LIVEPERSON INC
Form 10-Q
August 07, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended JUNE 30, 2009

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: 0-30141

LIVEPERSON, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	13-3861628 (IRS Employer Identification No.)
462 SEVENTH AVENUE NEW YORK, NEW YORK (Address of Principal Executive Offices)	10018 (Zip Code)

(212) 609-4200
(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a 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 x

As of August 3, 2009, there were 47,781,048 shares of the issuer's common stock outstanding.

LIVEPERSON, INC.
JUNE 30, 2009
FORM 10-Q
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FORWARD-LOOKING STATEMENTS

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIVEPERSON, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	June 30, 2009 (Unaudited)	December 31, 2008 (Note 1(B))
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,267	$ 25,500
Accounts receivable, net of allowance for doubtful accounts of $340 as of June 30, 2009 and December 31, 2008, respectively	7,824	7,574
Prepaid expenses and other current assets	1,719	1,706
Deferred tax assets, net	1,261	1,772
Total current assets	42,071	36,552
Property and equipment, net	8,894	7,473
Intangibles, net	3,161	4,319
Goodwill	23,903	24,388
Deferred tax assets, net	7,544	7,330
Deferred implementation costs	147	147
Security deposits	323	349
Other assets	1,489	1,390
Total assets	$ 87,532	$ 81,948
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,625	$ 3,555
Accrued expenses	9,073	9,088
Deferred revenue	4,143	3,985
Total current liabilities	16,841	16,628
Deferred revenue, net of current	409	347
Other liabilities	1,489	1,390
Total liabilities	18,739	18,365
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value per share; 5,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2009 and December 31, 2008	—	—
Common stock, $.001 par value per share; 100,000,000 shares authorized, 47,691,532 shares issued and outstanding at June 30, 2009 and 47,357,017 shares issued and outstanding at December 31, 2008	48	47
Additional paid-in capital	183,692	180,869
Accumulated deficit	(114,790)	(117,195)
Accumulated other comprehensive loss	(157)	(138)
Total stockholders' equity	68,793	63,583

Total liabilities and stockholders’ equity	$	87,532	$	81,948

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

LIVEPERSON, INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue	$ 20,541	$ 18,588	$ 40,460	$ 35,673
Operating expenses:				
Cost of revenue	5,228	5,234	9,513	10,120
Product development	3,138	3,503	5,839	6,577
Sales and marketing	6,908	6,443	13,412	12,241
General and administrative	3,157	3,455	6,679	6,635
Amortization of intangibles	272	391	544	782
Total operating expenses	18,703	19,026	35,987	36,355
Income (loss) from operations	1,838	(438)	4,473	(682)
Other income (expense):				
Financial income (expense)	23	37	(96)	(2)
Interest income	21	71	56	191
Total other income (expense), net	44	108	(40)	189
Income (loss) before provision for (benefit from) income taxes	1,882	(330)	4,433	(493)
Provision for (benefit from) income taxes	748	(139)	2,028	(90)
Net income (loss)	$ 1,134	$ (191)	$ 2,405	$ (403)
Basic net income (loss) per common share	$ 0.02	$ (0.00)	$ 0.05	$ (0.01)
Diluted net income (loss) per common share	$ 0.02	$ (0.00)	$ 0.05	$ (0.01)
Weighted average shares outstanding used in basic net income (loss) per common share calculation	47,611,657	47,182,068	47,540,614	47,537,385
Weighted average shares outstanding used in diluted net income (loss) per common share calculation	48,650,478	47,182,068	48,301,914	47,537,385

Income from operations for the three and six months ended June 30, 2009 includes stock-based compensation expense related to SFAS No. 123(R) in the amount of $1,118 and $2,279, respectively. Loss from operations for the three and six months ended June 30, 2008 includes stock-based compensation expense related to SFAS No. 123(R) in the amount of $1,204 and $2,164, respectively. See Note 1(E).

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

LIVEPERSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
UNAUDITED

	Six Months Ended June 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 2,405	$ (403)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation expense	2,279	2,164
Depreciation	1,627	798
Amortization of intangibles	1,158	1,396
Deferred income taxes	297	(251)
Provision for doubtful accounts	—	68
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Accounts receivable	(250)	(707)
Prepaid expenses and other current assets	(2)	(313)
Deferred implementation costs	—	(52)
Security deposits	26	150
Accounts payable	278	1,545
Accrued expenses	541	(1,656)
Deferred revenue	220	865
Net cash provided by operating activities	8,579	3,604
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, including capitalized software	(3,259)	(2,988)
Acquisition of Kasamba	—	(108)
Acquisition of Proficient	(81)	(104)
Net cash used in investing activities	(3,340)	(3,200)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(28)	(3,680)
Excess tax benefit from the exercise of employee stock options	305	—
Proceeds from issuance of common stock in connection with the exercise of options	267	516
Net cash provided by (used in) financing activities	544	(3,164)
Effect of foreign exchange rate changes on cash and cash equivalents	(16)	(12)
Net increase (decrease) in cash and cash equivalents	5,767	(2,772)
Cash and cash equivalents at the beginning of the period	25,500	26,222
Cash and cash equivalents at the end of the period	$ 31,267	$ 23,450

Supplemental disclosure of non-cash investing activities:

During the six months ended June 30, 2009, the Company settled a pre-acquisition contingency resulting in a decrease in accrued expenses in the amount of $566.

Cash flows from investing for the six months ended June 30, 2009 does not include the purchases of approximately $65 of capitalized equipment related to the Company’s colocation facility as the corresponding invoices are included in accounts payable at June 30, 2009, and therefore did not have an impact on cash flows for the period.

Cash flows from investing for the six months ended June 30, 2008 does not include the purchases of approximately $1,400 of capitalized equipment related to the Company’s colocation facility as the corresponding invoices are included in accounts payable at June 30, 2008, and therefore did not have an impact on cash flows for the period.

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS.

LIVEPERSON, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

(A) SUMMARY OF OPERATIONS

LivePerson, Inc. (the "Company" or "LivePerson") was incorporated in the State of Delaware in 1995. The Company commenced operations in 1996. LivePerson provides online engagement solutions that facilitate real-time assistance and expert advice.

The Company's primary revenue source is from the sale of the LivePerson services to businesses of all sizes. The Company also facilitates online transactions between independent service providers ("Experts") who provide expert online advice to individual consumers ("Users"). Headquartered in New York City, the Company's product development staff, help desk and online sales support are located in Israel. The Company also maintains sales and professional services offices in Atlanta and the United Kingdom.

(B) UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements as of June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 are unaudited. In the opinion of management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the consolidated financial position of LivePerson as of June 30, 2009, and the consolidated results of operations and cash flows for the interim periods ended June 30, 2009 and 2008. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results of operations for any interim period are not necessarily indicative of the results of operations for any other future interim period or for a full fiscal year. The condensed consolidated balance sheet at December 31, 2008 has been derived from audited consolidated financial statements at that date.

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2008, included in the Company's Annual Report on Form 10-K filed with the SEC on March 13, 2009.

The Company has evaluated subsequent events through August 6, 2009, which is the date the financial statements were available to be issued.

(C) RECLASSIFICATIONS

Certain prior year financial information has been reclassified to conform with fiscal 2009 financial statement presentation.

(D) 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 SEC Staff Accounting Bulletin No. 104, “Revenue Recognition” and Emerging Issues Task Force Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables”. The Company charges a monthly fee, which varies by service and client usage. The majority of the Company’s larger clients also pay a professional services fee related to implementation. The Company defers these implementation fees and associated direct costs and recognizes them ratably over the expected term of the client relationship upon commencement of the hosting services. The Company may also charge professional service fees related to additional training, business consulting and analysis in support of the LivePerson services.

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 twelve month terms and, in some cases, are terminable or may terminate upon 30 to 90 days’ notice without penalty. When professional service fees provide added value to the customer on a standalone basis, the Company recognizes professional service fees upon completion and customer acceptance because they have established objective and reliable evidence of the fair value of the undelivered hosting services. If a professional services arrangement does not qualify for separate accounting, the Company recognizes the fees, and the related labor costs, ratably over a period of 36 months, representing the Company’s current estimate of the term of the client relationship.

For revenue generated from online transactions between Experts and Users, the Company recognizes revenue net of the expert fees in accordance with Emerging Issues Task Force (“EITF”) 99-19, “Reporting Revenue Gross as a Principle versus Net as an Agent” due to the fact that the Company performs as an agent without any risk of loss for collection. The Company collects a fee from the consumer and retains a portion of the fee, and then remits the balance to the Expert. Revenue from these transactions is recognized 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.

(E) STOCK-BASED COMPENSATION

The Company follows Statement of Financial Accounting Standards SFAS No. 123(R) “Share-Based Payment (revised 2004)” (“SFAS No. 123(R)”), 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. SFAS No. 123(R) is a revision to SFAS No. 123, “Accounting for Stock-Based Compensation,” and supersedes Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and its related implementation guidance. SFAS No. 123(R) requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized.

The Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. The Company’s Consolidated Financial Statements as of and for the three and six months ended June 30, 2009 and 2008 reflect the impact of SFAS No. 123(R). SFAS No. 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company’s Consolidated Statements of Operations. Stock-based compensation recognized in the Company’s Consolidated Statements of Operations for the three and six months ended June 30, 2009 and 2008 includes compensation expense for share-based awards granted prior to, but not fully vested as of January 1, 2006 based on the grant date fair value estimated in accordance with SFAS No. 123 as well as compensation expense for share-based awards granted subsequent to January 1, 2006 in accordance with SFAS No. 123(R). The Company currently uses the Black-Scholes option pricing model to determine grant date fair value.

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The following table summarizes stock-based compensation expense related to employee stock options under SFAS No. 123(R) included in Company's Statements of Operations for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cost of revenue	$ 207	$ 161	$ 366	$ 275
Product development expense	372	422	673	714
Sales and marketing expense	292	300	600	589
General and administrative expense	247	321	640	586
Total stock based compensation included in operating expenses	$ 1,118	$ 1,204	$ 2,279	$ 2,164

The per share weighted average fair value of stock options granted and assumed during the three and six months ended June 30, 2009 was $1.73 and $1.15, respectively. The per share weighted average fair value of stock options granted and assumed during the three and six months ended June 30, 2008 was $1.97. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	3.2%-3.9%	1.9%-3.9%	2.8%-3.9%	1.9%-3.9%
Expected life (in years)	5.0	4.9	5.0	4.2-4.9
Historical volatility	65.0%-65.6%	69.9%-70.5%	65.0%-68.2%	69.9%-71.5%

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. Pursuant to the provisions of the 2000 Plan, the number of shares of common stock available for issuance thereunder automatically increases on the first trading day in each calendar year by an amount equal to three percent (3%) of the total number of shares of the Company's common stock outstanding on the last trading day of the immediately preceding calendar year, but in no event shall such annual increase exceed 1,500,000 shares. As of December 31, 2008, approximately 12,385,000 shares of common stock were reserved for issuance under the 2000 Plan (taking into account all option exercises through December 31, 2008).

The Company established the 2009 Stock Incentive Plan (the "2009 Plan") as a successor to the 2000 Plan. Under the 2009 Plan, the options which had been outstanding under the 2000 Plan were incorporated into the 2009 Plan and the Company increased the number of shares available for issuance under the plan by 6,000,000, thereby reserving for issuance 19,567,744 shares of common stock in the aggregate. Options to acquire common stock granted thereunder have ten-year terms. As of June 30, 2009, approximately 19,528,000 shares of common stock were reserved for issuance under the 2009 Plan (taking into account all option exercises through June 30, 2009). As of June 30, 2009, there was $8,949 of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost, as of June 30, 2009, is expected to be recognized over a weighted average period of approximately 1.9 years.

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

	Options	Weighted Average Exercise Price
Options outstanding at December 31, 2008	9,939,045	$ 3.67
Options granted	1,505,000	1.97
Options exercised	(340,738)	0.69
Options cancelled	(660,677)	3.49
Options outstanding at June 30, 2009	10,442,630	3.51
Options exercisable at June 30, 2009	5,961,027	$ 3.53

The total intrinsic value of stock options exercised during the period ended June 30, 2009 was approximately $540. The total intrinsic value of options exercisable at June 30, 2009 was approximately $6,338. The total intrinsic value of options expected to vest is approximately $4,576.

A summary of the status of the Company's nonvested shares as of December 31, 2008, and changes during the six months ended June 30, 2009 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested Shares at December 31, 2008	4,471,251	$ 2.59
Granted	1,505,000	1.15
Vested	(1,137,923)	2.75
Cancelled	(356,725)	2.33
Nonvested Shares at June 30, 2009	4,481,603	$ 2.09

(F) BASIC AND DILUTED NET INCOME PER SHARE

The Company calculates earnings per share in accordance with the provisions of SFAS No. 128, "Earnings Per Share ("EPS")," and the guidance of SEC Staff Accounting Bulletin ("SAB") No. 98. Under SFAS No. 128, basic EPS excludes dilution for common stock equivalents and is computed by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding for the period. All options, warrants or other potentially dilutive instruments issued for nominal consideration are required to be included in the calculation of basic and diluted net 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 income per common share for the three and six months ended June 30, 2009 includes the effect of options to purchase 4,204,317 and 1,864,067 shares, respectively, of common stock with a weighted average exercise price of $1.83 and $1.31, respectively. Diluted net income per common share for the three and six months ended June 30, 2008 does not include the effect of assumed exercised options or warrants because the Company reported a net loss from continuing operations and, therefore, all common stock equivalents are anti-dilutive. Diluted net income per common share for the three and six months ended June 30, 2008 does not include the effect of options and warrants to purchase 6,724,454 and 6,284,516 shares of common stock.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Basic	47,611,657	47,182,068	47,540,614	47,537,385
Effect of assumed exercised options and warrants	1,038,821	-	761,300	-
Diluted	48,650,478	47,182,068	48,301,914	47,537,385

(G) SEGMENT REPORTING

The Company accounts for its segment information in accordance with the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 establishes annual and interim reporting standards for operating segments of a company. SFAS No. 131 requires disclosures of selected segment-related financial information about products, major customers, and geographic areas based on the Company's internal accounting methods. Due to the acquisition of Kasamba Inc. in October 2007, the Company is organized into two operating segments for purposes of making operating decisions and assessing performance. The Company may reorganize its operations in the future when the integration of its products and services are complete. The Business segment supports and manages real-time online interactions – chat, voice/click-to-call, email and self-service/knowledgebase and sells its products and services to 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 and 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, general and administrative, non cash-compensation expenses and income taxes because management does not use this information to measure performance of the operating segments. There are currently no inter-segment sales.

Summarized financial information by segment for the three months ended June 30, 2009, based on the Company's internal financial reporting system utilized by the Company's chief operating decision makers, follows:

	Consolidated	Corporate	Business	Consumer
Revenue:				
Hosted services — Business	$ 16,943	$ —	$ 16,943	$ —
Hosted services — Consumer	2,878	—	—	2,878
Professional services	720	—	720	—
Total revenue	20,541	—	17,663	2,878
Cost of revenue	5,228	—	4,340	888
Sales and marketing	6,908	—	5,005	1,903
Amortization of intangibles	272	—	200	72