers. We use a variety of data security procedures and practices such as encryption and masking algorithms in an effort to protect information when transmitted over the Internet or stored, and encourage our customers to do the same. Changes to applicable laws and or interpretation thereof could significantly increase the economic burden to us and our customers of regulatory compliance, and could negatively impact our business. For example, the European Union and many countries within the European Union have adopted privacy directives related to the collection, use and transfer of data that are far more stringent, and impose more substantial burdens on subject businesses than current privacy standards in the United States. The U.S. Federal Trade Commission (the ‘‘FTC’’) has also taken action against website operators who do not comply with their stated privacy policies. All of these domestic and international legislative and regulatory initiatives have the potential to adversely affect our customers' ability to use our products.

A range of other proposed or existing laws and new interpretations of existing laws could have an impact on our business. For example:

- existing and proposed federal and state rules and regulations regarding cybersecurity, data breach notification and monitoring of online behavioral data such as the proposed ‘‘Do Not Track’’ regulations could potentially apply to some of our current or planned products and services. The FTC has also increased its enforcement actions against companies that fail to meet their privacy or data security commitments to consumers. In addition many states have adopted, and other states are expected to enact, statutes that require companies to implement data security measures and to report certain breaches of the security of personal data to affected individuals, to regulatory agencies, to law enforcement officials and to other third parties. Currently there are many proposals by state and federal lawmakers and industry in this area that address the collection, maintenance and use of personal information, Web browsing and geolocation data, and data security and breach notification procedures. Given that this is an evolving and unsettled area of regulation, any new significant restrictions or technological requirements imposed could have a negative impact on our business;

- the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for third-party content delivered through our website and products. In the U.S., laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested and could change. Certain foreign jurisdictions are also testing the liability of providers of online services for activities of their users and other third parties. While providers of online services currently are generally not held liable for activities of their third party users, changes in applicable laws imposing liability on providers of online services for activities of their users and other third parties could harm our business;

- the Child Online Protection Act and the Children's Online Privacy Protection Act, respectively, restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect or use certain categories of information from children under 13. Currently, our consumer-facing site and services are intended for use by adults over 18 years of age; and

- in January 2004, the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, became effective. The CAN-SPAM Act regulates the transmission and content of commercial emails and, among other things, obligates the sender of such emails to provide recipients with the ability to opt-out of receiving future emails from the sender, and establishes penalties for the transmission of email messages which are intended to deceive the recipient as to source or content. Many state legislatures also have adopted laws that impact the delivery of commercial email, and laws that regulate commercial email practices have been enacted in some of the international jurisdictions in which we do business. In addition, Internet service providers and licensors of software products have introduced a variety of systems and products to filter out certain types of commercial email, without any common protocol to determine whether the recipient desired to receive the email being blocked. As a result, it is difficult for us to determine in advance whether or not emails generated by our customers using our solutions will be permitted by spam filters to reach the intended recipients.

In addition, because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, even if we don't have a local entity, employees or infrastructure. Often, foreign data security, privacy, and other laws and regulations are more restrictive than those in the U.S. The Company monitors pending legislation and regulatory initiatives to ascertain relevance, analyze impact and develop strategic direction surrounding regulatory trends and developments. We might unintentionally violate such laws; such laws or their interpretation or application may be modified; and new laws may be enacted in the future. Any such developments could subject us to legal liability exposure, and harm our business, operating results and financial condition.

Intellectual Property and Proprietary Rights

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

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

Employees

As of February 28, 2014 we had 796 full-time employees. Our employees are not covered by collective bargaining agreements. We believe our relations with our employees are satisfactory.

Segments and Geographic Areas

Information about segment and geographic revenue is set forth in Note 1 of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K. For a discussion of the risks attendant to foreign operations, see the information under the heading ‘‘Risk Factors’’ under the caption ‘‘Continuing expansion into international markets is important for our growth, and as we continue to expand internationally, we face additional business, political, regulatory, operational, financial and economic risks, any of which could increase our costs or otherwise limit our growth.’’ For a discussion of revenue, net income and total assets, see Item 8 of this Annual Report on Form 10-K.

Website Access to Reports

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

Item 1A. Risk Factors

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

Risks Related to Our Business

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

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

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

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

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

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

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

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

The markets for online engagement technology and online consumer services are intensely competitive and characterized by aggressive marketing, evolving industry standards, rapid technology developments and frequent new product introductions. Established or new entities may enter the market in the near future, including those that provide solutions for real-time interaction online, or online consumer services related to real-time advice.

We compete directly with companies focused on technology that facilitates real-time sales, email management, searchable knowledgebase applications and customer service interaction. These markets remain fairly saturated with small companies that compete on price and features. We face significant competition from online interaction solution providers, including SaaS providers such as Talisma, eGain, TouchCommerce and Oracle Corporation. We also face potential competition from Web analytics and online engagement service providers, and other enterprise software and SaaS solutions companies such as Adobe, Oracle, Google and SAP. In addition, established technology and/or consumer-oriented companies such as Google, Microsoft, Salesforce.com and Yahoo! may leverage their existing relationships and capabilities to offer online engagement solutions that facilitate real-time assistance. Furthermore, many of our competitors offer a broader range of customer relationship management products and services than we currently offer. We may be disadvantaged and our business may be harmed if companies doing business online choose real-time sales, marketing and customer service solutions from such providers.

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

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

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

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

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

Any change in the general market acceptance of the real-time sales, marketing and customer service solution business model or in online, real-time consumer advice services may harm our competitive position. Such changes may allow our competitors additional time to improve their service or product offerings, and would also provide time for new competitors to develop real-time sales, marketing, customer service and Web analytics applications or competitive consumer service offerings and solicit prospective customers within our target markets. Increased competition could result in pricing pressures, reduced operating margins and loss of market share.

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

Our business services agreements typically have twelve month terms. In some cases, our agreements are terminable or may terminate upon 30 to 90 days' notice without penalty. If a significant number of our customers, or any one customer to whom we provide a significant amount of services, were to terminate services, or reduce the amount of services purchased or fail to purchase additional services, our results of operations may be negatively and materially affected. Dissatisfaction with the nature or quality of our services could also lead customers to terminate our service. We depend on monthly fees and interaction-based fees from our services for substantially all of our revenue. As part of our strategy, we are increasingly offering customers subscriptions with interaction-based fees. While this interaction-based fee model has demonstrated success in our business to date, it could potentially produce greater variability in our revenue as revenue in this model is impacted by the number of interactions that our customers generate through use of our products. Because of the historically small amount of services sold in initial orders, we depend significantly on the growth of our customer base and sales to new customers and sales of additional services to our existing customers. Our revenue could decline unless we are able to obtain additional customers or alternate revenue sources.

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

We, and our customers, are subject to a number of foreign and domestic laws and regulations that apply to the conduct of business on the Internet such as, but not limited to, laws and regulations relating to user privacy, data privacy, content, internet neutrality, advertising, electronic contracts, electronic payment, information security and intellectual property rights. We post on our web site our privacy policies and practices concerning the use and disclosure of user data, and we observe data security protocols and other business practices in an effort to comply with applicable laws. Expansion and interpretation of user privacy and data security laws and their application to the Internet in the U.S. and foreign jurisdictions is ongoing and unsettled. There is a risk that these laws may be interpreted and applied differently in any given jurisdiction in a manner that is not consistent with our current practices, which could cause us to incur substantial costs and otherwise negatively impact our business.

Various U.S. and foreign jurisdictions impose laws regarding the collection and use of data. For instance, some U.S. states have enacted legislation designed to protect consumers' privacy by prohibiting the distribution of "spyware" over the Internet. Such legislation typically focuses on restricting the proliferation of software that, when installed on an end user's computer is used to intentionally and deceptively take control of the end user's machine. We do not believe that the data monitoring methods employed by our technology constitute "spyware" or that our data monitoring methods are prohibited by applicable laws. However, federal, state and foreign laws and regulations, many of which can be enforced by government entities or private parties, are constantly evolving and can be subject to significant changes in application and interpretation. So, if, for example, the scope of the previously mentioned "spyware" legislation were changed to include Web analytics, such legislation could be deemed to apply to the technology we use and could potentially restrict our ability to conduct our business.

Domestic and foreign governments are also considering restricting the collection and use of Internet visitor data more generally. For example, some jurisdictions, including the U.S., are considering whether the collection of even anonymous data may invade the privacy of Web site visitors. If laws or regulations are enacted that limit data collection or use practices related to anonymous data, we and/or our customers may be required to obtain the express consent of web visitors in order for our technology to perform certain of its basic functions that are based on the collection and use of technical data. Requirements that a website must first obtain consent from its Web visitors before using our technology could reduce the amount and value of the services we provide to customers, which might impede sales and/or cause some existing customers to discontinue using our services. We could also need to expend considerable effort and resources to develop new product features and/or procedures to comply with any such legal requirements.

Businesses using our products may collect data from their web users when those web users contact them with inquiries. Federal, state and foreign government bodies and agencies, however, have adopted, and are considering adopting other laws and regulations regarding the collection, use and disclosure of data obtained from consumers that currently affect or may affect our business customers. We use a variety of data security procedures and practices such as encryption and masking algorithms in an effort to protect information when transmitted over the Internet or stored, and encourage our customers to do the same. Changes to applicable laws and or interpretation thereof could significantly increase the economic burden to us and our customers of regulatory compliance, and could negatively impact our business. For example, European Union members have rules and regulations regarding the collection and use of data that are far more stringent, and impose more substantial burdens on subject businesses than current privacy standards in the United States. In addition, the interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere often can be uncertain, in conflict or in a state of flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices, in which case we could be subject to possible fines or an order requiring that we change our data practices. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our commercial interests.

A range of other proposed or existing laws and new interpretations of existing laws could have an impact on our business. For example:

Existing and proposed laws and regulations regarding cybersecurity and monitoring of online behavioral data such as the proposed "Do Not Track" regulations could potentially apply to some of our current or planned products and services. The FTC has also ratcheted up its enforcement actions against companies that fail to live up to their privacy or data security commitments to consumers. Currently there are many proposals by lawmakers and industry in this area that address the collection, maintenance and use of personal information, Web browsing and geolocation data, and establish data security and breach notification procedures. Given that this is an evolving and unsettled area of regulation, the imposition of any new significant restrictions or technological requirements could have a negative impact on our business.

The Digital Millennium Copyright Act, or DMCA, has provisions that limit, but do not necessarily eliminate, our liability for third-party content delivered through our website and products. In the U.S., laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested and could change. Certain foreign jurisdictions are also testing the liability of providers of online services for activities of their users and other third parties. While providers of online services currently are generally not held liable for activities of their third party users, changes in applicable laws imposing liability on providers of online services for activities of their users and other third parties could harm our business.

The Child Online Protection Act and the Children's Online Privacy Protection Act, respectively, restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect or use certain categories of information from children under 13.

In January 2004, the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, became effective. The CAN-SPAM Act regulates the transmission and content of commercial emails and, among other things, obligates the sender of such emails to provide recipients with the ability to opt-out of receiving future emails from the sender, and establishes penalties for the transmission of email messages which are intended to deceive the recipient as to source or content. Many state legislatures also have adopted laws that impact the delivery of commercial email, and laws that regulate commercial email practices have been enacted in some of the international jurisdictions in which we do business. In addition, Internet service providers and licensors of software products have introduced a variety of systems and products to filter out certain types of commercial email, without any common protocol to determine whether the recipient desired to receive the email being blocked. As a result, it is difficult for us to determine in advance whether or not emails generated by our customers using our solutions will be permitted by spam filters to reach the intended recipients.

Both existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to inquiries or investigations, claims or other remedies, including fines or requirements that we modify or cease existing business practices.

Additionally, because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, even if we don't have a local entity, employees or infrastructure. Often, foreign data protection, privacy, and other laws and regulations are more restrictive than those in the United States. The Company monitors pending legislation and regulatory initiatives to ascertain relevance, analyze impact and develop strategic direction surrounding regulatory trends and developments.

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

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

We could face additional regulatory requirements, tax liabilities, currency exchange rate fluctuations and other risks as we expand internationally and/or as we expand into direct-to-consumer services.

In 2013, we opened up offices in Germany, Japan and the Netherlands. In November 2012, we acquired Engage Pty Ltd. an Australian provider of cloud-based customer contact solutions. In May 2012, we acquired certain assets of Amadesa, Ltd., an Israeli-based website analytics company. In October 2007, we acquired Kasamba Inc., an Israeli-based provider of a platform for online, real-time expert advice. In October 2000, we acquired HumanClick, an Israeli-based provider of real-time online customer service applications. In addition, we have established a sales, marketing and customer support presence in the United Kingdom in support of expansion efforts into Western Europe, and have integrated the United Kingdom operations of Proficient Systems into that office. There are risks related to doing business in international markets as well as in the online consumer market, such as changes in regulatory requirements, tariffs and other trade barriers, fluctuations in currency exchange rates, more stringent rules relating to the privacy of Internet users and adverse tax consequences. In addition, there are likely to be different consumer preferences and requirements in specific international markets. Furthermore, we may face difficulties in staffing and managing any foreign operations. One or more of these factors could harm any future international operations.

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

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

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

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

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

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

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

Downturn in global economic environment may adversely affect our business and results of operations.

The U.S. and other global economies have experienced in the past and could in the future experience economic downturn that affects all sectors of the economy, particularly in the financial services and retail industries, resulting in declines in economic growth and consumer confidence, increases in unemployment rates and uncertainty about economic stability. Global credit and financial markets recently experienced extreme disruptions, including diminished liquidity and credit availability and rapid fluctuations in market valuations. Our business has been affected by these conditions in the past and could be similarly impacted in the future by any downturn in global economic conditions.

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

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

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

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

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

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

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

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

- varied, unfamiliar and unclear legal and regulatory restrictions, including different legal and regulatory standards applicable to Internet services, communications, privacy, and data protection;
- difficulties in staffing and managing foreign operations;
- differing intellectual property laws that may not provide sufficient protection for our intellectual property;
- adverse tax consequences;
- difficulty in addressing country-specific business requirements and regulations;
- fluctuations in currency exchange rates;
- strains on financial and other systems to properly administer VAT and other taxes; and
- legal, political or systemic restrictions on the ability of U.S. companies to do business in foreign countries.

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

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

We have made several acquisitions during the past decade, including three in 2012. In May 2012, we acquired certain assets of Amadesa, Ltd., an Israeli-based website analytics company. In June 2012, we acquired LookIO, Inc., a U.S. provider of mobile chat technology. In November 2012, we acquired Engage, Pty Ltd, an Australia-based provider of hosted voice solutions and reseller of LivePerson online engagement solutions. In the future, we may acquire or invest in complementary companies, products or technologies. Acquisitions and investments involve numerous risks to us, including:

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

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

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

While we continue to expand our focus on this issue and are taking measures to safeguard our services from cybersecurity threats, computing device capabilities continue to evolve. This evolution enables more data and processes, such as mobile computing, potentially increasing the risk that security failures will occur. Our security measures may also be breached due to the intentional acts of outside third parties, employee malfeasance, error, or otherwise, allowing an unauthorized third party to gain access to our data, our users' data or our customers' data. Because the techniques used to obtain unauthorized access, attack, disable or degrade services, or sabotage systems, are constantly evolving in sophisticated ways to avoid detection, it may be difficult for us to anticipate these techniques or to implement adequate security measures in our services and systems to prevent them. In addition, our customers may authorize third party access to their customer data located in our cloud environment. Because we do not control the transmissions between customer authorized third parties, or the processing of such data by customer authorized third parties, we cannot ensure the integrity or security of such transmissions or processing. Because our services are responsible for critical communication between our customers and consumers, security failures, defects or errors in our components, materials or software or those used by our customers could have an adverse impact on us, on our customers and on the end users of their websites. Such adverse impact could include a decrease in demand for our services, damage to our reputation and to our customer relationships, and other financial liability or harm to our business.

We may be liable if third parties access or misappropriate confidential or personal data from our systems or services.

The dialogue transcripts of the text-based chats and email interactions between our customers and Internet users may include personal data, such as contact and demographic information. Although we employ and continually test and update our security measures to protect this information from unauthorized access, it is still possible that our security measures could be breached and such a breach could result in unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information. Because the techniques employed by hackers to obtain unauthorized access or to sabotage systems change frequently and are becoming more sophisticated in circumventing security measures and avoiding detection, we may be unable to anticipate all techniques or to implement adequate preventative measures. Any security breach could result in disclosure of our trade secrets or disclosure of confidential customer, supplier or employee data. If third parties were able to penetrate our network security or otherwise misappropriate personal data relating to our customers' Internet users or the text of customer service inquiries, our competitive position may be harmed and we could be subject to liability. We may as a result of a security incident be deemed out of compliance with U.S. federal and state laws, international laws, or contractual commitments, and we may be subject to government investigations, lawsuits, fines, criminal penalties, statutory damages, and other costs to respond to breach or security incidents, 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. Furthermore, certain software and services that we use to operate our business are hosted and/or operated by third parties. If these services were to be interrupted or their security breached, our business operations could be similarly disrupted and we could be exposed to liability and costly investigations or litigation. The need to physically secure and securely transmit confidential information online has historically been a significant barrier to e-commerce and online communications and continues to be a key area of focus and concern. Any well-publicized compromise of security could deter people from using online services such as the ones we offer or from using them to conduct transactions, which involve transmitting confidential information. Because our success depends on the general acceptance of our services and electronic commerce, we may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by these breaches.

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

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

In addition, we rely in part on third-party service providers and other third parties for various services, including, but not limited, to Internet connectivity and network infrastructure hosting, security and maintenance. These providers may experience problems that result in slower than normal response times and/or interruptions in service. If we are unable to continue utilizing the third-party services that support our Web hosting and infrastructure or if our services experience interruptions or delays due to third party providers, our reputation and business could be harmed.

We also rely on the security of our third party providers to protect our proprietary information and information of our customers. Information technology system failures, including a breach of our or our third party providers' data security, could disrupt our ability to function in the normal course of business by potentially causing, among other things, an unintentional disclosure of customer information. Additionally, despite our security procedures or those of our third party providers, information systems may be vulnerable to threats such as computer hacking, cyber-terrorism or other unauthorized attempts by third parties to access, obtain, modify or delete our or our customers' data. Any such breach could have a material adverse effect on our operating results and our reputation as a provider of business collaboration and communications solutions and could subject us to significant penalties and negative publicity, as well as government investigations and claims for damages or injunctive relief under state, federal and foreign laws.

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

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

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

In addition, privacy concerns may cause Internet users to avoid online sites that collect various forms of data, such as behavioral information and even the perception of security and privacy concerns, whether or not valid, may indirectly inhibit market acceptance of our services. In addition, we or our customers may be harmed by any laws or regulations that restrict the ability to collect, transmit or use this data. The European Union and many countries within the E.U. have adopted privacy directives or laws that are often more strict than those in the United States. In the United States federal and state governments have also adopted legislation, rules and regulations which governs the collection and use of certain personal information.

For instance, the Children's Online Privacy Protection Act directs the U.S. Federal Trade Commission to regulate the collection of data from children under the age of 13 on commercial websites. The U.S. Federal Trade Commission has also taken action against website operators who do not comply with their stated privacy policies. Furthermore, other foreign jurisdictions have adopted legislation governing the collection and use of personal information. These and other governmental or industry efforts may limit our customers' ability to collect and use information about their interactions with their Internet users through our services. As a result, such laws, regulations 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During 2013, we increased our allowance for doubtful accounts by $0.5 million to approximately $1.2 million, principally due to an increase in accounts receivable as a result of increased sales and, to a lesser extent, to an increase in the proportion of receivables due from customers with greater credit risk. A large proportion of receivables are due from larger corporate customers that typically have longer payment cycles. During 2012, we increased our allowance for doubtful accounts by $20,000 to approximately $0.7 million, principally due to an increase in accounts receivable as a result of increased sales and, to a lesser extent, to an increase in the proportion of receivables due from customers with greater credit risk. As a result of increasingly long payment cycles, we have faced increased difficulty in predicting our operating results for any given period, and have experienced significant unanticipated fluctuations in our revenues from period to period. Any failure to achieve anticipated revenues in a period could cause our stock price to decline.

Our services are subject to payment-related risks.

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

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

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

Delays in our implementation cycles could have an adverse effect on our results of operations.

Certain of our products require some implementation services, including but not limited to, training our customers. We have historically experienced a lag between signing a customer contract and recognizing revenue from that customer. Although this lag has typically ranged from 30 to 90 days, it may take more time between contract signing and recognizing revenue in certain situations. If we experience delays in implementation or do not meet project milestones in a timely manner, we could be obligated to devote more customer support, engineering and other resources to a particular project. If new or existing customers cancel or have difficulty deploying our products or require significant amounts of our professional services, support, or customized features, revenue recognition could be canceled or delayed and our costs could increase, which could negatively impact our operating results.

In the past, we have experienced losses, we had an accumulated deficit of $85.3 million as of December 31, 2013 and we may incur losses in the future.

We have in the past incurred, and we may in the future, incur losses and experience negative cash flow, either or both of which may be significant. We recorded net losses from inception through the year ended December 31, 2003. We recorded net income for the years ended December 31, 2004 through 2007 and 2009 through 2012, while we recorded net losses for the years ended December 31, 2008 and 2013.

We recorded a net loss of $3.5 million for the year ended December 31, 2013. As of December 31, 2013, our accumulated deficit was approximately $85.3 million. We cannot assure you that we can sustain or increase profitability on a quarterly or annual basis in the future. Failure to maintain profitability may materially and adversely affect the market price of our common stock.

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

As of December 31, 2013, we had $91.9 million in cash and cash equivalents. We regularly invest excess funds from our cash and cash equivalents in short-term money market funds. We currently hold no mortgaged-backed or auction rate securities. However, some of our investments are subject to general credit, liquidity, market and interest rate risks, which may be exacerbated by the ongoing uncertainty in the U.S. and global credit markets that have affected various sectors of the financial markets and caused global credit and liquidity issues. In the future, these market risks associated with our investment portfolio may harm the results of our operations, liquidity and financial condition. Although we believe we have chosen a more cautious portfolio designed to preserve our existing cash position, it may not adequately protect the value of our investments. Furthermore, this more cautious portfolio is unlikely to provide us with any significant interest income in the near term.

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

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, cash flows and financial condition.

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

On December 10, 2012, our Board of Directors approved a stock repurchase program through June 30, 2014. Under the program, we are authorized to repurchase shares of our common stock, in the open market or privately negotiated transactions, at times and prices considered appropriate by them depending upon prevailing market conditions and other corporate considerations, up to an aggregate purchase price of $20.0 million. On May 21, 2013, the Company's Board of Directors increased the aggregate purchase price of the stock repurchase program from $20.0 million to $30.0 million. The timing and actual number of shares repurchased depend on a variety of factors including the timing of open trading windows, price, corporate and regulatory requirements, and other market conditions. The program may be suspended or discontinued at any time without prior notice. Repurchases pursuant to our stock repurchase program could affect our stock price and increase its volatility. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, our stock repurchase program will diminish our cash reserves, which could impact our ability to pursue possible future strategic opportunities and acquisitions and could result in lower overall returns on our cash balances. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of stock. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness. As of December 31, 2013, approximately $3.3 million remained available for purchase under the program.

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

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

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

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

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

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

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

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

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

Because we recognize revenue from subscriptions for our service over the term of the subscription, declines in business may not be immediately reflected in our operating results.

We generally recognize revenue from customers ratably over the terms of their subscription agreements, which are typically 12 or more months. As a result, much of the revenue we report in each quarter is the result of subscription agreements entered into during previous quarters. Consequently, a decline in new or renewed subscriptions or cancellations of existing subscriptions in any one quarter may not be reflected in our revenue results for that quarter. Any such decline, however, could negatively affect our revenue in future quarters. Our subscription model also means that revenue from new customers is generally recognized over the applicable subscription term, rather than instantaneously.

Our sales cycles can be lengthy, and timing of sales can be difficult to predict.

The sales cycle for our products can be several months or more and varies substantially from customer to customer. Because we sell complex, integrated solutions, it can take many months to close sales as customers evaluate our product offering and define their requirements. Our multi-product offering and the increasingly complex needs of our customers can contribute to a longer sales cycle. Consequently, we are not always able to precisely predict the quarter in which expected sales will occur. In addition, historically a large portion of our revenue has derived from large orders from large clients. Consequently, delays in the closing of sales, especially from large clients, could have a material impact on the timing of revenue and results of operations.

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

Our product development staff, help desk and online sales support operations are located in Israel. As of December 31, 2013, we had 379 full-time employees in Israel. Although substantially all of our sales to date have been made to customers outside Israel, we are directly influenced by the political, economic and military conditions affecting Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has caused security and economic problems in Israel. Since September 2000, there has been a marked increase in violence, civil unrest and hostility, including armed clashes, between the State of Israel and the Palestinians, primarily but not exclusively in the West Bank and Gaza Strip, and negotiations between the State of Israel and Palestinian representatives have effectively ceased. The election of representatives of the Hamas movement to a majority of seats in the Palestinian Legislative Council in January 2006 created additional unrest and uncertainty in the region. In July and August of 2006, Israel was involved in a full-scale armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group and political party, in southern Lebanon, which involved missile strikes against civilian targets in northern Israel that resulted in economic losses. Since June 2007, there has been an escalation in violence in the Gaza Strip. In December 2008 and January 2009, Israel engaged in an armed conflict with Hamas, which involved civilian targets in various parts of Israel and negatively affected business conditions in Israel. A similar armed conflict between Israel and Hamas occurred in November 2012.

Recent popular uprisings in various countries in the Middle East and northern Africa are affecting the political stability of those countries. This instability may lead to deterioration of the political and trade relationships that exist between the State of Israel and these countries, as well as potentially affecting the global economy and marketplace through changes in oil and gas prices. In addition, Iran has publicly threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. This situation may potentially escalate in the future to violent events which may negatively affect Israel.

Our commercial insurance may not cover losses that could occur as a result of events associated with the security situation in the Middle East. Any losses or damages incurred by us could have a material adverse effect on our business. Armed conflicts or political instability in the region could negatively affect our business and could harm our results of operations.

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

Our business is subject to the risks of earthquakes, fires, floods and other natural catastrophic events and to interruption by man-made problems such as terrorism or computer viruses.

Our systems and operations are vulnerable to damage or interruption from earthquakes, fires, floods, hurricanes, other acts of nature, power losses, telecommunications failures, terrorist attacks, acts of war, human errors, break-ins, cyber-attacks or failures, pandemics or other public health crises, or similar events. For example, a significant natural disaster, such as an earthquake, fire or flood, could have a material adverse impact on our business, operating results and financial condition, and our insurance coverage may be insufficient to compensate us for losses that may occur. In addition, acts of terrorism could cause disruptions in our business or the economy as a whole. Our principal executive offices are located in New York City and our largest office is located in Israel, each of which regions has experienced acts of terrorism in the past. Our servers may also be vulnerable to computer viruses, break-ins, cyber-attacks or failures, and similar disruptions from unauthorized tampering with our computer systems, which could lead to interruptions, delays, loss of critical data or the unauthorized disclosure of confidential customer data. Although we have disaster recovery capabilities, there can be no assurance that we will not suffer from business interruption as a result of any such events. As we rely heavily on our servers, computer and communications systems and the internet to conduct our business and provide high quality service to our customers, such disruptions could negatively impact our ability to run our business, result in loss of existing or potential customers and increased expenses, and/or have an adverse affect on our reputation and the reputation of our products and services, any of which would adversely affect our operating results and financial condition.

Risks Related to Our Industry

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

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

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

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

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

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

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

- continued growth in the number of users;
- concerns about transaction security or security problems such as "viruses" and "worms" or hackers;

- concerns about cybersecurity attacks or the security of confidential information online;
- continued development of the necessary technological infrastructure;
- development of enabling technologies;
- uncertain and increasing government regulation; and
- the development of complementary services and products.

Other Risks

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

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

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

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.

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

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

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

Our stockholders who each own greater than five percent of the outstanding common stock and their affiliates, and our named executive officers and directors, in the aggregate, and as of December 31, 2013, beneficially own approximately 44% of our outstanding common stock. As a result, these stockholders, if acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership could also have the effect of delaying or preventing a change in control.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently lease approximately 18,500 square feet at our headquarters location in New York City, under a lease expiring in April 2020. In March 2012, we modified our existing lease for additional office space of approximately 18,500 also expiring in April 2020. We also lease approximately 5,250 square feet of office space in San Francisco under a lease expiring in January 2019, and we lease approximately 1,800 square feet of office space in Santa Monica under a lease expiring in November 2015.

Two of our wholly-owned subsidiaries, LivePerson Ltd. (formerly HumanClick Ltd.) and Kasamba, Ltd., maintain offices in Raanana, Israel of approximately 68,000 square feet, under leases expiring in December 2015.

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

Our wholly-owned subsidiary, LivePerson (UK) Ltd. maintains offices in Reading, United Kingdom of approximately 7,300 square feet, under a lease expiring in May 2019. We also maintain an office of approximately 500 square feet in London, United Kingdom under an agreement expiring in January 2017.

Our wholly-owned subsidiary, LivePerson Netherlands B.V. maintains offices in Amsterdam, Netherlands of approximately 1,000 square feet, under a lease expiring in March 2015.

Our wholly-owned subsidiary, Engage Pty, Ltd. maintains offices in Melbourne, Australia of approximately 11,500 square feet, under a lease expiring in March 2016.

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

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

Item 3. Legal Proceedings

On February 7, 2012, we filed suit against Pragmatus Telecom LLC in the District of Delaware, seeking a declaratory judgment that our products do not infringe three patents owned by Pragmatus which Pragmatus had previously asserted were infringed by certain of our customers. On March 13, 2012, we amended the complaint to add a request for a declaratory judgment that those three patents are invalid. On April 6, 2012, Pragmatus answered the Amended Complaint, and asserted counterclaims against us asserting infringement of the same three patents. In February 2014, the parties reached a mutual, confidential agreement resolving all claims and counterclaims against each party. The terms of the agreement did not have a material adverse impact on our financial position, results of operations or cash flows. Also in February 2014, the parties filed notices of dismissal with prejudice of all pending claims asserted in this litigation, which the court endorsed, thereby dismissing with prejudice all claims in this litigation.

On September 14, 2012, Community United IP, LLC filed a patent infringement case in the District of Delaware against us and co-defendants 1-800-Flowers.com, Discover Card Services, Inc., EarthLink, Inc., QVC, Inc., and Cellco Partnership d/b/a Verizon Wireless based on the co-defendants' alleged use of technology supplied by us. On November16, 2012, Community United filed an amended complaint, which Defendants answered on December 28, 2012. On July 11, 2013, the parties filed a stipulation of dismissal of all claims with prejudice, which the Court endorsed on July 15, 2013, terminating the case.

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

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

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

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

Price Range of Common Stock

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

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

	High	Low
Year ended December 31, 2013:		
First Quarter	$14.90	$13.07
Second Quarter	$13.75	$ 8.12
Third Quarter	$10.60	$ 9.24
Fourth Quarter	$14.82	$ 9.08
Year ended December 31, 2012:		
First Quarter	$17.32	$11.84
Second Quarter	$19.08	$14.89
Third Quarter	$19.49	$15.56
Fourth Quarter	$18.14	$12.03

Holders

As of February 28, 2014, there were approximately 161 holders of record of our common stock.

Dividends

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

Issuer Purchases of Equity Securities

A summary of the Company's repurchase activity for the year ended December 31, 2013 is as follows:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares that May yet Be Purchased Under the Plans or Programs(1)(2)
				$20,000,000
1/1/2013 – 3/31/2013	537,563	$13.82	537,563	12,571,862
4/1/2013 – 6/30/2013	1,834,899	10.41	1,834,899	3,474,027
7/1/2013 – 9/30/2013	18,900	9.98	18,900	3,284,387
10/1/2013 – 12/31/2013	—	—	—	3,284,387
Total	2,391,362	$11.17	2,391,362	$ 3,284,387

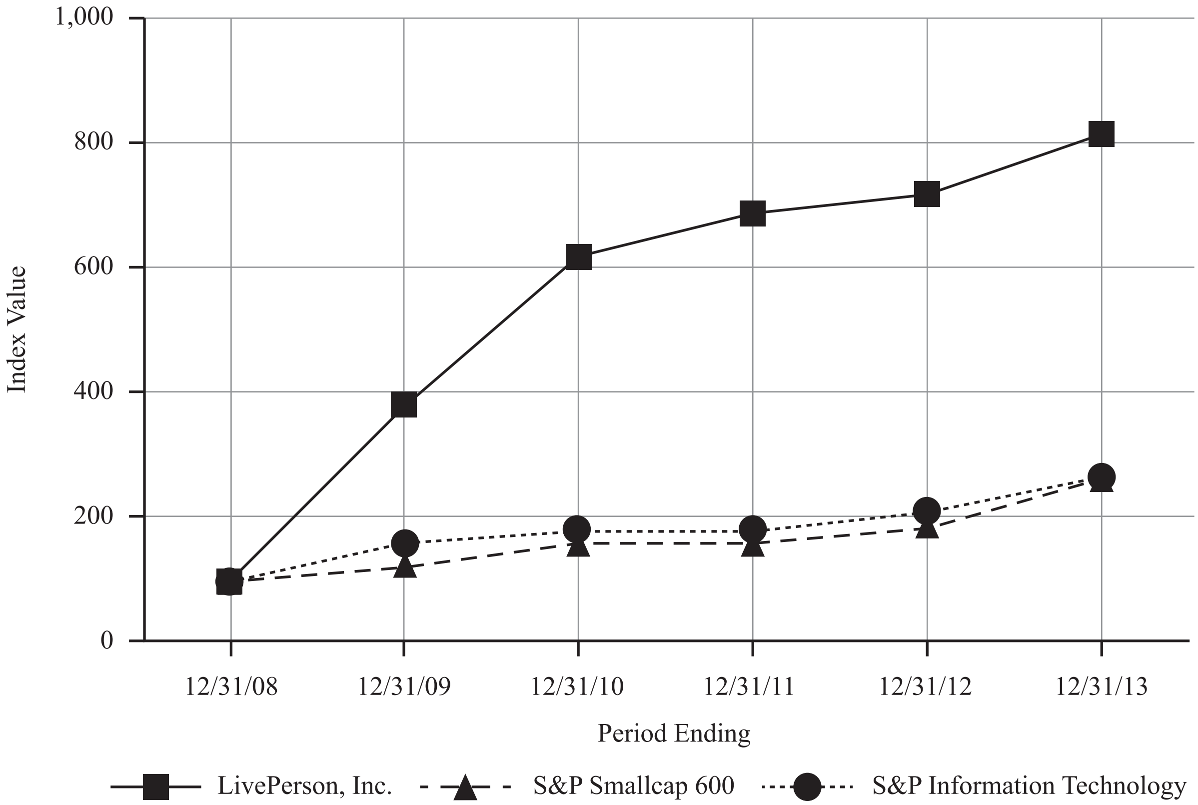
(1) On December 10, 2012, the Company's Board of Directors approved a stock repurchase program through June 30, 2014. Under the stock repurchase program, the Company is authorized to repurchase shares of its common stock, in the open market or privately negotiated transactions, at times and prices considered appropriate by the Board of Directors depending upon prevailing market conditions and other corporate considerations. On May 21, 2013, the Company's Board of Directors increased the aggregate purchase

price of the stock repurchase program from $20.0 million to $30.0 million. As of December 31, 2013, approximately $3.3 million remained available for purchase under the program.

(2) Transaction fees related to the share purchases are deducted from the total remaining allowable expenditure amount.

Stock Performance Graph

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



(1) The graph covers the period from December 31, 2008 to December 31, 2013.

(2) The graph assumes that $100 was invested at the market close on December 31, 2008 in LivePerson's Common Stock, in the Standard & Poor's SmallCap 600 Index and in the Standard & Poor's Information Technology Index, and that all dividends were reinvested. No cash dividends have been declared on LivePerson's Common Stock.

(3) Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

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

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data with respect to our consolidated balance sheets as of December 31, 2013 and 2012 and the related consolidated statements of operations for the years ended December 31, 2013, 2012 and 2011 have been derived from our audited consolidated financial statements which are included herein. The selected financial data with respect to our balance sheets as of December 31, 2011, 2010 and 2009 and the related statements of operations for the years ended December 31, 2010 and 2009 have been derived from our audited financial statements which are not included herein. Due to our acquisitions of Engage in November 2012, LookIO in June 2012, Amadesa in May 2012 and NuConomy in April 2010, we believe that comparisons of our operating results with each other, or with those of prior periods, may not be meaningful. The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto and the information contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In Thousands, Except Share and per Share Data)				
Consolidated Statement of Operations Data:					
Revenue	$ 177,805	$ 157,409	$ 133,089	$ 109,862	$ 87,490
Costs and expenses:					
Cost of revenue	42,555	35,579	33,195	29,640	21,076
Sales and marketing	62,488	49,614	38,884	32,835	27,355
General and administrative	39,968	31,606	21,044	17,077	13,417
Product development	36,397	30,051	20,222	15,711	12,111
Amortization of purchased intangibles	871	218	109	259	745
Total costs and expenses	182,279	147,068	113,454	95,522	74,704
(Loss) income from operations	(4,474)	10,341	19,635	14,340	12,786
Other income (expense)	337	376	(485)	(7)	14
(Loss) income before provision for (benefit from) income taxes	(4,137)	10,717	19,150	14,333	12,800
(Benefit from) provision for income taxes	(638)	4,362	7,112	5,074	5,037
Net (loss) income attributable to common stockholders	(3,499)	6,355	12,038	9,259	7,763
Net (loss) income per share attributable to common stockholders:					
Basic	$ (0.06)	$ 0.11	$ 0.23	$ 0.18	$ 0.16
Diluted	$ (0.06)	$ 0.11	$ 0.22	$ 0.18	$ 0.16
Weighted average shares used to compute net (loss) income per share attributable to common stockholders:					
Basic	54,725,236	55,292,597	52,876,999	50,721,880	47,962,688
Diluted	54,725,236	57,131,041	55,008,742	52,907,541	49,008,440
Other Financial and Operational Data:					
Adjusted EBITDA[1]	$ 18,767	$ 28,965	$ 33,998	$ 26,759	$ 22,832
Adjusted net income[2]	$ 11,652	$ 17,650	$ 19,838	$ 15,887	$ 14,462

(1) We define adjusted EBITDA as net (loss) income, plus (benefit from) provision for income taxes, other income (expense), net, depreciation and amortization, and stock based compensation. Please see ‘‘Adjusted EBITDA’’ below for more information and for a reconciliation of adjusted EBITDA to net (loss) income, the most directly comparable financial measure calculated and presented in accordance with U.S. generally accepted accounting principles, or GAAP.

(2) We define adjusted net income as net (loss) income, plus amortization, and stock based compensation. Please see ‘‘Adjusted Net Income’’ below for more information and for a reconciliation of adjusted net income to net (loss) income, the most directly comparable financial measure calculated and presented in accordance with U.S. generally accepted accounting principles, or GAAP.

Stock-based compensation included in the statements of operations above was as follows (amounts in thousands):

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Cost of revenue	$ 1,954	$ 1,579	$1,023	866	790
Sales and marketing	2,851	2,878	1,668	1,371	1,337
General and administrative	4,148	3,294	2,377	1,576	1,197
Product development	3,555	2,964	1,703	1,329	1,402
Total stock-based compensation	$12,508	$10,715	$6,771	$5,142	$4,726

	As of December 31,				
	2013	2012	2011	2010	2009
			(In Thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 91,906	$103,339	$ 93,278	$ 61,336	$ 45,572
Working capital	88,877	100,593	96,354	61,600	39,996
Total assets	205,090	208,576	166,051	131,143	104,281
Total stockholders’ equity	159,053	170,243	137,698	104,643	81,137

Adjusted EBITDA and Adjusted Net Income

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

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

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

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Reconciliation of Adjusted EBITDA:					
Net (loss) income	$ (3,499)	$ 6,355	$12,038	$ 9,259	$ 7,763
Amortization of purchased intangibles	2,643	580	1,029	1,486	1,973
Stock-based compensation	12,508	10,715	6,771	5,142	4,726
Depreciation	8,090	7,329	6,563	5,791	3,347
(Benefit from) provision for income taxes	(638)	4,362	7,112	5,074	5,037
Other (income) expense, net	(337)	(376)	485	7	(14)
Adjusted EBITDA	$18,767	$28,965	$33,998	$26,759	$22,832

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

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

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Reconciliation of Adjusted Net Income					
Net (loss) income	$ (3,499)	$ 6,355	$12,038	$ 9,259	$ 7,763
Amortization of purchased intangibles	2,643	580	1,029	1,486	1,973
Stock-based compensation	12,508	10,715	6,771	5,142	4,726
Adjusted net income	$11,652	$17,650	$19,838	$15,887	$14,462

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included elsewhere in this report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in "Risk Factors."

Overview

LivePerson provides digital engagement solutions offering a cloud-based platform which enables businesses to pro-actively connect with consumers and an online marketplace providing information and knowledge. We are organized into two operating segments: Business and Consumer. The Business segment facilitates real-time online interactions — chat, voice, and content delivery, across multiple channels and screens for global corporations of all sizes. The Consumer segment facilitates online transactions between independent service providers ("Experts") and individual consumers ("Users") seeking information and knowledge for a fee via real-time chat. We were incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced initially in November 1998.

In order to sustain growth in these segments, our strategy is to expand our position as the leading provider of online engagement solutions that facilitate real-time assistance and expert advice. To accomplish this, we are focused on the following current initiatives:

- *Expanding Business with Existing Customers and Adding New Customers.* We are expanding our sales capacity by adding enterprise and midmarket sales agents. We have also expanded our efforts to retain existing SMB customers through increased interaction with them during the early stages of their usage of our services.
- *Introducing New Products and Capabilities.* We are investing in product marketing, research and development and executive personnel to support our expanding efforts to build and launch new products and capabilities to support existing customer deployments, and to further penetrate our total addressable market. These investments are initially focused in the areas of online marketing engagement and chat transcript text analysis. Over time, we expect to develop and launch additional capabilities that leverage our existing market position as a leader in proactive, intelligence-driven online engagement.
- *Expanding our International Presence.* We continue to increase our investment in sales and support personnel in the United Kingdom, Asia-Pacific, Latin America and Western Europe, particularly France and Germany. We are also working with sales and support partners as we expand our investment in the Asia-Pacific region. We continue to improve the multi-language and translation capabilities within our hosted solutions to further support international expansion.

Key Metrics

Financial overview of the three and twelve months ended December 31, 2013 compared to the comparable periods in 2012 are as follows:

- Revenue increased 10% and 13% to $46.9 million and $177.8 million in the three and twelve months ended December 31, 2013, respectively from $42.5 million and $157.4 million in the comparable periods in 2012.
- Revenue from our Business segment increased 11% and 14% to $43.0 million and $162.7 million in the three and twelve months ended December 31, 2013, respectively from $38.8 million and $142.3 million in the comparable periods in 2012.
- Gross profit margin remained flat at 76% in the three months ended December 31, 2013 and the comparable period in 2012. Gross profit margin decreased to 76% from 77% in the twelve months ended December 31, 2013, from the comparable period in 2012.

- Cost and expenses increased 19% and 24% to $47.5 million and $182.3 million in the three and twelve months ended December 31, 2013, respectively from $40.0 million and $147.1 million in the comparable periods in 2012.

- Net loss increased 147% to $0.7 million in the three months ended December 31, 2013 from net income of $1.5 million for the three months ended December 31, 2012. Net loss increased 155% to $3.5 million in the twelve months ended December 31, 2013 from net income of $6.4 million for the twelve months ended December 31, 2012.

- Bookings increased 15% and 17% to $10.0 million and $34.7 million in the three and twelve months ended December 31, 2013, respectively, from $8.7 million and $29.7 million in the comparable periods in 2012. We include in our bookings metrics new contractual commitments from either new or existing midmarket and/or enterprise customers for recurring subscription based fees, but exclude from such amounts non-recurring fees such as one time implementation costs or one time consulting fees. The bookings metric generally does not include or represent usage based and/or pay-for-performance based contracts, month-to-month contracts or transaction-based services. Accordingly, while we believe that bookings is a relevant metric in providing management with insight into certain recent activity in our business, there is no assurance that bookings amounts will be recognized as revenue in future periods, based on our revenue recognition policy, potential customer cancellations, delays in implementations or otherwise.

- Average deal size for new bookings in the three months ended December 31, 2013 was $53,000, with average deal size for new customers of $44,000 and average deal size for existing customers requesting additional products or expanded access to current products of $55,000. Average deal size for new bookings in the three months ended December 31, 2012 was $49,000, with average deal size for new customers of $31,000 and average deal size for existing customers requesting additional products or expanded access to current products of $54,000. Similar to our bookings metric, average deal size generally represents new contractual arrangements with committed subscription or base fees from new or existing mid-market or enterprise customers, and does not capture usage and/or pay-for-performance based contracts or fees. Management uses average deal size, being a subset of bookings, as a relevant metric in providing management with insight into certain recent activity in our business.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that management believes are reasonable based upon the information available. We base these estimates on our historical experience, future expectations and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments that may not be readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. These estimates and assumptions relate to estimates of the carrying amount of goodwill, intangibles, stock-based compensation, valuation allowances for deferred income taxes, accounts receivable, the expected term of a customer relationship, accruals and other factors. We evaluate these estimates on an ongoing basis. Actual results could differ from those estimates under different assumptions or conditions, and any differences could be material. For further information on all of our significant accounting policies, see Note 1 of the Notes to Consolidated Financial Statements under Item 8.

Revenue Recognition

The majority of our revenue is generated from monthly service revenues and related professional services from the sale of the LivePerson services. Because we provide our application as a service, we follow the provisions of ASC 605-10-S99, ‘‘Revenue Recognition’’ and ASC 605-25, ‘‘Revenue Recognition with Multiple-Element Arrangements.’’ We charge a monthly fee, which varies by type of service, the level of customer usage and website traffic, and in some cases, the number of orders placed via our online engagement solutions.

For certain of our larger customers, we may provide call center labor through an arrangement with one or more of several qualified vendors. For most of these customers, we pass the fee we incur with the labor provider and our fee for the hosted services through to our customers in the form of a fixed fee for each order placed via our online engagement solutions. For these Pay for Performance (''PFP'') arrangements, we recognize revenue net of the labor provider's fee in accordance with ASC 605-45, ''Principal Agent Considerations,'' due primarily to the fact that the call center labor vendor is the primary obligor with respect to the labor services provided. Additionally, we perform as an agent without risk of loss for collection and do not bear inventory risk with respect to the outsourced labor services. Finally, we do not provide any part of the labor services, have no latitude in establishing prices for the labor services and generally do not have discretion in selecting the vendor.

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

We recognize monthly service revenue based upon the fee charged for the LivePerson services, provided that there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed or determinable. Our service agreements typically have twelve month terms and are terminable or may terminate upon 30 to 90 days' notice without penalty. When professional service fees add value to the customer on a standalone basis, we recognize professional service fees upon completion and customer acceptance in accordance with FASB Accounting Standards Update 2009-13. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) best estimated selling price. If a professional services arrangement does not qualify for separate accounting, we recognize the fees, and the related labor costs, ratably over the contracted period.

For revenue generated from online transactions between Experts and Users, we recognize revenue net of Expert fees in accordance with ASC 605-45, ''Principal Agent Considerations,'' due primarily to the fact that the Expert is the primary obligor. Additionally, we perform as an agent without any risk of loss for collection, and are not involved in selecting the Expert or establishing the Expert's fee. We collect a fee from the consumer and retain a portion of the fee, and then remit the balance to the Expert. Revenue from these transactions is recognized when there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed or determinable.

Stock-Based Compensation

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

As of December 31, 2013, there was approximately $30.1 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of approximately 2.0 years.

Accounts Receivable

Our customers are located primarily in the United States. We perform ongoing credit evaluations of our customers' financial condition (except for customers who purchase the LivePerson services by credit card via Internet download) and have established an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information that we believe to be reasonable, although they may change in the future. If there is a deterioration of a customer's credit worthiness or actual write-offs are higher than our historical experience, our estimates of recoverability for these receivables could be adversely affected. Although our large number of customers limits our concentration of credit risk we do have several large customers. If we experience a significant write-off from one of these large customers, it could have a material adverse impact on our consolidated financial statements. No single customer accounted for or exceeded 10% of our total revenue in 2013, 2012 or 2011. One customer accounted for approximately 12% and 15% of accounts receivable at December 31, 2013 and 2012, respectively. We increased our allowance for doubtful accounts by $0.5 million to approximately $1.2 million, principally due to an increase in the proportion of our receivables due from customers with greater credit risk.

A large proportion of receivables are due from larger corporate customers that typically have longer payment cycles.

Goodwill

In accordance with ASC 350, ''Goodwill and Other Intangible Assets,'' goodwill and indefinite-lived intangible assets are not amortized, but reviewed for impairment upon the occurrence of events or changes in circumstances that would reduce the fair value below its carrying amount. Goodwill is required to be tested for impairment at least annually. In September 2011, the FASB issued ASU No. 2011-08, Intangibles — Goodwill and Other (Topic 350). ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is ''more likely than not'' that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. If it is determined that the fair value of a reporting unit is more likely than not to be less than its carrying value (including unrecognized intangible assets) than it is necessary to perform the second step of the goodwill impairment test. The second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. We perform internal valuation analyses and consider other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions including projected future cash flows (including timing), discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables.

In the third quarter of 2013, we determined that it is not more-likely that the fair value of the reporting units is less than their carrying amount. Accordingly, we did not perform the two-step goodwill impairment test.

Impairment of Long-Lived Assets

In accordance with ASC 360-10, ''Accounting for the Impairment or Disposal of Long-Lived Assets,'' long-lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. The Company does not have any long-lived assets, including intangible assets, which it considered to be impaired.

Revenue

The majority of our revenue is generated from monthly service revenues and related professional services from the sale of the LivePerson services. We charge a monthly fee, which varies by service and customer usage. The majority of our larger customers also pay a professional services fee related to implementation. A large proportion of our revenue from new customers comes from large corporations. These companies typically have more significant implementation requirements and more stringent data security standards. Such customers also have more sophisticated data analysis and performance reporting requirements, and are likely to engage our professional services organization to provide such analysis and reporting on a recurring basis.

Revenue from our Business segment accounted for 92% of total revenue for the year ended December 31, 2013. Revenue from our Business segment accounted for 90% and 89% of total revenue for the years ended December 31, 2012 and 2011, respectively. Revenue attributable to our monthly hosted Business services accounted for 92% of total Business revenue for the year ended December 31, 2013. Revenue attributable to our monthly hosted Business services accounted for 93% of total Business revenue for the year ended December 31, 2012. Revenue attributable to our monthly hosted Business services accounted for 94% of total Business revenue for the year ended December 31, 2011. Our service agreements typically have twelve month terms and, in some cases, are terminable or may terminate upon 30 to 90 days' notice without penalty. Given the time required to schedule training for our customers' operators and our customers' resource constraints, we have historically experienced a lag between signing a customer contract and recognizing revenue from that customer. Although this lag has typically ranged from 30 to 90 days, it may take more time between contract signing and recognizing revenue in certain situations.

Revenue from our Consumer segment is generated from online transactions between Experts and Users is recognized net of Expert fees and accounted for approximately 8% of total revenue for the year ended December 31, 2013. Revenue generated from online transactions between Experts and Users accounted for approximately 10% and 11% of total revenue for the years ended December 31, 2012 and 2011, respectively.

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

Costs and Expenses

Our cost of revenue consists of:

- compensation costs relating to employees who provide customer support and implementation services to our customers;
- compensation costs relating to our network support staff;
- depreciation of certain hardware and software;
- allocated occupancy costs and related overhead;
- the cost of supporting our infrastructure, including expenses related to server leases, infrastructure support costs and Internet connectivity;
- the credit card fees and related payment processing costs associated with the consumer and SMB services; and
- amortization of certain intangibles.

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

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

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

During 2013, we increased our allowance for doubtful accounts by approximately $0.5 million to approximately $1.2 million, principally due to an increase in the proportion of receivables due from customers with greater credit risk. A large proportion of receivables are due from larger corporate customers that typically have longer payment cycles. During 2012, we increased our allowance for doubtful accounts by $20,000 to approximately $0.7 million, principally due to an increase in accounts receivable as a result of increased sales and, to a lesser extent, to an increase in the proportion of receivables due from customers with greater credit risk. A large proportion of receivables are due from larger corporate customers that typically have longer payment cycles. We base our allowance for doubtful accounts on specifically identified credit risks of customers, historical trends and other information that we believe to be reasonable. We adjust our allowance for doubtful accounts when accounts previously reserved have been collected.

Non-Cash Compensation Expense

The net non-cash compensation amounts for the years ended December 31, 2013, 2012 and 2011 consist of (amounts in thousands):

	2013	2012	2011
Stock-based compensation expense related to ASC 718-10	$12,508	$10,715	$6,771

Results of Operations

The Company is organized into two operating segments: Business and Consumer. The Business segment facilitates real-time online interactions — chat, voice, and content delivery, across multiple channels and screens for global corporations of all sizes. The Consumer segment facilitates online transactions between Experts and Users seeking information and knowledge for a fee via real-time chat.

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

	Year Ended December 31,		
	2013	2012	2011
	(as a percentage of revenue)		
Consolidated Statements of Operations Data:(1)			
Revenue	100%	100%	100%
Costs and expenses:			
Cost of revenue	24%	23%	25%
Sales and marketing	35%	32%	29%
General and administrative	22%	20%	16%
Product development	20%	19%	15%
Amortization of purchased intangibles	—%	—%	—%
Total costs and expenses	103%	93%	85%
(Loss) income from operations	(3)%	7%	15%
Other income (expense)	—%	—%	—%
(Loss) income before provision for (benefit from) income taxes	(2)%	7%	14%
(Benefit from) provision for income taxes	—%	3%	5%
Net (loss) income	(2)%	4%	9%

(1) Certain items may not total due to rounding.

Revenue

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	% Change	2012	2011	% Change
	(in thousands)			(in thousands)		
Revenue by Segment:						
Business	$162,714	$142,298	14%	$142,298	$118,567	20%
Consumer	15,091	15,111	—%	15,111	14,522	4%
Total	$177,805	$157,409	13%	$157,409	$133,089	18%

Business revenue increased by 14% to $162.7 million for the year ended December 31, 2013, from $142.3 million for the year ended December 31, 2012. This increase is primarily attributable to revenue from existing customers who increased their services in the amount of approximately $12.2 million, net of cancellations; revenue from new customers in the amount of approximately $6.0 million; and to a lesser extent, to professional services revenue of approximately $2.2 million. Our current revenue growth has been impacted by the necessary lead time required to get our global sales team up to full capacity in anticipation of our roll out of the LiveEngage platform. In addition, our revenue growth has traditionally been driven by a mix of revenue from new customers as well as expansion from existing customers.

Business revenue increased by 20% to $142.3 million for the year ended December 31, 2012, from $118.6 million for the year ended December 31, 2011. This increase is primarily attributable to revenue from existing customers who increased their use of our services in the amount of approximately $12.6 million, net of cancellations and, to a lesser extent, to revenue from new customers in the amount of approximately $8.6 million and an increase in professional services revenue of approximately $3.3 million. Our revenue growth has traditionally been driven by a mix of revenue from new customers as well as expanding business from existing customers.

Consumer revenue remained at $15.1 million for the year ended December 31, 2013, from the year ended December 31, 2012. There was an increase in fees we charge experts that was offset by a decrease in chat minutes.

Consumer revenue increased by 4% to $15.1 million for the year ended December 31, 2012, from $14.5 million for the year ended December 31, 2011. This increase is primarily attributable to an increase in gross revenue as a result of increased chat minutes.

Cost of Revenue — Business

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

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	% Change	2012	2011	% Change
	($ in thousands)			($ in thousands)		
Cost of revenue – business . . .	$40,132	$33,450	20%	$33,450	$29,793	12%
Percentage of total revenue . . .	23%	21%		21%	22%	
Headcount (at period end)	208	234	(11)%	234	140	67%

Cost of revenue increased by 20% to $40.1 million in 2013, from $33.5 million in 2012. This increase in expense is primarily attributable to an increase in total compensation and related costs for additional and existing customer service and network operations personnel in the amount of approximately $5.2 million, and an increase in amortization of purchased intangibles of approximately $1.4 million as a result of our acquisitions of Amadesa, lookIO and Engage Pty Ltd. This increase in cost of revenue was driven primarily by increased investment in more robust business continuity capabilities within our hosting facilities. In addition, costs related to data collection and storage have increased, as we have improved the scope and quality of the analytical reporting we provide to our larger customers.

Cost of revenue increased by 12% to $33.5 million in 2012, from $29.8 million in 2011. This increase in expense is primarily attributable to an increase in total compensation and related costs for additional and existing customer service and network operations personnel in the amount of approximately $2.9 million, an increase for primary and backup server facilities and allocated overhead related to costs of supporting our server and network infrastructure of approximately $0.4 million as a result of increased revenue and an increase in amortization of purchased intangibles of approximately $0.4 million as a result of our acquisitions of Amadesa and LookIO in May 2012 and June 2012, respectively.

Cost of Revenue — Consumer

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

	Year Ended December 31,		% Change	Year Ended December 31,		% Change
	2013	2012		2012	2011	
	($ in thousands)			($ in thousands)		
Cost of revenue – consumer	$2,423	$2,129	14%	$2,129	$3,402	(37)%
Percentage of total revenue	1%	1%		1%	3%	
Headcount (at period end)	18	17	6%	17	19	(11)%

Cost of revenue increased by 14% to $2.4 million in 2013, from $2.1 million in 2012. This increase is primarily attributable to an increase in total compensation and related costs for existing customers service personnel in the amount of $0.2 million.

Cost of revenue decreased by 37% to $2.1 million in 2012, from $3.4 million in 2011. This decrease is primarily attributable to the technology purchased intangible asset related to the Kasamba acquisition that was fully amortized as of September 30, 2011.

Sales and Marketing — Business

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

	Year Ended December 31,		% Change	Year Ended December 31,		% Change
	2013	2012		2012	2011	
	($ in thousands)			($ in thousands)		
Sales and Marketing – Business	$57,011	$44,087	29%	$44,087	$32,690	35%
Percentage of total revenue	32%	28%		28%	25%	
Headcount (at period end)	259	232	12%	232	165	41%

Sales and marketing expenses increased by 29% to $57.0 million in 2013, from $44.1 million in 2012. This increase is primarily attributable to an increase in compensation and related costs for additional and existing sales and marketing personnel of approximately $12.2 million, to a lesser extent, an increase in advertising, public relations and trade show exhibit expenses of approximately $0.3 million, and an increase in allocated occupancy costs and related overhead in the amount of approximately $0.4 million. The increase in expense as compared to our revenue growth is primarily related to the investment in our global sales team and global expansion. In addition, over the last few years we have made investments in our LiveEngage product which we will begin to rollout in 2014. The increase also relates to our continued efforts to enhance our brand recognition and increase sales lead activity.

Sales and marketing expenses increased by 35% to $44.1 million in 2012, from $32.7 million in 2011. This increase is primarily attributable to an increase in compensation and related costs for additional and existing sales and marketing personnel of approximately $10.0 million, and an increase in advertising, public relations and trade show exhibit expenses of approximately $1.1 million. This increase relates to our continued efforts to enhance our brand recognition and increase sales lead activity.

Sales and Marketing — Consumer

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

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	% Change	2012	2011	% Change
	($ in thousands)			($ in thousands)		
Sales and Marketing – Consumer	$5,477	$5,527	(1)%	$5,527	$6,194	(11)%
Percentage of total revenue	3%	4%		4%	5%	
Headcount (at period end)	4	3	33%	3	3	—%

Sales and marketing expenses remained flat at $5.5 million in 2013 and 2012.

Sales and marketing expenses decreased by 11% to $5.5 million in 2012, from $6.2 million in 2011. This decrease is primarily attributable to a decrease in compensation and related costs and allocated overhead for marketing personnel in the amount of approximately $684,000 as a result of realigning the responsibilities of certain employees to the Business segment.

General and Administrative

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

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	% Change	2012	2011	% Change
	($ in thousands)			($ in thousands)		
General and administrative . . .	$39,968	$31,606	26%	$31,606	$21,044	50%
Percentage of total revenue . . .	22%	20%		20%	16%	
Headcount (at period end)	88	78	13%	78	67	16%

General and administrative expenses increased by 26% to $40.0 million in 2013, from $31.6 million in 2012. This increase is primarily attributable to an increase in compensation and related expenses for additional and existing accounting, legal and human resource personnel in the amount of approximately $4.1 million, an increase in accounting and other professional fees of approximately $1.5 million, an increase in rent expense of approximately $1.2 million and an increase in depreciation of $0.9 million.

General and administrative expenses increased by 50% to $31.6 million in 2012, from $21.0 million in 2011. This increase is primarily attributable to increases in accounting and legal costs related to acquisitions and litigation in the amount of approximately $5.0 million, increases in costs related to additional and existing personnel in the amount of approximately $4.6 million and increases in other professional fees in the amount of approximately $1.0 million.

Product Development

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

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	% Change	2012	2011	% Change
	($ in thousands)			($ in thousands)		
Product development	$36,397	$30,051	21%	$30,051	$20,222	49%
Percentage of total revenue . . .	20%	19%		19%	15%	
Headcount (at period end)	210	204	3%	204	172	19%

Product development costs increased by 21% to $36.4 million in 2013, from $30.1 million in 2012. This increase is primarily attributable to an increase in compensation and related costs for additional and existing product development personnel of approximately $5.1 million as a result of our increased efforts to expand our product offerings, as well as an increase in outsourced labor expense of approximately $1.2 million, as a result of testing new versions of our software. We are increasing our investment in new product development efforts to expand future product offerings. We are also investing in partner programs that enable third-parties to develop value-added software applications for our existing and future customers.

Product development costs increased by 49% to $30.1 million in 2012, from $20.2 million in 2011. This increase is primarily attributable to an increase in compensation and related costs for additional and existing product development personnel of approximately $8.3 million and, to a lesser extent, to an increase in outsourced labor expense of approximately $0.9 million as a result of testing new versions of our software. The increase relates to our continued efforts to expand future product offerings. We are also investing in partner programs that enable third-parties to develop value-added software applications for our existing and future customers.

Amortization of Purchased Intangibles

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	% Change	2012	2011	% Change
	($ in thousands)			($ in thousands)		
Amortization of purchased intangibles	$871	$218	300%	$218	$109	100%
Percentage of total revenue	—%	—%		—%	—%	

Amortization expense for purchased intangibles was $0.9 million for the year ended December 31, 2013 and relates primarily to acquisition costs recorded as a result of our acquisitions of Engage in November 2012, LookIO in June 2012, Amadesa in May 2012, NuConomy in April 2010 and to the purchases of patents in August 2009. Amortization expense was $0.2 million for the year ended December 31, 2012 and relates primarily to our acquisition of Engage in November 2012 and NuConomy in April 2010 and to the purchases of patents in August 2009. This increase is attributable to the acquisition costs recorded as a result of our acquisitions in 2012. Additional amortization expense in the amount of $1.8 million and $0.4 million is included in cost of revenue for the years ended December 31, 2013 and 2012, respectively.

Amortization expense for purchased intangibles was $0.2 million for the year ended December 31, 2012 and relates primarily to acquisition costs recorded as a result of our acquisition of Engage in November 2012 and NuConomy in April 2010 and to the purchases of patents in August 2009. Amortization expense was $0.1 million for the year ended December 31, 2011 and relates primarily to acquisition costs recorded as a result of our acquisition of NuConomy in April 2010. The increase is attributable to the acquisition costs recorded as a result of our acquisition of Engage in November 2012. Additional amortization expense in the amount of $0.4 million and $0.9 million is included in cost of revenue for the years ended December 31, 2012 and 2011, respectively. The decrease is primarily attributable to the technology intangible asset related to the Kasamba acquisition that was fully amortized as of September 30, 2011.

Other Income (Expense)

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	% Change	2012	2011	% Change
	($ in thousands)			($ in thousands)		
Other income (expense)	$337	$376	(10)%	$376	$(485)	(178)%

Other income was $0.3 million in the twelve months ended December 31, 2013 and 2012, respectively. Other income (expense) includes financial expense which is the result of currency rate fluctuations associated with the exchange rate movement of the U.S. dollar against the New Israeli Shekel, Pound Sterling, and the Euro. Other income includes interest income, which was $39,000 and $71,000 in the twelve months ended December 31, 2013 and 2012 respectively, and consists of interest earned on cash and cash equivalents. This decrease is primarily attributable to decrease in short term interest rates cash and cash equivalents.

Other income was $0.3 million in the twelve months ended December 31, 2012. Other expense was $0.5 million in the twelve months ended December 31, 2011. Other income and expense is the result of currency rate fluctuations associated with the exchange rate movement of the U.S. dollar against the New Israeli Shekel. Interest income was $71,000 and $63,000 in the twelve months ended December 31, 2012 and 2011 respectively, and consists of interest earned on cash and cash equivalents.

(Benefit From) Provision for Income Taxes

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	% Change	2012	2011	% Change
	($ in thousands)			($ in thousands)		
(Benefit from) provision for income taxes	$(638)	$4,362	(115)%	$4,362	$7,112	(39)%

For the year ended December 31, 2013, our effective tax rate was 15.4% resulting in a benefit from income taxes of $0.6 million. For the year ended December 31, 2012, our effective tax rate was 40.7% resulting in a provision for income taxes of $4.4 million. The decrease in effective tax rate is primarily due to a decrease in non-deductible expenses related to incentive stock options.

For the year ended December 31, 2012, our effective tax rate was 40.7% resulting in a provision for income taxes of $4.4 million. For the year ended December 31, 2011, our effective tax rate was 37.1% resulting in a provision for income taxes of $7.1 million in 2011. The increase in effective tax rate is primarily attributable to an increase in non-deductible expenses related to incentive stock options as a proportion of taxable income.

Net (Loss) Income

We had net loss of $3.5 million in 2013 compared to net income of $6.4 million in 2012. Revenue increased approximately $20.4 million while operating expenses increased by approximately $35.2 million and the provision for (benefit from) income taxes decreased approximately $5.0 million contributing to a net decrease in net income of approximately $9.8 million.

We had net income of $6.4 million in 2012 compared to net income of $12.0 million in 2011. Revenue increased $24.3 million while operating expenses increased by $33.6 million, other expense decreased approximately $0.9 million and the provision for income taxes decreased approximately $2.7 million, contributing to a net increase in net income of $5.7 million.

Quarterly Results of Operations Data

The following table sets forth, for the periods indicated, the Company's financial information for the eight most recent quarters ended December 31, 2013. In the Company's opinion, this unaudited information has been prepared on a basis consistent with the annual consolidated financial statements and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the unaudited information for the periods presented. This information should be read in conjunction with the consolidated financial statements, including the related notes, included herein.

	For the Three Months Ended							
	Dec 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
	(in thousands, except share and per share data)							
Consolidated Statements of Operations Data:								
Revenue	$ 46,888	$ 45,192	$ 43,229	$ 42,496	$ 42,475	$ 39,670	$ 38,505	$ 36,759
Costs and Expenses:								
Cost of revenue	11,213	10,597	10,612	10,134	10,128	9,036	8,492	7,923
Sales and marketing	16,369	16,141	15,499	14,478	12,795	12,713	13,017	11,089
General and administrative	10,388	9,508	9,835	10,238	8,823	7,316	9,342	6,125
Product development	9,306	10,023	9,047	8,021	8,170	8,005	7,219	6,657
Amortization of purchased intangibles	199	224	224	224	119	11	11	77
Total costs and expenses	47,475	46,493	45,217	43,095	40,035	37,081	38,081	31,871
(Loss) income from operations	(587)	(1,301)	(1,988)	(599)	2,440	2,589	424	4,888
Other income (expense)	73	209	20	34	221	41	(233)	347
(Loss) income before provision for (benefit from) income taxes	(514)	(1,092)	(1,968)	(565)	2,661	2,630	191	5,235
Provision for (benefit from) income taxes	194	(362)	(138)	(333)	1,169	1,030	51	2,112
Net (loss) income	$ (708)	$ (730)	$ (1,830)	$ (232)	$ 1,492	$ 1,600	$ 140	$ 3,123
Net (loss) income per share of common stock:								
Basic	$ (0.01)	$ (0.01)	$ (0.03)	0.00	$ 0.03	$ 0.03	0.00	$ 0.06
Diluted	$ (0.01)	$ (0.01)	$ (0.03)	0.00	$ 0.03	$ 0.03	0.00	$ 0.06
Weighted-average shares used to compute net (loss) income per share								
Basic	54,209,685	54,046,161	54,806,694	55,864,045	55,892,061	55,688,824	55,146,901	54,419,498
Diluted	54,209,685	54,046,161	54,806,694	55,864,045	57,589,248	57,760,868	57,150,256	56,389,729

Liquidity and Capital Resources

As of December 31, 2013, we had approximately $91.9 million in cash and cash equivalents, a decrease of approximately $11.4 million from December 31, 2012. This decrease is primarily attributable to cash used to repurchase our common stock and net cash used in investing activities relating to purchases of fixed assets related to the build-out of our co-location facility. This is partially offset by net cash provided by operating activities and, to a lesser extent, proceeds from the issuance of common stock in connection with the exercise of stock options by employees. We invest our cash in short-term money market funds.

Net cash provided by operating activities was $17.0 million in the year ended December 31, 2013 and consisted of non-cash expenses related to ASC-718-10, depreciation and amortization of purchased intangibles and increases in accrued expenses and deferred revenue, partially offset by an increase in accounts receivable, deferred income taxes and accounts payable. Net cash provided by operating activities was $28.0 million in the year ended December 31, 2012 and consisted of net income, non-cash expenses related to ASC-718-10, depreciation and amortization of intangibles and increases in deferred revenue, accounts payable and accrued expenses, partially offset by an increase in accounts receivable, deferred income taxes and prepaid expenses.

Net cash used in investing activities was $8.2 million in the year ended December 31, 2013 and was due primarily to the purchase of fixed assets for our co-location facilities. Net cash used in investing activities was

$31.5 million in the year ended December 31, 2012 and was due primarily to our purchase of technology assets from Amadesa, our acquisitions of LookIO and Engage and the purchase of fixed assets for our co-location facilities and the build-out of new office space in New York.

Net cash used in financing activities was $20.2 million in the year ended December 31, 2013 and consisted primarily of the repurchase of our common stock partially offset by the proceeds from the issuance of common stock in connection with the exercise of stock options by employees. Net cash provided by financing activities was $13.5 million in the year ended December 31, 2012 and consisted primarily of the proceeds from the issuance of common stock in connection with the exercise of stock options by employees and the excess tax benefit from exercise of employee stock options.

We have incurred significant expenses to develop our technology and services, to hire employees in our customer service, sales, marketing and administration departments, and for the amortization of purchased intangible assets, as well as non-cash compensation costs. Historically, we incurred significant quarterly net losses from inception through June 30, 2003, significant negative cash flows from operations in our quarterly periods from inception through December 31, 2002 and negative cash flows from operations of $0.1 million in the three month period ended March 31, 2004. We also incurred a net loss and negative cash flow from operations in the quarterly period ended March 31, 2013 and a net loss in the quarterly periods ended June 30, September 30, 2013, December 31, 2013. As of December 31, 2013, we had an accumulated deficit of approximately $85.3 million. These losses have been funded primarily through the issuance of common stock in our initial public offering in 2000 and, prior to the initial public offering, the issuance of convertible preferred stock.

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

Contractual Obligations and Commitments

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

We lease facilities and certain equipment under agreements accounted for as operating leases. These leases generally require us to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the years ended December 31, 2013 and 2012 was approximately $9.3 million and $7.4 million, respectively.

As of December 31, 2013, our principal commitments were approximately $24.1 million under various operating leases, of which approximately $8.4 million is due in 2014. We currently expect that our principal commitments for the year ending December 31, 2014 will not exceed approximately $9.0 million in the aggregate.

Our contractual obligations at December 31, 2013 are summarized as follows (amounts in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More Than 5 Years**
Operating leases	$24,148	$8,374	$12,286	$3,084	$404
Total	$24,148	$8,374	$12,286	$3,084	$404

Capital Expenditures

Through December 31, 2012, we spent approximately $26.0 million related to the build-out and expansion of our co-location facilities in the U.S. and Europe to host the LivePerson and Consumer services. In 2013 we incurred additional costs related to the continued expansion of our co-location facilities and office build-outs of approximately $3.6 million. We expect to incur additional costs in 2014 related to the continued expansion of our co-location facilities and office build-outs to support our growth. Our total capital expenditures are not currently expected to exceed $11.0 million in 2014. We anticipate that our current cash and cash equivalents and cash from operations will be sufficient to fund these capital expenditures.

Indemnifications

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

We also have agreements whereby our executive officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at our request in such capacity. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a directors and officers insurance policy that reduces our exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. Currently, we have no liabilities recorded for these agreements as of December 31, 2013.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Currency Rate Fluctuations

As a result of the expanding scope of our Israeli operations, our currency rate fluctuation risk associated with the exchange rate movement of the U.S. dollar against the New Israeli Shekel (“NIS”) has increased. For the year ended December 31, 2013, the U.S dollar appreciated approximately 1% as compared to the NIS. For the year ended December 31, 2013, expenses generated by our Israeli operations totaled approximately $52.0 million. We do not currently hedge our foreign currency risk exposure. We actively monitor the movement of the U.S. dollar against the NIS, Pound Sterling, Euro, AUS dollar and Japanese Yen and have considered the use of financial instruments, including but not limited to derivative financial instruments, which could mitigate such risk. If we determine that our risk of exposure materially exceeds the potential cost of derivative financial instruments, we may in the future enter in to these types of investments. The functional currency of our wholly-owned Israeli subsidiaries, LivePerson Ltd. (formerly HumanClick Ltd.) and Kasamba Ltd., is the U.S. dollar; the functional currency of our operations in the United Kingdom is the Pound Sterling; the functional currency of our operations in the Netherlands is the Euro; and the functional currency of our operations in Australia is the Australian Dollar.

Collection Risk

Our accounts receivable are subject, in the normal course of business, to collection risks. We regularly assess these risks and have established policies and business practices to protect against the adverse effects of collection risks. During 2013, we increased our allowance for doubtful accounts $0.5 million to approximately $1.2 million, principally due to an increase in the proportion of our receivables due from customers with greater credit risk. A large proportion of receivables are due from larger corporate customers that typically have longer payment cycles. During 2012, we increased our allowance for doubtful accounts $20,000 to approximately $0.7 million, principally due to an increase in accounts receivable as a result of increased sales and, to a lesser extent, to an increase in the proportion of our receivables due from customers with greater credit risk.

Interest Rate Risk

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

Inflation Rate Risk

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

Item 8. Consolidated Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of LivePerson, Inc. as of December 31, 2013 and 2012 and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LivePerson, Inc. at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), LivePerson, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (''COSO'') and our report dated March 13, 2014 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
March 13, 2014

LIVEPERSON, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	December 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 91,906	$103,339
Accounts receivable, net of allowance for doubtful accounts of $1,165 and $708, in 2013 and 2012, respectively	29,489	23,830
Prepaid expenses and other current assets	6,361	6,369
Deferred tax assets, net	5,426	2,616
Total current assets	133,182	136,154
Property and equipment, net	17,618	17,495
Intangibles, net	13,088	15,681
Goodwill	32,724	32,645
Deferred tax assets, net	6,243	4,183
Other assets	2,235	2,418
Total assets	$205,090	$208,576
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 10,139	$ 11,125
Accrued expenses	25,419	17,911
Deferred revenue	8,747	6,525
Total current liabilities	44,305	35,561
Deferred revenue, net of current	468	1,263
Other liabilities	1,264	1,509
Total liabilities	46,037	38,333
Commitments and contingencies (See Note 9)		
STOCKHOLDERS' EQUITY (See Note 10):		
Common stock	54	56
Additional paid-in capital	244,621	252,320
Accumulated deficit	(85,279)	(81,780)
Accumulated other comprehensive loss	(343)	(353)
Total stockholders' equity	159,053	170,243
Total liabilities and stockholders' equity	$205,090	$208,576

See notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Year Ended December 31,		
	2013	2012	2011
Revenue	$ 177,805	$ 157,409	$ 133,089
Costs and expenses:			
Cost of revenue	42,555	35,579	33,195
Sales and marketing	62,488	49,614	38,884
General and administrative	39,968	31,606	21,044
Product development	36,397	30,051	20,222
Amortization of purchased intangibles	871	218	109
Total costs and expenses	182,279	147,068	113,454
(Loss) income from operations	(4,474)	10,341	19,635
Other income (expense)	337	376	(485)
(Loss) income before provision for (benefit from) income taxes	(4,137)	10,717	19,150
(Benefit from) provision for income taxes	(638)	4,362	7,112
Net (loss) income	(3,499)	6,355	12,038
Net (loss) income per share of common stock:			
Basic	$ (0.06)	$ 0.11	$ 0.23
Diluted	$ (0.06)	$ 0.11	$ 0.22
Weighted-average shares used to compute net (loss) income per share:			
Basic	54,725,236	55,292,597	52,876,999
Diluted	54,725,236	57,131,041	55,008,742

See notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(IN THOUSANDS)

	Year Ended December 31,		
	2013	2012	2011
Net (loss) income	$(3,499)	$6,355	$12,038
Foreign currency translation adjustment	10	(19)	(35)
Comprehensive (loss) income	$(3,489)	$6,336	$12,003

See notes to consolidated financial statements.

LIVEPERSON, INC.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2010	51,753,842	$52	$205,063	$(100,173)	$(299)	$104,643
Common stock issued upon exercise of stock options	2,278,451	2	9,706	—	—	9,708
Stock-based compensation	—	—	6,771	—	—	6,771
Common stock issued under Employee Stock Purchase Plan	58,051	—	572	—	—	572
Tax benefit from exercise of employee stock options	—	—	4,001	—	—	4,001
Net income	—	—	—	12,038	—	12,038
Other comprehensive loss	—	—	—	—	(35)	(35)
Balance at December 31, 2011	54,090,344	54	226,113	(88,135)	(334)	137,698
Issuance of common stock in connection with LookIO acquisition	139,939	—	1,984	—	—	1,984
Common stock issued upon exercise of stock options	1,634,658	2	8,316	—	—	8,318
Stock-based compensation	—	—	10,715	—	—	10,715
Common stock issued under Employee Stock Purchase Plan	83,983	—	1,088	—	—	1,088
Tax benefit from exercise of employee stock options	—	—	4,104	—	—	4,104
Net income	—	—	—	6,355	—	6,355
Other comprehensive loss	—	—	—	—	(19)	(19)
Balance at December 31, 2012	55,948,924	56	252,320	(81,780)	(353)	170,243
Common stock issued upon exercise of stock options	771,810	—	4,870	—	—	4,870
Stock-based compensation	—	—	12,508	—	—	12,508
Common stock issued under Employee Stock Purchase Plan	155,388	—	1,443	—	—	1,443
Common stock repurchase	(2,391,362)	(2)	(26,713)	—	—	(26,715)
Tax benefit from exercise of employee stock options	—	—	193	—	—	193
Net loss	—	—	—	(3,499)	—	(3,499)
Other comprehensive income	—	—	—	—	10	10
Balance at December 31, 2013	54,484,760	$54	$244,621	$ (85,279)	$(343)	$159,053

See notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS, EXCEPT SHARE DATA)

	Year Ended December 31,		
	2013	2012	2011
OPERATING ACTIVITIES:			
Net (loss) income	$ (3,499)	$ 6,355	$12,038
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Stock-based compensation expense	12,508	10,715	6,771
Depreciation	8,090	7,329	6,563
Amortization of purchased intangibles	2,643	580	1,029
Provision for doubtful accounts, net	457	20	290
Deferred income taxes	(4,877)	(2,871)	229
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(4,630)	(664)	(4,798)
Prepaid expenses and other current assets	768	(1,086)	665
Other assets	167	(164)	522
Accounts payable	(2,660)	2,920	1,451
Accrued expenses	6,822	3,654	211
Deferred revenue	1,413	1,258	447
Other liabilities	(244)	(37)	(344)
Net cash provided by operating activities	16,958	28,009	25,074
INVESTING ACTIVITIES:			
Purchases of property and equipment, including capitalized software	(8,044)	(11,221)	(7,268)
Acquisition of domains	(51)	—	—
Acquisition of Proficient	—	(77)	(75)
Acquisition of Engage, net of cash acquired	(79)	(8,465)	—
Acquisition of Amadesa technology assets	—	(10,798)	—
Acquisition of LookIO, net of cash acquired	—	(900)	—
Net cash used in investing activities	(8,174)	(31,461)	(7,343)
FINANCING ACTIVITIES:			
Repurchase of common stock	(26,715)	—	—
Excess tax benefit from the exercise of employee stock options	193	4,104	4,001
Proceeds from issuance of common stock in connection with the exercise of options	6,313	9,406	10,280
Net cash (used in) provided by financing activities	(20,209)	13,510	14,281
EFFECT OF FOREIGN EXCHNAGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(8)	3	(70)
CHANGE IN CASH AND CASH EQUIVALENTS	(11,433)	10,061	31,942
CASH AND CASH EQUIVALENTS – Beginning of the year	103,339	93,278	61,336
CASH AND CASH EQUIVALENTS – End of the year	$ 91,906	$103,339	$93,278

See notes to consolidated financial statements.

LIVEPERSON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS – (continued)
(IN THOUSANDS, EXCEPT SHARE DATA)

	Year Ended December 31,		
	2013	2012	2011
SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW INFORMATION:			
Cash paid for income taxes	$1,163	$1,556	$2,579
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:			
Purchase of property and equipment recorded in accounts payable	$ 800	$ 745	$1,631
Issuance of 109,517 shares of common stock in connection with the acquisition of LookIO on June 13, 2012	$ —	$1,984	$ —
Contingent earn-out in connection with the acquisition of Engage paid in common stock recorded in accrued expenses	$ —	$1,660	$ —

See notes to consolidated financial statements.

1. Description of Business and Summary of Significant Accounting Policies

LivePerson, Inc. (the ''Company'' or ''LivePerson'') was incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced in November 1998. In April 2000, the company completed an initial public offering and is currently traded on the NASDAQ Global Select Market and the Tel Aviv Stock Exchange. LivePerson is headquartered in New York City with offices in Amsterdam, Atlanta, London, Melbourne, San Francisco, Santa Monica, Tokyo and Tel Aviv.

LivePerson provides digital engagement solutions offering a cloud-based platform which enables businesses to proactively connect with consumers through chat, voice, and content delivery, across multiple channels and screens, including websites, social media, and mobile devices. The Company's engagements are driven by insights derived from a broad set of consumer and business data, including historical, behavioral, operational, and third party data. Each engagement is based on proprietary analytics and a real-time understanding of consumer needs and business objectives. The Company's products, coupled with its domain knowledge and industry expertise, have been proven to maximize the effectiveness of the online channel — by increasing sales, as well as consumer satisfaction and loyalty ratings for their customers, while also enabling their customers to reduce consumer service costs.

LivePerson monitors and analyzes valuable online consumer behavioral data on behalf of its customers. Spanning the breadth of an online visitor session starting from an initial keyword search, through actions on their customer's website, and even into a shopping cart and an executed sale, this data enables the Company to develop unique insights into consumer behavior during specific transactions within a customer's user base.

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

Principles of Consolidation

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

Reclassification

For comparability, certain 2012 and 2011 amounts have been reclassified where appropriate, to conform to the financial presentation in 2013.

Use of Estimates

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable which approximate fair value at December 31, 2013 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 the Company 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.

1. Description of Business and Summary of Significant Accounting Policies – (continued)

The Company's customers are located primarily in the United States. The Company performs ongoing credit evaluations of its customers' financial condition (except for customers who purchase the LivePerson services by credit card via Internet download) and has established an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. Concentration of credit risk is limited due to the Company's large number of customers. No single customer accounted for or exceeded 10% of revenue in 2013, 2012 or 2011. One customer accounted for approximately 12% and 15% of accounts receivable at December 31, 2013 and 2012, respectively.

Foreign Currency Translation

The Company's operations are conducted in various countries around the world and the financial statements of its foreign subsidiaries are reported in the applicable foreign currencies (functional currencies). Financial information is translated from the applicable functional currency to the U.S. dollar (the reporting currency) for inclusion in the Company's consolidated financial statements. Income, expenses and cash flows are translated at weighted average exchange rates prevailing during the fiscal period, and assets and liabilities are translated at fiscal period-end exchange rates. Resulting translation adjustments are included as a component of accumulated other comprehensive income (loss) in stockholders' equity. Foreign exchange transaction gain or losses are included in Other Income, net in the accompanying consolidated statements of operations.

Cash and Cash Equivalents

The Company considers all highly liquid securities with original maturities of 3 months or less when acquired to be cash equivalents. Cash equivalents, which primarily consist of money market funds, are recorded at cost, which approximates fair value.

Accounts Receivable

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

Year Ended December 31,	Beginning Balance	Additions Charged to Costs and Expenses	Deductions/ Write-Offs	Ending Balance
2011	$561	$290	$(163)	$ 688
2012	$688	$ 20	$ —	$ 708
2013	$708	$457	$ —	$1,165

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, generally three to five years for equipment and software. Leasehold improvements are depreciated using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Depreciation expense totaled $8.1 million, $7.3 million, and $6.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

1. Description of Business and Summary of Significant Accounting Policies – (continued)

Internal-Use Software Development Costs

In accordance with the Financial Accounting Standards Board (''FASB'') Accounting Standards Codification (''ASC'') 350-40, Internal-Use Software, the Company capitalizes its costs to develop its internal use software when preliminary development efforts are successfully completed, management has authorized and committed project funding, and its probably that the project will be completed and the software will be used as intended. These costs included in property and equipment in the Company's Consolidated balance sheets and are amortized on a straight-line basis over the estimated useful life of the related asset, which approximates three years. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed as incurred.

The Company capitalized internal-use software costs of $2.6 million, $2.4 million, and $1.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Goodwill and Intangible Assets

In accordance with ASC 350, Goodwill and Other Intangible Assets, goodwill and indefinite-lived intangible assets are not amortized, but reviewed for impairment upon the occurrence of events or changes in circumstances that would reduce the fair value below its carrying amount. Goodwill is required to be tested for impairment at least annually. In September 2011, the FASB issued ASU No. 2011-8, ''Intangibles — Goodwill and Other (Topic 350).'' ASU 2011-8 permits an entity to first assess qualitative factors to determine whether it is ''more likely than not'' that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. If it is determined that the fair value of a reporting unit is more likely than not to be less than its carrying value (including unrecognized intangible assets) then it is necessary to perform the second step of the goodwill impairment test. The second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. The Company performs internal valuation analyses and considers other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions including projected future cash flows (including timing), discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables. ASC 350-10 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with ASC 360-10-35, ''Accounting for Impairment or Disposal of Long-Lived Assets.''

In the third quarter of 2013, the Company determined that it is not more-likely that the fair value of the reporting units is less than their carrying amount. Accordingly, the Company did not perform the two-step goodwill impairment test.

Impairment of Long-Lived Assets

In accordance with ASC 360-10, ''Accounting for the Impairment or Disposal of Long-lived Assets,'' long-lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. The Company does not have any long-lived assets, including intangible assets, which it considered to be impaired.

1. Description of Business and Summary of Significant Accounting Policies – (continued)

Fair Value of Financial Instruments

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

Revenue Recognition

The majority of the Company's revenue is generated from monthly service revenues and related professional services from the sale of the LivePerson services. Because the Company provides its application as a service, the Company follows the provisions of FASB ASC 605-10-S99, ''Revenue Recognition'' and ASC 605-25, ''Revenue Recognition with Multiple-Element Arrangements.'' The Company charges a monthly fee, which varies by type of service, the level of customer usage and website traffic, and in some cases, the number of orders placed via the Company's online engagement solutions.

For certain of the Company's larger customers, the Company may provide call center labor through an arrangement with one or more of several qualified vendors. For most of these customers, the Company passes the fee it incurs with the labor provider and its fee for the hosted services through to its customers in the form of a fixed fee for each order placed via the Company's online engagement solutions. For these Pay for Performance (''PFP'') arrangements, the Company recognizes revenue net of the labor provider's fee in accordance with ASC 605-45, ''Principal Agent Considerations,'' due primarily to the fact that the call center labor vendor is the primary obligor with respect to the labor services provided. Additionally, the Company performs as an agent without risk of loss for collection and does not bear inventory risk with respect to the outsourced labor services. Finally, the Company does not provide any part of the labor services, has no latitude in establishing prices for the labor services and generally does not have discretion in selecting the vendor.

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

The Company recognizes monthly service revenue based upon the fee charged for the LivePerson services, provided that there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed or determinable. The Company's service agreements typically have 12 month terms and, in some cases, are terminable or may terminate upon 30 to 90 days' notice without penalty. When professional service fees add value to the customer on a standalone basis, the Company recognizes professional service fees upon completion and customer acceptance in accordance with FASB Accounting Standards Update 2009-13. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) best estimated selling price. If a professional services arrangement does not qualify for separate accounting, the Company recognizes the fees, and the related labor costs, ratably over the contracted period.

For revenue generated from online transactions between Experts and Users, the Company recognizes revenue net of the Expert fees in accordance with ASC 605-45, ''Principal Agent Considerations,'' due primarily to the fact that the Expert is the primary obligor. Additionally, the Company performs as an agent without any risk of loss for collection, and is not involved in selecting the Expert or establishing the Expert's fee. The Company collects a fee from the User and retains a portion of the fee, and then remits the balance to

1. Description of Business and Summary of Significant Accounting Policies – (continued)

the Expert. Revenue from these transactions is recognized when there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed and determinable.

Advertising Costs

The Company expenses the cost of advertising and promoting its services as incurred. Such costs totaled approximately $7.4 million, $6.4 million, and $6.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Stock-based Compensation

In accordance with ASC Topic 718- Stock Compensation, the Company measures stock based awards at fair value and recognizes compensation expense for all share-based payment awards made to its employees and directors, including employee stock options.

The Company estimates the fair value of stock options granted using the Black-Scholes valuation model. This model requires the Company to make estimates and assumptions including, among other things, estimates regarding the length of time an employee will retain vested stock options before exercising them, the estimated volatility of its common stock price and the number of options that will be forfeited prior to vesting. The fair value is then recognized on a straight line basis over the requisite service period of the award, which is generally four years. Changes in these estimates and assumptions can materially affect the determination of the fair value of the stock-based compensation and consequently, the related amount recognized in the consolidated statement of operations

Deferred Rent

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

Income Taxes

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

Comprehensive Income (Loss)

In accordance with ASC 220 Comprehensive Income, the Company reports by major components and as a single total, the change in its net assets during the period from non-owner sources. Comprehensive income consists of net income (loss), accumulated other comprehensive income (loss), which includes certain changes in equity that are excluded from net income (loss). The Company's comprehensive income (loss) for all periods presented is related to the effect of foreign currency translation.

2. Net Income (Loss) per Share

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

Diluted net loss per common share for the year ended December 31, 2013 does not include the effect of options to purchase 9,724,193 shares of common stock as the effect of their inclusion is anti-dilutive. Diluted net income per common share for the year ended December 31, 2012 includes the effect of options to purchase 4,865,957 shares of common stock with a weighted average exercise price of $6.80. Diluted net income per common share for the year ended December 31, 2012 does not include the effect of options to purchase 4,975,525 shares of common stock as the effect of their inclusion is anti-dilutive. Diluted net income per common share for the year ended December 31, 2011 includes the effect of options to purchase 5,235,305 shares of common stock with a weighted average exercise price of $4.94. Diluted net income per common share for the year ended December 31, 2011 does not include the effect of options to purchase 3,608,110 shares of common stock as the effect of their inclusion is anti-dilutive.

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

	Year Ended December 31,		
	2013	2012	2011
Basic	54,725,236	55,292,597	52,876,999
Effect of assumed exercised options	—	1,838,444	2,131,743
Diluted	54,725,236	57,131,041	55,008,742

3. Segment Information

The Company accounts for its segment information in accordance with the provisions of ASC 280-10, ''Segment Reporting.'' ASC 280-10 establishes annual and interim reporting standards for operating segments of a company. ASC 280-10 requires disclosures of selected segment-related financial information about products, major customers, and geographic areas based on the Company's internal accounting methods. The Company is organized into two operating segments for purposes of making operating decisions and assessing performance. The Business segment facilitates real-time online interactions — chat, voice and content delivery across multiple channels and screens for global corporations of all sizes. The Consumer segment facilitates online transactions between Experts and Users and sells its services to consumers. Both segments currently generate their revenue primarily in the U.S. The chief operating decision-makers evaluate performance, make operating decisions, and allocate resources based on the operating income of each segment. The reporting segments follow the same accounting polices used in the preparation of the Company's consolidated financial statements which are described in the summary of significant accounting policies. The Company allocates cost of revenue, sales and marketing and amortization of purchased intangibles to the segments, but it does not allocate product development expenses, general and administrative expenses and income tax expense because management does not use this information to measure performance of the operating segments. There are currently no intersegment sales.

3. Segment Information – (continued)

Summarized financial information by segment for the year ended December 31, 2013, based on the Company's internal financial reporting system utilized by the Company's chief operating decision makers, follows (amounts in thousands):

	Business	Consumer	Corporate	Consolidated
Revenue:				
Hosted services – Business	$150,004	$ —	$ —	$150,004
Hosted services – Consumer	—	15,091	—	15,091
Professional services	12,710	—	—	12,710
Total revenue	162,714	15,091	—	177,805
Cost of revenue	40,132	2,423	—	42,555
Sales and marketing	57,011	5,477	—	62,488
Amortization of purchased intangibles	871	—		871
Unallocated corporate expenses	—	—	76,365	76,365
Operating income (loss)	$ 64,700	$ 7,191	$(76,365)	$ (4,474)

Summarized financial information by segment for the year ended December 31, 2012, based on the Company's internal financial reporting system utilized by the Company's chief operating decision makers, follows (amounts in thousands):

	Business	Consumer	Corporate	Consolidated
Revenue:				
Hosted services – Business	$132,310	$ —	$ —	$132,310
Hosted services – Consumer	—	15,111	—	15,111
Professional services	9,988	—	—	9,988
Total revenue	142,298	15,111	—	157,409
Cost of revenue	33,450	2,129	—	35,579
Sales and marketing	44,087	5,527	—	49,614
Amortization of purchased intangibles	218	—	—	218
Unallocated corporate expenses	—	—	61,657	61,657
Operating income (loss)	$ 64,543	$ 7,455	$(61,657)	$ 10,341

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

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

3. Segment Information – (continued)

Geographic Information

The Company is domiciled in the United States and has international operations in the United Kingdom, Asia-Pacific, Latin America and Western Europe, particularly France and Germany. The following table presents the Company's revenues attributable to domestic and foreign operations for the years ended (amounts in thousands):

	December 31,		
	2013	2012	2011
United States	$123,590	$118,208	$101,519
United Kingdom	31,655	22,125	18,250
Other Countries	22,560	17,076	13,320
Total revenue	$177,805	$157,409	$133,089

The following table presents the Company's long-lived assets by geographic region for the years ended (amounts in thousands):

	December 31,	
	2013	2012
United States	$34,422	$35,711
Israel	22,580	23,750
Australia	9,827	10,361
Netherlands	3,540	—
United Kingdom	1,539	2,600
Total long-lived assets	$71,908	$72,422

4. Property and Equipment

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

	December 31,	
	2013	2012
Computer equipment and software	$ 45,790	$ 38,649
Furniture, equipment and building improvements	7,906	6,834
	53,696	45,483
Less: accumulated depreciation	(36,078)	(27,988)
Total	$ 17,618	$ 17,495

5. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill for the year ended December 31, 2013 are as follows (amounts in thousands):

	Total	Business	Consumer
Balance as of December 31, 2012	$32,645	$24,621	$8,024
Adjustments to goodwill:			
Adjustments to Engage acquisition (see note 7)	79	79	—
Balance as of December 31, 2013	$32,724	$24,700	$8,024

5. Goodwill and Intangible Assets – (continued)

The changes in the carrying amount of goodwill for the year ended December 31, 2012 are as follows (amounts in thousands):

	Total	Business	Consumer
Balance as of December 31, 2011	$24,090	$16,066	$8,024
Adjustments to goodwill:			
Engage acquisition	6,073	6,073	—
LookIO acquisition	2,405	2,405	—
Other	77	77	—
Balance as of December 31, 2012	$32,645	$24,621	$8,024

Acquired Intangible Assets

Intangible assets are summarized as follows (see Note 7) (amounts in thousands):

	December 31, 2013			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Amortization Period
Amortizing intangible assets:				
Technology	$18,533	$ (7,678)	$10,855	3.8 years
Customer relationships	5,061	(3,148)	1,913	3.5 years
Trade names	725	(725)	—	2.7 years
Non-compete agreements	486	(486)	—	1.2 years
Patents	475	(189)	286	11.0 years
Other	285	(251)	34	3.0 years
Total	$25,565	$(12,477)	$13,088	

	December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Amortization Period
Amortizing intangible assets:				
Technology	$18,533	$(5,904)	$12,629	3.8 years
Customer relationships	5,061	(2,485)	2,576	3.5 years
Trade names	725	(644)	81	2.7 years
Non-compete agreements	486	(421)	65	1.2 years
Patents	475	(145)	330	11.0 years
Other	235	(235)	—	3.0 years
Total	$25,515	$(9,834)	$15,681	

5. Goodwill and Intangible Assets – (continued)

Amortization expense is calculated on a straight-line basis over the estimated useful life of the asset. Aggregate amortization expense for intangible assets was $2.6 million, $0.6 million and $1.0 million for the years ended December 31, 2013, 2012 and 2011, respectively. For the years ended December 31, 2013, 2012 and 2011 a portion of this amortization is included in cost of revenue. Estimated amortization expense for the next five years are as follows (amounts in thousands):

	Estimated Amortization Expense
2014	$ 4,133
2015	3,771
2016	3,326
2017	1,746
2018	43
Thereafter	69
Total	$13,088

6. Accrued Liabilities

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

	December 31,	
	2013	2012
Payroll and other employee related costs	$13,090	$ 9,199
Professional services, consulting and other vendor fees	6,769	5,698
Sales commissions	1,778	490
Contingent earn-out (Note 7)	1,660	1,660
Other	2,122	864
Total	$25,419	$17,911

7. Acquisitions

Amadesa Ltd.

On May 31, 2012, the Company acquired technology assets from Amadesa, Ltd., an Israeli-based start-up, for aggregate cash consideration of approximately $10.3 million. The acquisition provides the Company with sophisticated, machine-learning predictive modeling that it expects to leverage across multiple engagement channels, enhancing its real-time intelligent engagement platform. The asset was allocated to ‘‘Intangibles, net’’ on the Company’s December 31, 2012 balance sheet and is being amortized over its expected period of benefit. The acquisition did not have a material impact on the Company’s reported operating results. Total acquisition costs incurred were approximately $0.5 million and are included in ‘‘Intangibles, net’’ on the Company’s consolidated balance sheets.

LookIO, Inc.

On June 13, 2012, the Company acquired LookIO, Inc., a start-up that provides mobile engagement solutions. The transaction was accounted for under the purchase method of accounting and, accordingly, the operating results of LookIO, Inc. were included in the Company’s consolidated results of operations from the date of acquisition. The acquisition did not have a material impact on the Company’s reported operating results.

7. Acquisitions – (continued)

The purchase price was approximately $2.9 million, which included the issuance of 109,517 shares of the Company's common stock valued at approximately $2.0 million, based on the quoted market price of the Company's common stock on the day of closing, and a cash payment of $0.9 million. Total acquisition costs incurred in the year ended December 31, 2012 were approximately $0.2 million and are included in general and administrative expenses in the Company's consolidated statements of operations for the same period. The acquisition adds plug-and-play mobile engagement capabilities to LivePerson's platform allowing its customers to connect with consumers on mobile devices. All 109,517 shares are included in the weighted average shares outstanding used in basic and diluted net income per share as of the acquisition date. The purchase price was allocated based on management's estimate of fair values, taking into account all relevant information available. A substantial amount of the purchase price was allocated to intangibles (technology) and the excess was allocated to goodwill. The goodwill is not deductible for income tax purposes. The intangible asset is being amortized over its expected period of benefit. In addition to the purchase price, certain founders can earn an additional 30,422 shares of LivePerson common stock by achieving an employment milestone by providing continued services through a specified date. The Company valued these shares at approximately $0.6 million, based on the quoted market price of the Company's common stock on the day of closing. In accordance with ASC 805-10, the Company is accruing this contingent compensation ratably over the requisite employment period.

Management's allocation of the purchase price in connection with the LookIO acquisition is as follows (amounts in thousands):

Intangible assets (technology)	$ 767
Goodwill	2,405
	3,172
Deferred tax liability	(288)
Total purchase price consideration	$2,884

Engage Pty Ltd.

On November 9, 2012, the Company acquired all outstanding shares of Engage Pty Ltd. ("Engage"), an Australian provider of cloud-based customer contact solutions. The transaction was accounted for under the purchase method of accounting and, accordingly, the operating results of Engage were included in the Company's consolidated results of operations from the date of acquisition. The acquisition did not have a material impact on the Company's reported operating results.

The purchase price was approximately $10.6 million. The total acquisition costs incurred in the year ended December 31, 2012 were approximately $0.5 million and are included in general and administrative expenses in the Company's Consolidated Statements of Income for the same period. The acquisition enhances the Company's ability to offer intelligent engagement solutions to businesses in the Asia Pacific region. Of the total purchase price, $0.8 million was allocated to the net book values of the acquired assets and assumed liabilities. The historical carrying amounts of such assets and liabilities approximated their fair values. All receivables acquired are expected to be collectible. The purchase price in excess of the fair value of the net book values of the assets acquired and liabilities assumed was allocated to intangible assets based on management's best estimate of fair values, taking into account all relevant information available at the time of acquisition, and the excess was allocated to goodwill. The goodwill is not deductible for tax purposes. The intangible assets are being amortized over their expected period of benefit. The purchase price includes approximately $1.7 million of potential earn-out consideration for the shareholders if certain revenue targets are achieved. The earn-out is payable in shares of LivePerson common stock. The Company recorded the contingent earn-out as part of the purchase price. In accordance with ASC 480, the Company has classified this amount as a liability and the amount is included in accrued expenses in the December 31, 2013 and 2012

7. Acquisitions – (continued)

consolidated balance sheets, due to the variable number of shares that will be issued if and when the targets are achieved. The Company will assess the earn-out calculation in future periods and any future adjustments will affect operating income.

Management's allocation of the purchase price in connection with the Engage acquisition is as follows (amounts in thousands):

Cash	$ 386
Accounts receivable	3,454
Other currents assets	57
Property and equipment	432
Other assets	104
Intangible assets	3,600
Goodwill	6,152
	14,185
Liabilities assumed	(2,632)
Deferred tax liability, net	(962)
Total purchase price consideration	$10,591

The components of the intangible assets listed in the above table are as follows (amounts in thousands):

	Weighted Average Useful Life (Months)	Amount
Technology	36	$ 768
Trade-name	12	95
Customer relationships	48	2,661
Non-compete agreements	12	76
		$3,600

8. Fair Value Measurements

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

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

8. Fair Value Measurements – (continued)

The Company's assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy as of December 31, 2013 and December 31, 2012, are summarized as follows (amounts in thousands):

	December 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents:								
Money market funds	$13,674	$—	$ —	$13,674	$20,745	$—	$ —	$20,745
Total assets	$13,674	$—	$ —	$13,674	$20,745	$—	$ —	$20,745
Accrued liabilities:								
Contingent earn-out	$ —	$—	$1,660	$ 1,660	$ —	$—	$1,660	$ 1,660
Total liabilities	$ —	$—	$1,660	$ 1,660	$ —	$—	$1,660	$ 1,660

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions based on the best information available.

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

The contingent earn-out of $1.7 million is based on the potential earn-out consideration if certain revenue targets are achieved in connection with the acquisition of Engage and is recorded in accrued expenses in the consolidated balance sheets as of December 31, 2013 and 2012. There were no changes in the fair value of the level 3 liability during 2013.

9. Commitments and Contingencies

Contractual Obligations

The Company leases facilities and certain equipment under agreements accounted for as operating leases. These leases generally require the Company to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the years ended December 31, 2013, 2012 and 2011 was approximately $9.3 million, $7.4 million and $6.6 million, respectively.

9. Commitments and Contingencies – (continued)

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

Year Ending December 31,	Operating Leases
2014	$ 8,374
2015	7,635
2016	2,953
2017	1,698
2018	1,755
Thereafter	1,733
Total minimum lease payments	$24,148

Capital Expenditures

Through December 31, 2012, the Company spent approximately $26.0 million related to the build-out and expansion of its co-location facilities in the U.S. and Europe to host the LivePerson and Consumer services. In 2013, the Company incurred additional costs related to the continued expansion of its co-location facilities and office build-outs of approximately $3.6 million. These amounts are included in "Assets — Property and equipment, net" on the Company's consolidated balance sheets. Though the Company expects to incur additional costs in 2014 related to the continued expansion of its co-location facilities and office build-outs to support its growth, its total capital expenditures are not currently expected to exceed $11.0 million in 2014. The Company anticipates that its current cash and cash equivalents and cash from operations will be sufficient to fund its capital requirements.

Employee Benefit Plans

The Company has a 401(k) defined contribution plan covering all eligible employees. The Company provides for employer matching contributions equal to 50% of employee contributions, up to the lesser of 5% of eligible compensation or $6,000. Matching contributions are deposited in to the employees 401(k) account and are subject to 5 year graded vesting. Salaries and related expenses include $0.8 million, $0.7 million and $0.5 million of employer matching contributions for the years ended December 31, 2013, 2012 and 2011, respectively.

Indemnifications

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

The Company also has agreements whereby its executive officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a directors and officers insurance policy that reduces its exposure and enables the Company to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. Currently, the Company has no liabilities recorded for these agreements as of December 31, 2013.

10. Stockholders' Equity

Common Stock

At December 31, 2013, there were 100,000,000 shares of common stock authorized, 54,484,760 shares issued and outstanding. As of December 31, 2012, there were 100,000,000 shares of common stock authorized, 55,948,924 shares issued and outstanding. The par value for common shares is $0.001.

Preferred Stock

As of December 31, 2013 and 2012, there were 5,000,000 shares of preferred stock authorized, zero shares issued and outstanding. The par value for preferred shares is $0.001.

Stock-Based Compensation

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

The following table summarizes stock-based compensation expense related to employee stock options under ASC 718-10 included in Company's statement of operations for the years ended (amounts in thousands):

	December 31,		
	2013	2012	2011
Cost of revenue	$ 1,954	$ 1,579	$1,023
Sales and marketing	2,851	2,878	1,668
General and administrative expense	4,148	3,294	2,377
Product development expense	3,555	2,964	1,703
Total stock based compensation included in operating expenses	$12,508	$10,715	$6,771

The per share weighted average fair value of stock options granted during the years ended December 31, 2013, 2012 and 2011 was $5.12, $8.20 and $6.47, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the years ended December 31, 2013, 2012 and 2011:

	December 31,		
	2013	2012	2011
Dividend yield	—%	—%	—%
Risk-free interest rate	0.7% – 1.4%	0.6% – 0.9%	0.9% – 3.7%
Expected life (in years)	5.0	5.0	5.0
Historical volatility	55.6% – 60.1%	59.3% – 60.8%	60.1% – 61.5%

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

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

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

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

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

10. Stockholders' Equity – (continued)

Stock Options and Employee Stock Purchase Plans

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

The Company established the 2009 Stock Incentive Plan (as amended and restated, the ''2009 Plan'') as a successor to the 2000 Plan. Under the 2009 Plan, the options which had been outstanding under the 2000 Plan were incorporated into the 2009 Plan and the Company increased the number of shares available for issuance under the plan by 6,000,000. The Company amended the 2009 stock incentive plan (the ''Amended 2009 Plan'') effective June 7, 2012. The Amended 2009 Plan increased the number of shares authorized for issuance under the plan by an additional 4,250,000, thereby reserving for issuance 23,817,744 shares of common stock in the aggregate. Options to acquire common stock granted thereunder have 10-year terms. As of December 31, 2013, approximately 14,600,000 shares of common stock were reserved for issuance under the 2009 Plan (taking into account all option exercises through December 31, 2013).

As of December 31, 2013, there was approximately $30.1 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of approximately 2.0 years.

In June 2010, our stockholders approved the 2010 Employee Stock Purchase Plan with 1,000,000 shares of common stock initially reserved for issuance. As of December 31, 2013, approximately 693,000 shares of common stock were reserved for issuance under the Employee Stock Purchase Plan (taking into account all share purchases through December 31, 2013).

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

	Options	Weighted Average Exercise Price
Options outstanding at December 31, 2010	8,816,760	$ 5.04
Options granted	3,642,600	12.24
Options exercised	(2,278,451)	4.28
Options cancelled	(1,337,496)	7.03
Options outstanding at December 31, 2011	8,843,413	7.91
Options granted	3,463,500	16.20
Options exercised	(1,634,658)	5.10
Options cancelled	(830,776)	10.78
Options outstanding at December 31, 2012	9,841,479	11.06
Options granted	2,573,700	10.20
Options exercised	(771,810)	6.48
Options cancelled	(1,919,176)	13.11
Options outstanding at December 31, 2013	9,724,193	$10.86
Options exercisable at December 31, 2011	2,805,399	$ 4.63
Options exercisable at December 31, 2012	3,220,228	$ 6.61
Options exercisable at December 31, 2013	4,090,492	$ 8.71

10. Stockholders' Equity – (continued)

The total value of stock options exercised during the years ended December 31, 2013, 2012 and 2011 was approximately $2.5 million, $16.3 million and $17.2 million, respectively. The total intrinsic value of options exercisable at December 31, 2013, 2012 and 2011 was approximately $26.2 million, $20.8 million and $21.9 million, respectively. The total intrinsic value of nonvested options at December 31, 2013, 2012 and 2011 was approximately $17.0 million, $10.1 million and $19.8 million, respectively. The total intrinsic value of all outstanding options at December 31, 2013, 2012 and 2011 was approximately $43.2 million, $30.9 million and $41.7 million, respectively.

A summary of the status of the Company's nonvested options as of December 31, 2011, and changes during the years ended December 31, 2012 and 2013 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested Shares at December 31, 2011	6,038,014	$5.04
Granted	3,463,500	8.20
Vested	(2,060,707)	4.46
Cancelled	(819,556)	5.69
Nonvested Shares at December 31, 2012	6,621,251	$6.84
Granted	2,573,700	5.12
Vested	(1,927,755)	6.05
Cancelled	(1,633,495)	6.74
Nonvested Shares at December 31, 2013	5,633,701	$6.90

Stock Repurchase Program

On December 10, 2012, the Company's Board of Directors approved a stock repurchase program through June 30, 2014. Under the stock repurchase program, the Company is authorized to repurchase shares of its common stock, in the open market or privately negotiated transactions, at times and prices considered appropriate by the Board of Directors depending upon prevailing market conditions and other corporate considerations. On May 21, 2013, the Company's Board of Directors increased the aggregate purchase price of the stock repurchase program from $20.0 million to $30.0 million. There were no shares purchased under this program during 2012. There were 2,391,362 shares repurchased under this program during 2013. As of December 31, 2013, approximately $3.3 million remained available for purchase under the program.

11. Income Taxes

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

Under Section 382 of the Internal Revenue Code of 1986, as amended, the Company's use of its federal net operating loss (''NOL'') carryforwards may be limited if the Company experiences an ownership change,

11. Income Taxes – (continued)

as defined in Section 382. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization. As of December 31, 2013, the Company had approximately $6.0 million of federal NOL carryforwards available to offset future taxable income. Included in this amount is $5.1 million of federal NOL carryovers from the Company's acquisition of Proficient. These carryforwards expire in various years through 2027.

The domestic and foreign components of (loss) income before provision for (benefit from) income taxes consist of the following (amounts in thousands):

	Year Ended December 31,		
	2013	2012	2011
United States	$(10,117)	$ 6,252	$16,495
Israel	3,549	2,819	1,837
United Kingdom	1,688	1,449	818
Netherlands	1,044	—	—
Australia	(301)	197	—
	$ (4,137)	$10,717	$19,150

No additional provision has been made for U.S. income taxes on the undistributed earnings of its Israeli subsidiary, LivePerson Ltd (formerly HumanClick Ltd.), as such earnings have been taxed in the U.S. and accumulated earnings of the Company's other foreign subsidiaries are immaterial through December 31, 2013.

The (benefit from) provision for income taxes consists of the following (amounts in thousands):

	Year Ended December 31,		
	2013	2012	2011
Current income taxes:			
U.S. Federal	$ 1,499	$ 5,750	$5,839
State and local	232	812	600
Foreign	2,508	671	444
Total current income taxes	4,239	7,233	6,883
Deferred income taxes:			
U.S. Federal	(4,280)	(2,867)	232
State and local	331	265	(38)
Foreign	(928)	(269)	35
Total deferred income taxes	(4,877)	(2,871)	229
Total income taxes	$ (638)	$ 4,362	$7,112

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

	Year Ended December 31,		
	2013	2012	2011
Federal Statutory Rate	35.00%	35.00%	34.48%
State taxes, net of federal benefit	2.66%	2.78%	2.56%
Non-deductible expenses – ISO	(18.19)%	4.82%	0.47%
Non-deductible expenses – Other	(8.15)%	1.15%	0.51%
Foreign taxes	5.10%	(2.92)%	(0.13)%
Other	(1.00)%	(0.12)%	(0.76)%
Total provision	15.42%	40.71%	37.13%

11. Income Taxes – (continued)

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, 2013 and 2012 are presented below (amounts in thousands):

	2013	2012
Deferred tax assets:		
Net operating loss carryforwards	$ 2,134	$ 2,356
Accounts payable and accrued expenses	4,623	2,132
Non-cash compensation	6,035	4,167
Goodwill and intangibles amortization	771	1,123
Allowance for doubtful accounts	504	267
Net deferred tax assets	14,067	10,045
Deferred tax liabilities:		
Plant and equipment	(1,289)	(2,096)
Intangibles related to the Amadesa acquisition	(474)	—
Intangibles related to the Engage acquisition	(494)	(912)
Intangibles related to the LookIO acquisition	(141)	(238)
Total deferred tax liabilities	(2,398)	(3,246)
Net deferred assets	$11,669	$ 6,799

ASC Topic 740-10 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with other provisions contained within this guidance. This topic prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by the taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate audit settlement. The Company had no unrecognized tax benefits as of December 31, 2013 and 2012.

The tax years subject to examination by major tax jurisdictions include the years 2009 and forward for U.S states and New York City, the years 2010 and forward for U.S. Federal, and the years 2010 and forward for certain foreign jurisdictions.

12. Legal Matters

On February 7, 2012, the Company filed suit against Pragmatus Telecom LLC in the District of Delaware, seeking a declaratory judgment that the Company's products do not infringe three patents owned by Pragmatus which Pragmatus had previously asserted were infringed by certain of the Company's customers. On March 13, 2012, the Company amended the complaint to add a request for a declaratory judgment that those three patents are invalid. On April 6, 2012, Pragmatus answered the Amended Complaint, and asserted counterclaims against the Company asserting infringement of the same three patents. In February 2014, the parties reached a mutual, confidential agreement resolving all claims and counterclaims against each party. The terms of the agreement did not have a material adverse impact on the Company's financial position, results of operations or cash flows. Also in February 2014, the parties filed notices of dismissal with prejudice of all pending claims asserted in this litigation, which the court endorsed, thereby dismissing with prejudice all claims in this litigation.

On September 14, 2012, Community United IP, LLC filed a patent infringement case in the District of Delaware against the Company, along with co-defendants 1-800-Flowers.com, Discover Card Services, Inc., EarthLink, Inc., QVC, Inc., and Cellco Partnership d/b/a Verizon Wireless based on the co-defendants' alleged use of technology supplied by the Company, in the District of Delaware. On November16, 2012, Community

12. Legal Matters – (continued)

United filed an amended complaint, which Defendants answered on December 28, 2012. On July 11, 2013, the parties filed a stipulation of dismissal of all claims with prejudice, which the Court endorsed on July 15, 2013, terminating the case.

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

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

13. Subsequent Events

In February 2014, the Company signed an agreement with two entities, which will grant LivePerson, Inc. licenses to all patents held by those entities and certain consulting services.

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

Not Applicable.

Item 9A. Controls and Procedures

Management's Annual Report on Internal Control Over Financial Reporting

Our management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the framework established in ''Internal Control — Integrated Framework,'' issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that as of December 31, 2013, our internal control over financial reporting was effective based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by BDO USA, LLP, an independent registered public accounting firm. Their attestation is included herein.

Limitations of the Effectiveness of Internal Control

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2013 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our ''disclosure controls and procedures,'' as that term is defined in Rule 13a-15(e) promulgated under the Exchange Act, as of December 31, 2013. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2013 to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited LivePerson, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). LivePerson, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying ''Management's Annual Report on Internal Control Over Financial Reporting.'' Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, LivePerson, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LivePerson, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 and our report dated March 13, 2014 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York
March 13, 2014

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 is incorporated by reference to the sections captioned ''Matters to be Considered at Annual Meeting — Election of Directors,'' ''Executive Officers,'' ''Board Committees and Meetings — Audit Committee,'' ''Codes of Conduct and Corporate Governance Documents'' and ''Section 16(a) Beneficial Ownership Reporting Compliance'' in the definitive proxy statement for our 2014 Annual Meeting of Stockholders.

There have been no changes to the procedures by which stockholders may recommend nominees to our Board of Directors since our last disclosure of such procedures, which appeared in the definitive proxy statement for our 2013 Annual Meeting of Stockholders.

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

Item 11. Executive Compensation

The information required by this Item 11 is incorporated by reference to the sections captioned ''Compensation Discussion and Analysis,'' ''Compensation Committee Report'' (which information shall be deemed furnished in this Annual Report on Form 10-K), ''Executive and Director Compensation'' and ''Compensation Committee Interlocks and Insider Participation'' in the definitive proxy statement for our 2014 Annual Meeting of Stockholders.

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

The information required by this Item 12 is incorporated by reference to the sections captioned ''Ownership of Securities'' and ''Potential Payments Upon Termination or Change-in-Control'' in the definitive proxy statement for our 2014 Annual Meeting of Stockholders.

The following table provides certain information regarding the common stock authorized for issuance under our equity compensation plans, as of December 31, 2013:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans[2] (c)
Equity compensation plans approved by stockholders[1]	9,724,193	$10.86	4,837,323
Equity compensation plans not approved by stockholders	—	—	—
Total	9,724,193	$10.86	4,837,323

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

(2) Excludes securities reflected in column (a). Also see Note 10 to our consolidated financial statements.

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

The information required by this Item 13 is incorporated by reference to the sections captioned ‘‘Certain Relationships and Related Transactions’’ and ‘‘Director Independence’’ in the definitive proxy statement for our 2014 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 is incorporated by reference to the section captioned ‘‘Independent Registered Public Accounting Firm Fees and Pre-Approval Policies and Procedures’’ in the definitive proxy statement for our 2014 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. Financial Statements.

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

2. Financial Statements Schedules.

None.

3. Exhibits.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 13, 2014.

LIVEPERSON, INC.

By: /s/ Robert P. LoCascio

Name: Robert P. LoCascio
Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 13, 2014.

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

EXHIBIT INDEX

Number	Description
2.1	Agreement and Plan of Merger, dated as of June 22, 2006, among LivePerson, Inc., Soho Acquisition Corp., Proficient Systems, Inc. and Gregg Freishtat as Shareholders' Representative (incorporated by reference to the identically numbered exhibit in the Current Report on Form 8-K filed on June 22, 2006)
3.1	Fourth Amended and Restated Certificate of Incorporation (incorporated by reference to the identically-numbered exhibit to LivePerson's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed March 30, 2001 (the "2000 Form 10-K"))
3.2	Second Amended and Restated Bylaws, as amended (incorporated by reference to the identically-numbered exhibit to the 2000 Form 10-K)
4.1	Specimen common stock certificate (incorporated by reference to the identically-numbered exhibit to LivePerson's Registration Statement on Form S-1, as amended (Registration No. 333-96689) ("Registration No. 333-96689"))
4.2	Second Amended and Restated Registration Rights Agreement, dated as of January 27, 2000, by and among LivePerson, the several persons and entities named on the signature pages thereto as Investors, and Robert LoCascio (incorporated by reference to the identically-numbered exhibit to Registration No. 333-96689)
10.1(a)*	2009 Stock Incentive Plan (incorporated by reference to Exhibit 99.1 to LivePerson's Registration Statement on Form S-8 filed on June 9, 2009) and Forms of Grant Agreements under the 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to LivePerson's Quarterly Report on Form 10-Q filed on May 6, 2011)
10.1(b)*	2009 Stock Incentive Plan (amended and restated as of June 7, 2012) (incorporated by reference to Exhibit 99.1 to LivePerson's Current Report on Form 8-K filed on June 8, 2012)
10.2*	LivePerson, Inc. 2010 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to the LivePerson's Registration Statement on Form S-8 filed on August 19, 2010)
10.3*	Employment Agreement between LivePerson and Robert P. LoCascio, dated as of January 1, 1999 (incorporated by reference to Exhibit 10.1 to Registration No. 333-96689)
10.4(a)*	Employment Agreement between LivePerson and Timothy E. Bixby, dated as of June 23, 1999 (incorporated by reference to Exhibit 10.3 to Registration No. 333-96689)
10.4(b)*	Modification to Employment Agreement between LivePerson and Timothy E. Bixby, dated as of April 1, 2003 (incorporated by reference to Exhibit 10.2.1 to LivePerson's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and filed August 13, 2003)
10.4(c)*	Separation Agreement and General Release between LivePerson and Timothy E. Bixby, dated as of November 2, 2010 (incorporated by reference to Exhibit 10.4(c) to LivePerson's Annual Report on Form 10-K for the year ended December 31, 2010 and filed March 15, 2011)
10.5*	Agreement between LivePerson and Dan Murphy, dated as of March 27, 2011 (incorporated by reference to Exhibit 10.5 to LivePerson's Annual Report on Form 10-K for the year ended December 31, 2011 and filed March 13, 2012)
10.6*	Form of Indemnification Agreement entered into with Executive Officers and Directors of LivePerson (incorporated by reference to Exhibit 10.6 to LivePerson's Annual Report on Form 10-K for the year ended December 31, 2011 and filed March 13, 2012)
10.7*	Agreement between LivePerson and Eli Campo, dated as of December 22, 2006 (incorporated by reference to Exhibit 10.7 to LivePerson's Annual Report on Form 10-K for the year ended December 31, 2011 and filed March 13, 2012)

Number	Description
10.8*	Agreement between LivePerson and Monica L. Greenberg, dated as of October 25, 2006 (incorporated by reference to Exhibit 10.8 to LivePerson's Annual Report on Form 10-K for the year ended December 31, 2011 and filed March 13, 2012)
10.9*	Agreement between LivePerson and Michael Kovach, dated as of November 6, 2009 (incorporated by reference to Exhibit 10.9 to LivePerson's Annual Report on Form 10-K for the year ended December 31, 2011 and filed March 13, 2012)
10.10*	Incentive Plan (incorporated by reference to Exhibit 10.1 to LivePerson's Current Report on Form 8-K filed on April 28, 2011)
21.1	Subsidiaries
23.1	Consent of BDO USA, LLP
31.1	Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

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* Management contract or compensatory plan or arrangement.

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

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

Exhibit 21.1

SUBSIDIARIES OF LIVEPERSON, INC.

LivePerson Ltd. (formerly HumanClick Ltd.) — Israel
Kasamba Inc. — Delaware
Engage Pty Ltd. — Australia
LivePerson (UK) Ltd. — United Kingdom
LivePerson Netherlands B.V. — Netherlands

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

LivePerson, Inc.
New York, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-112019, 333-112018, 333-136249 and 333-147929) and Form S-8 (No. 333-34230, 333-147572 and 333-159850) of LivePerson, Inc. of our reports dated March 13, 2014, relating to the consolidated financial statements and the effectiveness of LivePerson, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP

BDO USA, LLP
New York, New York
March 13, 2014

Exhibit 31.1

CERTIFICATIONS

I, Robert P. LoCascio, certify that:

1. I have reviewed this Annual Report on Form 10-K of LivePerson, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2014

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

Exhibit 31.2

CERTIFICATIONS

I, Daniel R. Murphy, certify that:

1. I have reviewed this Annual Report on Form 10-K of LivePerson, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2014

By: /s/ DANIEL R. MURPHY

Name: Daniel R. Murphy
Title: Chief Financial Officer
(principal financial officer)

Exhibit 32.1

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

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

(1) the Annual Report of the Company on Form 10-K for the period ended December 31, 2013, as filed with the Securities and Exchange Commission (the ''Report''), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 13, 2014

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

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

Exhibit 32.2

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

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

(1) the Annual Report of the Company on Form 10-K for the period ended December 31, 2013, as filed with the Securities and Exchange Commission (the ''Report''), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 13, 2014

By: /s/ DANIEL R. MURPHY
Name: Daniel R. Murphy
Title: Chief Financial Officer
(principal financial officer)

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

Selected LivePerson Customers

O2 is the commercial brand of Telefónica UK Limited and is a leading digital communications company with the highest customer satisfaction of any mobile provider according to Ofcom. With over 23 million customers, O2 runs 2G, 3G and 4G networks across the UK. Telefónica UK Limited is part of Telefónica Europe plc which uses O2 as its commercial brand in the UK, Slovakia, Germany and the Czech Republic.

" We've seen a dramatic increase in the level of engagement with customers across our digital channels in recent years, and LivePerson has played a key role helping us engage with our customers in these channels. Consumer behaviour is changing rapidly, and having a partner like LivePerson to help us engage our customers, in what's fast becoming a preferred channel, is a fundamental advantage for us as we look to strengthen our digital customer service platform."

– Head of Digital Service,
O2

W.W. Grainger, with 2013 sales of $9.4 billion, is North America's leading broad line supplier of maintenance, repair and operating products, with operations in Asia, Europe and Latin America. With over a million industrial supply products available online and in their print catalog, Grainger serves more than two million customers worldwide through a network of highly integrated branches, distribution centers, websites and export services.

" Grainger is focused on industry-leading service, which includes getting our customers the products they need, when they need them. We offer more than one million products, so LiveChat with Photo helps answer customer product questions more efficiently and effectively. We are delighted to have worked with LivePerson to deliver this leading technology to our customers. "

– Vice President of eCommerce Strategy & Planning,
Grainger

Davinci Virtual Office Solutions is a leading provider of business addresses, live answering services and meeting spaces, offering turnkey virtual office locations and virtual office services worldwide. With professional business addresses in over 900 prime locations, Davinci serves over 15,000 virtual clients throughout the US, Canada, Europe, Central America, Asia and Australia.

" We consider ourselves a pioneer of digital engagement having partnered with leading companies like LivePerson as early as 2007 to offer a more personal connection to our customers, providing them the VIP experience they deserve. Our business model requires us to maximize conversion rates of our qualified web traffic while enhancing visitor experience at all times—LivePerson helps us to achieve exactly that. "

– COO,
Davinci

Board of Directors

Robert P. LoCascio
Chairman of the Board,
Chief Executive Officer
LivePerson, Inc.

Peter Block
Partner in Designed Learning Inc.
Independent Consultant

Kevin C. Lavan
Senior Vice President, Worldwide Controller
IMG Worldwide, Inc.

David Vaskevitch
CEO, Mylo Development LLC
Independent Consultant

William G. Wesemann
Independent Consultant

Executive Officers

Robert P. LoCascio
Chairman of the Board,
Chief Executive Officer

Daniel R. Murphy
Executive Vice President,
Chief Financial Officer

Eran Vanounou
Chief Technology Officer

Monica L. Greenberg
Executive Vice President,
Business Affairs and General Counsel

Stockholder Information

Corporate Headquarters
LivePerson, Inc.
475 Tenth Avenue
New York, NY 10018

Investor Relations
Copies of our Annual Report on Form 10-K for the year ended December 31, 2013 are available free of charge, upon request to:

Investor Relations
LivePerson, Inc.
475 Tenth Avenue
New York, NY 10018

Stock Listing
Our common stock is listed on the NASDAQ Global Select Market and Tel Aviv Stock Exchange under the symbol "LPSN"

Counsel
Orrick, Herrington & Sutcliffe LLP
51 West 52nd Street
New York, NY 10019

Independent Registered Public Accounting Firm
BDO USA, LLP
100 Park Avenue
New York, NY 10017

Transfer Agent
American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219

Company Information on the Web
Current information about LivePerson, press releases and investor information are available on our website at www.liveperson.com

LIVEPERSON

LPSN

475 Tenth Avenue | New York, NY | 10018