

BROADVISION INC
Form 10-Q
November 06, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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 _____

1-34205

(Commission File Number)

BROADVISION, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3184303
(I.R.S. Employer
Identification Number)

1600 Seaport Blvd., Suite 550, North Bldg,
Redwood City, California
(Address of principal executive offices)

94063

(Zip code)

(650) 331-1000

(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 ☒ 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 (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer (do not check if a smaller reporting company) ☐ 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 ☒

As of October 30, 2009 there were 4,418,925 shares of the Registrant's Common Stock issued and outstanding.

BROADVISION, INC. AND SUBSIDIARIES

FORM 10-Q

Quarter Ended September 30, 2009

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BROADVISION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value amounts)

| | September 30, 2009 (unaudited) | December 31, 2008 * |
|--|--------------------------------------|---------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 36,085 | \$ 52,884 |
| Short-term investments | 27,094 | 9,004 |
| Accounts receivable, less allowance for doubtful accounts of \$275 as of September 30, 2009 and \$366 as of December 31, 2008 | 3,342 | 8,167 |
| Restricted cash | 20 | 20 |
| Prepays and other | 1,838 | 2,585 |
| Total current assets | 68,379 | 72,660 |
| Property and equipment, net | 421 | 514 |
| Restricted cash, net of current portion | 1,000 | 1,000 |
| Other assets | 489 | 563 |
| Total assets | \$ 70,289 | \$ 74,737 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,011 | \$ 1,251 |
| Accrued expenses | 5,072 | 5,415 |
| Warrant liability | 8 | 155 |
| Unearned revenue | 1,765 | 5,810 |
| Deferred maintenance | 5,913 | 8,959 |
| Total current liabilities | 13,769 | 21,590 |
| Other non-current liabilities | 1,858 | 2,429 |
| Total liabilities | 15,627 | 24,019 |
| Stockholders' equity: | | |
| Convertible preferred stock, \$0.0001 par value; 1,000 shares authorized; none issued and outstanding | - | - |
| Common stock, \$0.0001 par value; 11,200 shares authorized; 4,420 and 4,376 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively | - | - |
| Additional paid-in capital | 1,259,895 | 1,258,604 |
| Accumulated other comprehensive loss | (1,112) | (483) |
| Accumulated deficit | (1,204,121) | (1,207,403) |
| Total stockholders' equity | 54,662 | 50,718 |
| Total liabilities and stockholders' equity | \$ 70,289 | \$ 74,737 |

* Derived from audited consolidated financial statements filed in the Company's 2008 Annual Report on Form 10-K.

See Accompanying Notes to Condensed Consolidated Financial Statements

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BROADVISION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues: | | | | |
| Software licenses | \$ 2,663 | \$ 2,096 | \$ 8,676 | \$ 8,521 |
| Services | 4,879 | 6,095 | 15,039 | 17,729 |
| Total revenues | 7,542 | 8,191 | 23,715 | 26,250 |
| Cost of revenues: | | | | |
| Cost of software licenses | 6 | 7 | 26 | 20 |
| Cost of services | 1,784 | 2,218 | 5,707 | 6,626 |
| Total cost of revenues | 1,790 | 2,225 | 5,733 | 6,646 |
| Gross profit | 5,752 | 5,966 | 17,982 | 19,604 |
| Operating expenses: | | | | |
| Research and development | 2,169 | 2,217 | 6,346 | 6,863 |
| Sales and marketing | 2,024 | 1,937 | 6,002 | 5,783 |
| General and administrative | 1,006 | 1,659 | 3,603 | 4,960 |
| Restructuring (credit) charge | (4) | 6 | 50 | (17) |
| Total operating expenses | 5,195 | 5,819 | 16,001 | 17,589 |
| Operating income | 557 | 147 | 1,981 | 2,015 |
| Interest income, net | 117 | 478 | 601 | 1,280 |
| Gain on revaluation of warrants | 154 | 581 | 147 | 3,661 |
| Other income (expense), net | 867 | (876) | 669 | 458 |
| Income before provision for income taxes | 1,695 | 330 | 3,398 | 7,414 |
| Benefit (provision) for income taxes | 104 | (41) | (116) | (328) |
| Net income | \$ 1,799 | \$ 289 | \$ 3,282 | \$ 7,086 |
| Basic income per share | \$ 0.41 | \$ 0.07 | \$ 0.75 | \$ 1.62 |
| Diluted income per share | \$ 0.41 | \$ 0.06 | \$ 0.75 | \$ 1.60 |
| Shares used in computing: | | | | |
| Weighted average shares-basic | 4,415 | 4,431 | 4,397 | 4,387 |
| Weighted average shares-diluted | 4,435 | 4,466 | 4,400 | 4,433 |
| Comprehensive income: | | | | |
| Net income | \$ 1,799 | \$ 289 | \$ 3,282 | \$ 7,086 |
| Other comprehensive gain (loss), net of tax: | | | | |
| Foreign currency translation adjustment | (256) | 22 | (629) | (284) |
| Total comprehensive income | \$ 1,543 | \$ 311 | \$ 2,653 | \$ 6,802 |

See Accompanying Notes to Condensed Consolidated Financial Statements

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BROADVISION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, Unaudited)

| | Nine Months Ended September 30, | |
|---|---------------------------------|-----------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 3,282 | \$ 7,086 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 162 | 225 |
| Restructuring charge (credit) | 50 | (17) |
| Provision for doubtful accounts | 27 | (93) |
| Stock-based compensation | 882 | 885 |
| Gain on cost method investments | (22) | (35) |
| Gain on revaluation of warrants | (147) | (3,661) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 4,798 | 2,361 |
| Prepays and other | 747 | (1,192) |
| Other non-current assets | 68 | (64) |
| Accounts payable and accrued expenses | (464) | (833) |
| Restructuring accrual | (338) | (349) |
| Unearned revenue and deferred maintenance | (7,091) | 4,146 |
| Other noncurrent liabilities | (402) | (142) |
| Net cash provided by operating activities | 1,552 | 8,317 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (63) | (105) |
| Proceeds from cost method investments | 22 | 35 |
| Purchase of short term investments | (18,090) | - |
| Net cash used for investing activities | (18,131) | (70) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock, net | 409 | 594 |
| Net cash provided by financing activities | 409 | 594 |
| Effect of exchange rates on cash and cash equivalents | (629) | (284) |
| Net (decrease) increase in cash and cash equivalents | (16,799) | 8,557 |
| Cash and cash equivalents at beginning of period | 52,884 | 53,973 |
| Cash and cash equivalents at end of period | \$ 36,085 | \$ 62,530 |

See Accompanying Notes to Condensed Consolidated Financial Statements

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BROADVISION, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

There have been no material changes in our critical accounting policies, estimates and judgments during the nine month period ended September 30, 2009 compared to the disclosures in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission (the "SEC") on February 26, 2009, other than those disclosed herein.

Basis of Presentation

The condensed consolidated financial results and related information as of and for the three and nine months ended September 30, 2009 and 2008 are unaudited. The Condensed Consolidated Balance Sheet at December 31, 2008 has been derived from the audited consolidated financial statements as of that date but does not necessarily reflect all of the informational disclosures previously reported in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The unaudited condensed consolidated financial statements should be reviewed in conjunction with the audited consolidated financial statements and related notes contained in our 2008 Annual Report on Form 10-K filed with the SEC on February 26, 2009.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions in Form 10-Q and Article 10 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of interim financial information have been included. We have evaluated subsequent events for recognition or disclosure through November 6, 2009, which is the date these financial statements were filed on Form 10-Q with the SEC. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2009 or any future interim period. The condensed consolidated financial statements include our accounts and our wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make certain assumptions and estimates that affect reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis we evaluate our estimates, including those related to allowance for doubtful accounts, stock-based compensation, investments, impairment assessments, income taxes and restructuring, as well as contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates using different assumptions or conditions.

Revenue Recognition

From time to time, a customer may return to us some or all of the software purchased. While our software and reseller agreements generally do not provide for a specific right of return, we may accept product returns in certain circumstances. To date, sales returns have been infrequent and not significant in relation to our total revenues. We make an estimate of our expected returns and provide an allowance for sales returns in accordance with Accounting Standards Codification™ (“ASC”) 605-15 (formerly SFAS No. 48), Revenue Recognition When Right of Return Exists. Management specifically analyzes our revenue transactions, customer software installation patterns, historical return patterns, current economic trends and customer payment terms when evaluating the adequacy of the allowance for sales returns.

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Stock-Based Compensation

The following table sets forth the total stock-based compensation expense recognized in our Condensed Consolidated Income Statements for the three and nine months ended September 30, 2009 and 2008:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Cost of services | \$ 36,247 | \$ 60,067 | \$ 92,427 | \$ 133,278 |
| Research and development | 136,105 | 137,565 | 325,874 | 257,344 |
| Sales and marketing | 78,253 | 95,240 | 193,243 | 231,293 |
| General and administrative | 101,114 | 118,847 | 270,013 | 263,603 |
| | \$ 351,719 | \$ 411,719 | \$ 881,557 | \$ 885,518 |

Earnings Per Share Information

Basic net income per share is computed using the weighted-average number of shares of common stock outstanding less shares subject to repurchase. Diluted net income per share is computed using the weighted-average number of shares of common stock outstanding and, when dilutive, common equivalent shares from outstanding stock options and warrants using the treasury stock method, and shares subject to repurchase, if any, using the as-if converted method. There were 462,000 and 433,000 potential common shares excluded from the determination of diluted net income per share for the three months ended September 30, 2009 and 2008, respectively, as the effect of each share was anti-dilutive because the per-share strike price of the options under which these shares may be issued is higher than the current market price. There were 622,000 and 300,000 potential common shares excluded from the determination of diluted net income per share for the nine months ended September 30, 2009 and 2008, respectively, as the effect of each share was anti-dilutive because the per-share strike price of the options under which these shares may be issued is higher than the current market price. The following table sets forth the basic and diluted net income per share computational data for the periods presented (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Net income | \$ 1,799 | \$ 289 | \$ 3,282 | \$ 7,086 |
| Weighted-average common shares outstanding used to compute basic income per share | 4,415 | 4,431 | 4,397 | 4,387 |
| Weighted-average common equivalent shares from outstanding common stock options and warrants | 20 | 35 | 3 | 46 |
| Total weighted-average common and common equivalent shares outstanding used to compute diluted income per share | 4,435 | 4,466 | 4,400 | 4,433 |
| Basic income per share | \$ 0.41 | \$ 0.07 | \$ 0.75 | \$ 1.62 |
| Diluted income per share | \$ 0.41 | \$ 0.06 | \$ 0.75 | \$ 1.60 |

Legal Proceedings

We are subject from time to time to various legal actions and other claims arising in the ordinary course of business. We are not a party to any legal proceedings that we believe would have a material adverse effect on our financial position or our results of operation.

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Foreign Currency Translations

During fiscal 2004, we changed the functional currencies of all foreign subsidiaries from the U.S. dollar to the local currency of the respective countries. Assets and liabilities of these subsidiaries are translated into U.S. dollars at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Foreign exchange gains and losses resulting from the remeasurement of foreign currency assets and liabilities are included as other income (expense), net in the Condensed Consolidated Income Statements. For the nine-month periods ended September 30, 2009, and 2008, translation loss was (\$629,000), and (\$284,000), respectively. These amounts are included in the accumulated other comprehensive loss account in the Condensed Consolidated Balance Sheets.

Comprehensive income

Comprehensive income includes net income and other comprehensive gain (loss), which primarily consists of foreign currency translation adjustments. Total comprehensive income is presented in the accompanying Condensed Consolidated Income Statements.

Total accumulated other comprehensive loss is displayed as a separate component of stockholders' equity in the accompanying Condensed Consolidated Balance Sheets. The accumulated balances of other comprehensive loss consist of the following, net of taxes (in thousands):

| | Accumulated Other Comprehensive Loss |
|-----------------------------|---|
| Balance, December 31, 2008 | \$ (483) |
| Net change during period | (629) |
| Balance, September 30, 2009 | \$ (1,112) |

Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standard Board ("FASB") issued ASC 320-10 (formerly FSP FAS 115-2 and FAS 124-2) ("ASC 320-10"), Recognition and Presentation of Other-Than-Temporary Impairments. ASC 320-10 requires entities to separate an other-than-temporary impairment of a debt security into two components when there are credit related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the other-than-temporary impairment related to a credit loss is recognized in earnings, and the amount of the other-than-temporary impairment related to other factors is recorded in other comprehensive income (loss). ASC 320-10 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of ASC 320-10 did not have a significant impact on our Condensed Consolidated Financial Statements.

In April 2009, the FASB issued ASC 820-10 (formerly FSP FAS 157-4) ("ASC 820-10"), Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly. Under ASC 820-10, if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly, the entity shall place little, if any, weight on that transaction price as an indicator of fair value. ASC 820-10 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of ASC

820-10 did not have a significant impact on our Condensed Consolidated Financial Statements.

In April 2009, the FASB issued ASC 825-10 (formerly FSP FAS 107-1 and APB 28-1)("ASC 825-10"), Interim Disclosures about Fair Value of Financial Instruments. ASC 825-10 requires disclosures about the fair value of financial instruments in interim and annual financial statements. ASC 825-10 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of ASC 825-10 did not have a significant impact on our Condensed Consolidated Financial Statements.

In May 2009, the FASB issued ASC 855-10 (formerly SFAS No. 165)("ASC 855-10"), Subsequent Events. ASC 855-10 establishes accounting principles and requirements for subsequent events. Specifically, ASC 855-10 sets forth the following: (a) the period after the balance sheet date during which management of an entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (b) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements and (c) the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. ASC 855-10 requires entities to recognize in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing financial statements. Conversely, entities shall not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date but before financial statements are issued or are available to be issued. Entities shall disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Entities shall also disclose the nature and financial effect of nonrecognized subsequent events if such disclosure keeps the financial statements from being misleading. We adopted ASC 855-10, effective June 30, 2009. We have evaluated subsequent events for recognition or disclosure through November 6, 2009, which is the date these financial statements were filed on Form 10-Q with the SEC.

In June 2009, the FASB issued ASC 105-10 (formerly SFAS No. 168)("ASC 105-10"), The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles. ASC 105-10 establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. ASC 105-10 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification will supersede all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. Following ASC 105-10, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. We adopted ASC 105-10 in our Form 10-Q for the third quarter of 2009. The adoption did not have a significant impact on the reporting of our Condensed Consolidated Financial Statements.

In October 2009, the FASB issued Accounting Standards Update ("ASU") 2009-13, which amends ASC 605-25 (formerly EITF 00-21)("ASU 2009-13"), Revenue Arrangement with Multiple Deliverables, to require companies to allocate revenue in multiple-element arrangements based on an element's estimated selling price if vendor-specific or other third-party evidence of value is not available. ASU 2009-13 is effective beginning January 1, 2011. Earlier application is permitted. We are currently evaluating both the timing and the impact of the pending adoption of the ASU on our Condensed Consolidated Financial Statements.

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Note 2. Selected Condensed Consolidated Balance Sheet Detail

Property and equipment consisted of the following (in thousands):

| | September 30, 2009 | December 31, 2008 |
|--|-----------------------|----------------------|
| | (unaudited) | |
| Furniture and fixtures | \$ 560 | \$ 522 |
| Computers and software | 5,079 | 4,996 |
| Leasehold improvements | 1,273 | 1,277 |
| | 6,912 | 6,795 |
| Less accumulated depreciation and amortization | (6,491) | (6,281) |
| Net book value | \$ 421 | \$ 514 |

Accrued expenses consisted of the following (in thousands):

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| | (unaudited) | |
| Employee benefits | \$ 1,018 | \$ 1,041 |
| Commissions and bonuses | 804 | 667 |
| Sales and other taxes | 780 | 792 |
| Income tax and tax contingency reserves | 374 | 301 |
| Restructuring | 307 | 426 |
| Customer advances | 229 | 283 |
| Royalties | 1,086 | 1,376 |
| Other | 474 | 529 |
| Total accrued expenses | \$ 5,072 | \$ 5,415 |

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Note 3. Fair Value of Financial Instruments

ASC 820-10 provides a definition of fair value, establishes a hierarchy for measuring fair value under generally accepted accounting principles, and requires certain disclosures about fair values used in the financial statements. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820-10 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

We measure the following financial assets at fair value on a recurring basis. The fair value of these financial assets as of September 30, 2009 (in thousands) were as follows:

| Fair Value Measurements at Reporting Date Using | | | | | |
|---|-------------------------------------|--|---|--|----------------------------|
| | Balance at September 30, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Input (Level 3) | Total Gains (Losses) |
| Cash and cash equivalents (1) | \$ 36,085 | \$ 36,085 | \$ - | \$ - | \$ - |
| Short-term investments (2) | 27,094 | 12,880 | 14,214 | - | - |
| Total | \$ 63,179 | \$ 48,965 | \$ 14,214 | \$ - | \$ - |

(1) Includes money market funds.

(2) Includes held-to-maturity bonds and certificates of deposit.

The fair value of cash and cash equivalents, short-term investments, accounts receivable and accounts payable for all periods presented approximates their respective carrying amounts due to the short-term nature of these balances.

Note 4. Warrants and Other Non-Current Liabilities

Warrants

As of September 30, 2009, the following warrants to purchase our common stock were outstanding:

| Description | Underlying Shares | Exercise Price per Share |
|-------------|----------------------|--------------------------------|
|-------------|----------------------|--------------------------------|

| | | |
|--|---------|-------|
| Issued to convertible notes investors in November 2004 | 154,631 | 37.00 |
|--|---------|-------|

Gain on the revaluation of warrants were recorded as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|--------|---------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Warrants related to the convertible notes | \$ 154 | \$ 580 | \$ 146 | \$ 3,495 |
| Warrants related to real estate buyout (1) | - | 1 | 1 | 166 |
| Gain on revaluation of warrants and change in value of derivatives | \$ 154 | \$ 581 | \$ 147 | \$ 3,661 |

(1) The shares underlying the warrants issued in connection with a real estate buyout transaction in August 2004 were not exercised and expired in July 2009.

Other Non-Current Liabilities

Other non-current liabilities consist of the following:

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| | (in thousands) | |
| Restructuring | \$ 251 | \$ 419 |
| Deferred maintenance and unearned revenue | 863 | 1,326 |
| Other | 744 | 684 |
| Total other non-current liabilities | \$ 1,858 | \$ 2,429 |

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Note 5. Commitments and Contingencies

Warranties and Indemnification

We provide a warranty to our customers that our software will perform substantially in accordance with the documentation we provide with the software, typically for a period of 90 days following receipt of the software. Historically, costs related to these warranties have been immaterial. Accordingly, we have not recorded any warranty liabilities as of September 30, 2009 and December 31, 2008.

Our software license agreements typically provide for indemnification of customers for intellectual property infringement claims caused by use of a current release of our software consistent with the terms of the license agreement. The term of these indemnification clauses is generally perpetual. The potential future payments we could be required to make under these indemnification clauses is generally limited to the amount the customer paid for the software. Historically, costs related to these indemnification provisions have been immaterial. We also maintain liability insurance that limits our exposure. As a result, we believe the potential liability of these indemnification clauses is minimal. Accordingly, we have not recorded any liabilities for these agreements as of September 30, 2009 and December 31, 2008.

We entered into agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer is, or was, serving in such capacity. The term of the indemnification period is for so long as such officer or director is subject to an indemnifiable event by reason of the fact that such person was serving in such capacity. The maximum potential amount of future payments we could be required to make under these indemnification agreements may be unlimited; however, we have a director and officer insurance policy that limits 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 insignificant. Accordingly, we have no liabilities recorded for these agreements as of either September 30, 2009 or December 31, 2008. We assess the need for an indemnification reserve on a quarterly basis and there can be no guarantee that an indemnification reserve will not become necessary in the future.

Leases

We lease our headquarters facility and other facilities under noncancelable operating lease agreements expiring in or prior to the year 2012. Under the terms of these agreements, we are required to pay property taxes, insurance and normal maintenance costs.

On June 10, 2009, we signed a Sublease Termination and Release Agreement (the "Sublease Termination Agreement") with our subtenant (Dexterra, Inc.) in order to terminate that certain Sublease dated December 21, 2006 (the "Sublease") consisting of approximately 22,509 square feet. The sublease term commenced on January 8, 2007 and was to expire on June 30, 2012 unless earlier terminated. On May 22, 2009, we received written notice from our subtenant exercising its right of early termination of the Sublease, effective January 7, 2010. As a result, we received an initial termination fee of \$136,000, which is recorded as restructuring charge (credit) in the accompanying Condensed Consolidated Financial Statements.

Under the terms of the Sublease Termination Agreement, our subtenant shall (i) surrender the premises, on an as-is basis, and all of its rights and interest in the premises, (ii) pay an additional termination fee to us and (iii) be entitled to a partial refund of the additional termination fee if any party subleases the aforementioned office space during the period from June 10, 2009 through January 7, 2010. The net additional termination fee of \$550,000 (total fee of \$678,000 less retained subtenant security deposit in the amount of \$128,000) shall be paid in two installments. Pursuant to the terms of the Sublease Termination Agreement, our subtenant paid \$472,000 to BroadVision on June

10, 2009. The remaining amount is payable June 10, 2010 and is subject to certain conditions as set forth in the Sublease Termination Agreement. This totalfee of \$678,000 is being amortized into restructuring charges over the remaining term of the lease expiring on June 30, 2012.

Because of the early termination of our sublease agreement, we recalculated our restructuring liability in accordance with ASC 420-10 (formerly SFAS No. 146)("ASC 420-10"), Accounting for Costs Associated with Exit or Disposal Activities. As a result, we recognized an additional restructuring liability of \$137,000 during the second quarter of year 2009 in our Condensed Consolidated Financial Statements.

A summary of total future minimum lease payments under noncancelable operating lease agreements is as follows (in millions) as of September 30, 2009:

| | Total Future Minimum Payments |
|-----------------------------------|-------------------------------------|
| Years ending December 31, | |
| 2009 | \$ 0.6 |
| 2010 | 1.8 |
| 2011 | 1.3 |
| 2012 | 0.6 |
| 2013 and thereafter | - |
| Total minimum facilities payments | \$ 4.3 |

These future minimum lease payments are net of approximately \$149,000 of sublease income to be received under sublease agreements. As of September 30, 2009, we have accrued \$558,000 of estimated future facilities costs as a restructuring accrual.

Standby Letter of Credit Commitments

As of September 30, 2009 and December 31, 2008, we had \$1.0 million of outstanding commitments in the form of a standby letter of credit, in favor of our landlord to secure obligations under our facility leases. This standby letter of credit is collateralized by the restricted cash listed in the Condensed Consolidated Balance Sheets.

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Note 6. Geographic, Segment and Significant Customer Information

The disaggregated revenue information reviewed by the CEO is as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---------------------|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Software licenses | \$ 2,663 | \$ 2,096 | \$ 8,676 | \$ 8,521 |
| Consulting services | 1,258 | 1,650 | 3,843 | 4,399 |
| Maintenance | 3,621 | 4,445 | 11,196 | 13,330 |
| Total revenues | \$ 7,542 | \$ 8,191 | \$ 23,715 | \$ 26,250 |

We currently operate in three primary geographical territories. Our reportable segment includes our facilities in North and South America (Americas), Europe and Asia Pacific and the Middle East (Asia/Pacific).

Disaggregated financial information regarding our geographic revenues and long-lived assets is as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|----------------|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Revenues: | | | | |
| Americas | \$ 3,787 | \$ 4,097 | \$ 13,090 | \$ 13,132 |
| Europe | 2,921 | 3,124 | 8,153 | 9,552 |
| Asia/Pacific | 834 | 970 | 2,472 | 3,566 |
| Total revenues | \$ 7,542 | \$ 8,191 | \$ 23,715 | \$ 26,250 |

| | September 30, | December 31, |
|-------------------------|---------------|--------------|
| | 2009 | 2008 |
| Long-Lived Assets: | | |
| Americas | \$ 293 | \$ 359 |
| Europe | 14 | 16 |
| Asia/Pacific | 114 | 139 |
| Total long-lived assets | \$ 421 | \$ 514 |

For the three-month period ended September 30, 2009, two of our customers accounted for more than 10% of our revenues. For the nine-month period ended September 30, 2009, one customer accounted for more than 10% of our revenues. For the three-month and nine-month periods ended September 30, 2008, no single customer accounted for more than 10% of our revenues.

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Note 7. Restructuring Charges

As of September 30, 2009, the total restructuring accrual of \$558 thousand consisted of the following (in thousands):

| | Current | Non-Current | Total |
|-------------------|---------|-------------|--------|
| Excess Facilities | \$ 307 | \$ 251 | \$ 558 |

We expect to pay the excess facilities amounts related to restructured or abandoned leased space as follows (in thousands):

| Years ending December 31, | Operating Leases |
|-----------------------------------|------------------|
| 2009 | \$ 92 |
| 2010 | 242 |
| 2011 | 138 |
| 2012 | 86 |
| 2013 and thereafter | - |
| Total minimum facilities payments | \$ 558 |

The following table summarizes the activity related to the restructuring plans initiated subsequent to December 31, 2002, and accounted for in accordance with ASC 420-10 (in thousands):

| | Accrued Restructuring Costs, Beginning | Amounts Charged to Restructuring Costs and Other | Amounts Paid or Written Off | Accrued Restructuring Costs, Ending |
|---------------------------------------|--|--|-----------------------------|-------------------------------------|
| Three Months Ended September 30, 2009 | | | | |
| Lease cancellations and commitments | \$ 353 | \$ (13) | \$ 14 | \$ 354 |
| Three Months Ended September 30, 2008 | | | | |
| Lease cancellations and commitments | \$ 46 | \$ 37 | \$ 14 | \$ 97 |
| Nine Months Ended September 30, 2009 | | | | |
| Lease cancellations and commitments | \$ 65 | \$ 109 | \$ 180 | \$ 354 |
| Nine Months Ended September 30, 2008 | | | | |
| Lease cancellations and commitments | \$ 8 | \$ 49 | \$ 40 | \$ 97 |

The following table summarizes the activity related to the restructuring plans initiated on or prior to December 31, 2002, and accounted for in accordance with ASC 420-10 (in thousands):

| | Accrued Restructuring | Amounts Charged to Restructuring | Accrued |
|--|-----------------------|----------------------------------|---------|
|--|-----------------------|----------------------------------|---------|

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| | Costs, Beginning | Costs and Other | Amounts Paid or Written Off | Restructuring Costs, Ending |
|---------------------------------------|---------------------|--------------------|--------------------------------------|--------------------------------|
| Three Months Ended September 30, 2009 | | | | |
| Lease cancellations and commitments | \$ 321 | \$ 9 | \$ (126) | \$ 204 |
| Three Months Ended September 30, 2008 | | | | |
| Lease cancellations and commitments | \$ 1,043 | \$ (46) | \$ (127) | \$ 870 |
| Nine Months Ended September 30, 2009 | | | | |
| Lease cancellations and commitments | \$ 780 | \$ (59) | \$ (517) | \$ 204 |
| Nine Months Ended September 30, 2008 | | | | |
| Lease cancellations and commitments | \$ 1,326 | \$ (88) | \$ (368) | \$ 870 |

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Note 8. Related Party Transactions

In 2009, we executed a renewal contract with a third party in which Dr. Pehong Chen, our CEO and largest stockholder, is a board member. For the three and nine months ended September 30, 2009, we recognized \$26,000 and \$72,000 in license revenue, respectively and we incurred \$6,000 and \$28,000 in direct costs and expenses respectively, relating to this contract.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. These forward-looking statements are generally identified by words such as "expect," "anticipate," "intend," "believe," "hope," "assume," "estimate," "plan," "will" and other similar words and expressions. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in the forward-looking statements as a result of certain factors, including those described herein and in our most recently filed Annual Report on Form 10-K and other documents filed with the SEC. We undertake no obligation to publicly release any revisions to the forward-looking statements or to reflect events and circumstances after the date of this document.

Critical Accounting Policies, Estimates and Judgments

There have been no material changes in our critical accounting policies, estimates and judgments during the nine month period ended September 30, 2009 compared to the disclosures in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008, other than as disclosed herein.

Revenue Recognition

From time to time, a customer may return to us some or all of the software purchased. While our software and reseller agreements generally do not provide for a specific right of return, we may accept product returns in certain circumstances. To date, sales returns have been infrequent and not significant in relation to our total revenues. We make an estimate of our expected returns and provide an allowance for sales returns in accordance with ASC 605-15 (formerly SFAS No. 48), Revenue Recognition When Right of Return Exists. Management specifically analyzes our revenue transactions, customer software installation patterns, historical return patterns, current economic trends and customer payment terms when evaluating the adequacy of the allowance for sales returns.

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Results of Operations

Revenues

Total revenues decreased 9% during the three months ended September 30, 2009, to \$7.5 million, as compared to \$8.2 million for the three months ended September 30, 2008. Total revenues decreased 10% during the nine months ended September 30, 2009, to \$23.7 million, as compared to \$26.3 million for the nine months ended September 30, 2008. A summary of our revenues by geographic region is as follows (dollars in thousands, unaudited):

| | Software | | | | | |
|---------------------|----------|------|-----------|------|-----------|------|
| | Licenses | % | Services | % | Total | % |
| Three Months Ended: | | | | | | |
| September 30, 2009 | | | | | | |
| Americas | \$ 1,608 | 60% | \$ 2,179 | 45% | \$ 3,787 | 50% |
| Europe | 969 | 36 | 1,952 | 41 | 2,921 | 39 |
| Asia Pacific | 86 | 4 | 748 | 14 | 834 | 11 |
| Total | \$ 2,663 | 100% | \$ 4,879 | 100% | \$ 7,542 | 100% |
| September 30, 2008 | | | | | | |
| Americas | \$ 1,669 | 80% | \$ 2,428 | 40% | \$ 4,097 | 50% |
| Europe | 384 | 18 | 2,740 | 45 | 3,124 | 38 |
| Asia Pacific | 43 | 2 | 927 | 15 | 970 | 12 |
| Total | \$ 2,096 | 100% | \$ 6,095 | 100% | \$ 8,191 | 100% |
| Nine Months Ended: | | | | | | |
| September 30, 2009 | | | | | | |
| Americas | \$ 6,413 | 74% | \$ 6,677 | 44% | \$ 13,090 | 56% |
| Europe | 1,960 | 23 | 6,193 | 41 | 8,153 | 34 |
| Asia Pacific | 303 | 3 | 2,169 | 15 | 2,472 | 10 |
| Total | \$ 8,676 | 100% | \$ 15,039 | 100% | \$ 23,715 | 100% |
| September 30, 2008 | | | | | | |
| Americas | \$ 5,237 | 61% | \$ 7,895 | 45% | \$ 13,132 | 50% |
| Europe | 2,347 | 28 | 7,205 | 41 | 9,552 | 36 |
| Asia Pacific | 937 | 11 | 2,629 | 14 | 3,566 | 14 |
| Total | \$ 8,521 | 100% | \$ 17,729 | 100% | \$ 26,250 | 100% |

We experienced declines in revenues for the nine months ended September 30, 2009 as compared to the same period of 2008 as a result of a decline in general global economic conditions and the fact that we operate in a very competitive industry. Financial comparisons discussed herein may not be indicative of future performance. We believe a significant challenge we face is to persuade prospective customers with limited budgets to purchase our products and services instead of investing in competing IT projects.

Software license revenues increased 29% during the three months ended September 30, 2009, to \$2.7 million, as compared to \$2.1 million for the three months ended September 30, 2008 due to more license deals closing in the three months ended September 30, 2009 than in the three months ended September 30, 2008, and due to a significant transaction that closed during the three months ended September 30, 2009. Software license revenues increased 2% during the nine months ended September 30, 2009, to \$8.7 million, as compared to \$8.5 million for the nine months ended September 30, 2008. The increase is attributable to our having closed a significant transaction during the third quarter of 2009.

Services revenues consisting of consulting revenues, customer training revenues and maintenance revenues decreased 21% during the three months ended September 30, 2009, to \$4.9 million, as compared to \$6.1 million for the three months ended September 30, 2008. Services revenues consisting of consulting revenues, customer training revenues and maintenance revenues decreased 15% during the nine months ended September 30, 2009, to \$15.0 million, as compared to \$17.7 million for the nine months ended September 30, 2008. Maintenance revenues decreased 18% for the three months ended September 30, 2009, to \$3.6 million, as compared to \$4.4 million for the three months ended September 30, 2008. Maintenance revenues decreased 16% for the nine months ended September 30, 2009, to \$11.2 million, as compared to \$13.3 million for the nine months ended September 30, 2008. This decrease in maintenance revenues was due to a decline in the renewal of our customers' annual maintenance commitments, which we believe is primarily due to limitations on customers' IT budgets. Consulting and training revenues decreased 29% for the three months ended September 30, 2009, to \$1.2 million, as compared to \$1.7 million for the three months ended September 30, 2008. Consulting and training revenues decreased 14% for the nine months ended September 30, 2009, to \$3.8 million, as compared to \$4.4 million for the nine months ended September 30, 2008. We believe this decrease in consulting revenues is primarily attributable to our existing customers' limited IT budgets.

Cost of Revenues

Cost of software license revenues includes the costs of product media, duplication, packaging and other manufacturing costs, as well as royalties payable to third parties for software that is either embedded in, or bundled and licensed with our products. Cost of services consists primarily of employee-related costs, third-party consultant fees incurred on consulting projects, post-contract customer support and instructional training services. A summary of our cost of revenues is as follows (dollars in thousands, unaudited):

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---------------------------|----------------------------------|------|----------|------|---------------------------------|------|----------|------|
| | 2009 | %(1) | 2008 | %(1) | 2009 | %(1) | 2008 | %(1) |
| Cost of software licenses | \$ 6 | 0% | \$ 7 | 0% | \$ 26 | 0% | \$ 20 | 0% |
| Cost of services | 1,784 | 24 | 2,218 | 27 | 5,707 | 24 | 6,626 | 25 |
| Total cost of revenues | \$ 1,790 | 24% | \$ 2,225 | 27% | \$ 5,733 | 24% | \$ 6,646 | 25% |

(1) Expressed as a percent of total revenues for the period indicated.

Cost of software licenses decreased 14% during the three months ended September 30, 2009, to \$6,000, as compared to \$7,000 for the three months ended September 30, 2008. Cost of software licenses increased 30% during the nine months ended September 30, 2009, to \$26,000, as compared to \$20,000 for the nine months ended September 30, 2008. This increase is primarily the result of an increase in the portion of license revenues generated from royalty-bearing products.

Cost of services decreased 18% during the three months ended September 30, 2009, to \$1.8 million, as compared to \$2.2 million for the three months ended September 30, 2008. Cost of services decreased 14% during the nine months ended September 30, 2009, to \$5.7 million, as compared to \$6.6 million for the nine months ended September 30, 2008. These decreases are the result of a reduction in consulting expenses and employee related expense resulting from a decrease in services revenue.

Gross margin increased to 76% during the three months ended September 30, 2009 as compared to 73% for the three months ended September 30, 2008. This increase is the result of a reduction in cost of revenue. Gross margin increased to 76% during the nine months ended September 30, 2009, as compared to 75% for the nine months ended September 30, 2008.

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A summary of operating expenses, including as a percentage of total revenues, is set forth in the following table (dollars in thousands, unaudited):

| | Three Months Ended | | | | Nine Months Ended | | | |
|-------------------------------|--------------------|------|----------|-----|-------------------|------|-----------|-----|
| | September 30, | | | | September 30, | | | |
| | 2009 | %(1) | 2008 | % | 2009 | %(1) | 2008 | % |
| Research and development | \$ 2,169 | 29% | \$ 2,217 | 27% | \$ 6,346 | 27% | \$ 6,863 | 26% |
| Sales and marketing | 2,024 | 27 | 1,937 | 24 | 6,002 | 25 | 5,783 | 22 |
| General and administrative | 1,006 | 13 | 1,659 | 20 | 3,603 | 15 | 4,960 | 19 |
| Restructuring (credit) charge | (4) | 0 | 6 | (0) | 50 | 0 | (17) | 0 |
| Total operating expenses | \$ 5,195 | 69% | \$ 5,819 | 71% | \$ 16,001 | 67% | \$ 17,589 | 67% |

(1) Expressed as a percent of total revenues for the period indicated.

Research and development expenses remained constant at \$2.2 million during the three months ended September 30, 2009, as compared the three months ended September 30, 2008. Research and development expenses decreased 9% during the nine months ended September 30, 2009, to \$6.3 million, as compared to \$6.9 million for the nine months ended September 30, 2008. This decrease was the result of reductions in contractor related expenses.

Sales and marketing expenses increased 5% during the three months ended September 30, 2009, to \$2.0 million, as compared to \$1.9 million for the three months ended September 30, 2008. Sales and marketing expenses increased 3% during the nine months ended September 30, 2009, to \$6.0 million, as compared to \$5.8 million for the nine months ended September 30, 2008. These increases were the result of marketing expansions in 2009.

General and administrative expenses decreased 41% during the three months ended September 30, 2009, to \$1.0 million, as compared to \$1.7 million for the three months ended September 30, 2008. General and administrative expenses decreased 28% during the nine months ended September 30, 2009, to \$3.6 million, as compared to \$5.0 million for the nine months ended September 30, 2008. These decreases are primarily a result of a reduction in headcount plus a one-time reduction of approximately \$200,000 due to the reversal of an accrued legal fee from the local governmental regulatory entity of our subsidiary for the nine months ended September 30, 2009. The reversal was due to the final settlement with the local subsidiary government's filing and other regulatory requirements.

Interest income, net decreased 75% for the three months ended September 30, 2009, to \$117,000, as compared to \$478,000 for the three months ended September 30, 2008. Interest income, net decreased 53% for the nine months ended September 30, 2009, to \$601,000, as compared to \$1,280,000 for the nine months ended September 30, 2008. The decreases are due to a decline in interest rates.

Gain on revaluation of warrants for the three months ended September 30, 2009 was a total gain of \$154,000, as compared to a gain of \$581,000 for the three months ended September 30, 2008. Gain on revaluation of warrants for the nine months ended September 30, 2009 was \$147,000, as compared to a gain of \$3,661,000 for the nine months ended September 30, 2008. These changes are primarily due to fluctuations in our stock price during the relevant periods and the reduction in time to maturity.

Other income (expense), net during the three months ended September 30, 2009, was income of \$867,000, as compared to expense of \$876,000 for the three months ended September 30, 2008. Other income (expense), net during the nine months ended September 30, 2009, was an income of \$669,000, as compared to an income of \$458,000 for the nine months ended September 30, 2008. The changes were primarily due to unrealized gain or loss on foreign exchange transactions. Additionally, the quarter ended June 30, 2009, included a reversal of royalty accrual of \$290,000 as a result of the statute of limitation expiring as of June 30, 2009.

Benefit (provision) for income taxes expense during the three months ended September 30, 2009, was a benefit of \$104,000, as compared to a provision of \$41,000 for the three months ended September 30, 2008. Provision for income taxes expense during the nine months ended September 30, 2009, was \$116,000, as compared to \$328,000 for the nine months ended September 30, 2008. The provision for fiscal year 2009 was primarily related to Federal alternative minimum taxes (AMT) and state income taxes. A component of the expense also includes an accrual related to an ongoing income tax audit of a foreign subsidiary for the tax year ended December 31, 2006 and an offsetting benefit for the release of deferred revenue accrual upon the execution of an income tax accounting method change completed in the third quarter of 2009. Both of these items are accounted for under ASC 740-10 (formerly FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No.109.

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Liquidity and Capital Resources

Overview

We continue to maintain a strong cash position on our Condensed Consolidated Balance Sheet. As of September 30, 2009, we had \$63.2 million of cash and cash equivalents and short-term investments with no long-term debt borrowings, as compared to a balance of \$61.9 million at December 31, 2008. The increase was due primarily to operations and the \$600,000 of cash received from our subtenant relating to the early settlement of termination of the sublease in the nine months ended September 30, 2009.

Revenues for the first nine months of 2009 were \$23.7 million, as compared to revenues of \$26.3 million for the first nine months of 2008. License revenue for the first nine months of 2009 was \$8.7 million compared to \$8.5 million for the first nine months of 2008. The majority of our license and subscription revenue for the third quarter of 2009 was generated by our BroadVision®Business Agility Suite™, Commerce Agility Suite™, QuickSliver™, CLEAR™, and Clearval solutions. We have entered into licensing agreements with new and existing customers, such as the Department of Defence, India; Exempla Healthcare; ClubMed; Siemens AG and several other brand name global customers. License revenues decreased in Europe and Asia Pacific regions as compared to the third quarter of 2008, due to decreased demand for our products and weak macroeconomic conditions.

We continued to focus on expense control in the third quarter of 2009. Operating expenses for the third quarter of 2009 were \$5.2 million, as compared to \$5.8 million for the third quarter of 2008. For the three months ended September 30, 2009 and 2008, we had a gain of \$154,000 and \$581,000, respectively, on the revaluation of warrants. For the three months ended September 30, 2009, net income was \$1.8 million, or \$0.41 per diluted share. This compares to net income of \$289,000, or \$0.06 per diluted share, for the three months ended September 30, 2008.

The following table represents our liquidity at September 30, 2009 and December 31, 2008 (dollars in thousands):

| | September 30, 2009 (unaudited) | December 31, 2008 |
|---|--------------------------------------|----------------------|
| Cash and cash equivalents | \$ 36,085 | \$ 52,884 |
| Short-term investments | \$ 27,094 | \$ 9,004 |
| Restricted cash, current portion | \$ 20 | \$ 20 |
| Restricted cash, net of current portion | \$ 1,000 | \$ 1,000 |
| Working capital | \$ 54,610 | \$ 51,070 |
| Working capital ratio | 4.97 | 3.37 |

Cash Provided By Operating Activities

Cash provided by operating activities was \$1.6 million for the nine months ended September 30, 2009, and was mainly attributable to a \$3.3 million operating profit (excluding restructuring charges and revaluation of warrants), a decrease of \$2.3 million in accounts receivables and unearned revenue accounts, and an additional \$600,000 of cash received from our subtenant relating to the early settlement and termination of the sublease during last quarter.

Cash provided by operating activities was \$8.3 million for the nine months ended September 30, 2008. Net cash provided by operating activities in this period consisted primarily of \$3.1 million in operating profit (excluding restructuring charges and revaluation of warrants) generated from sales margin improvement and company-wide cost

reduction efforts, plus the increase of \$5.2 million in the other areas, such as prepaid, other current assets, unearned revenue accounts, accounts receivable and other liabilities.

Cash Used For Investing Activities

Cash used for investing activities was \$18.1 million for the nine months ended September 30, 2009. This figure reflects the purchase of short-term investments in bonds and certificates of deposit. Cash used for investing activities was \$70,000 for the nine months ended September 30, 2008. This figure reflects receipt of a \$35,000 dividend from a cost method investment previously written off, offset by \$105,000 in expenditures for the purchase of property and equipment.

Cash Provided By Financing Activities

Cash provided by financing activities was \$409,000 for the nine months ended September 30, 2009, primarily consisting of cash received in employees' purchases of common stock under the Employee Stock Purchase Plan ("Purchase Plan"). Cash provided by financing activities was \$594,000 for the nine months ended September 30, 2008, primarily consisting of cash received in connection with the exercise of stock options and employees' purchases of common stock under the Purchase Plan.

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Leases and Other Contractual Obligations

We lease our headquarters facility and other facilities under non-cancelable operating lease agreements expiring through the year 2012. A total of \$1.0 million of restricted cash as shown on our Condensed Consolidated Balance Sheets represents collateral for the letter of credit which has been issued in connection with our facility lease obligation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We had no derivative financial instruments as of September 30, 2009 and 2008. We place our investments in instruments that meet high credit quality standards and the amount of credit exposure to any one issue, issuer and type of instrument is limited.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer have concluded, based on an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at that reasonable assurance level. However, our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject from time to time to various legal actions and other claims arising in the ordinary course of business. We are not a party to any legal proceedings that we believe would have a material adverse effect on our financial position or our results of operation.

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Item 1A. Risk Factors

The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business could be harmed. In that event, the trading price of our common stock could decline.

Our business currently depends on revenue related to BroadVision e-business solutions, and if the market does not increasingly accept these products and related products and services, our revenue may continue to decline.

We generate our revenue from licenses of BroadVision e-business solutions, including process, commerce, portal and content management and related products and services. We expect that these products, and future upgraded versions, will continue to account for a large portion of our revenue in the foreseeable future. Our future financial performance will depend on increasing acceptance of our current products and on the successful development, introduction and customer acceptance of new and enhanced versions of our products. If new and future versions and updates of our products and services do not gain market acceptance when released commercially, or if we fail to deliver the product enhancements and complementary third party products that customers want, demand for our products and services, and our revenue, may decline.

We have recently introduced new products, services and technologies and our business will be harmed if we are not successful in selling these offerings to our existing customers and new customers.

In early 2007, we introduced a product roadmap that included new products, services and technologies, to complement and replace certain of our existing products, services and technologies. We formally released BroadVision 8.1™ at the end of the third quarter of 2007. In June 2009 we introduced Clearvale, an enterprise social network; and CLEAR (Formerly known as CHRM, Collaborative Human Resource Management), a collaborative workforce relationship management solution. We have spent significant resources in developing these offerings and training our employees to implement and support the offerings, and we plan to add additional sales and marketing resources to support these new products, services and technologies. We do not yet know whether any of these new offerings will appeal to a sufficient number of existing and potential new customers for us to earn a profit or even offset the costs of development, implementation, support and marketing. Particularly in difficult economic times when companies are more likely to be managing spending, potential new customers may delay spending decisions and our existing customers may determine that the BroadVision products and services they currently use are sufficient for their purposes, or that the added benefit from these new offerings is not sufficient to merit the additional cost. As a result we may need to decrease our prices or develop modifications. Although we have performed extensive testing of our new products and technologies, their broad-based implementation may require more support than we anticipate, which would further increase our expenses. If sales of our new products, services and technologies are lower than we expect, or if we must lower our prices or delay implementation to fix unforeseen problems and develop modifications, our operating margins are likely to decrease and we may not be able to operate profitably. A failure to operate profitably would significantly harm our business.

Current and potential competitors could make it difficult for us to acquire and retain customers now and in the future.

The market for our products is intensely competitive. We expect competition in this market to persist and increase in the future. If we fail to compete successfully with current or future competitors, we may be unable to attract and retain customers. Increased competition could also result in price reductions for our products and lower profit margins and reduced market share, any of which could harm our business, results of operations and financial condition.

Many of our competitors have significantly greater financial, technical, marketing and other resources, greater name recognition, a broader range of products and a larger installed customer base, any of which could provide them with a significant competitive advantage. In addition, new competitors, or alliances among existing and future competitors, may emerge and rapidly gain significant market share. Some of our competitors, particularly established software vendors, may also be able to provide customers with products and services comparable to ours at lower or at aggressively reduced prices in an effort to increase market share or as part of a broader software package they are selling to a customer. We may be unable to match competitor's prices or price reductions, and we may fail to win customers that choose to purchase an information technology solution as part of a broader software and services package. As a result, we may be unable to compete successfully with current or new competitors.

If we are unable to keep pace with the rapid technological changes in online commerce and communication, our products and services may fail to be competitive.

Our products and services may fail to be competitive if we do not maintain or exceed the pace of technological developments in Internet commerce and communication. Failure to be competitive could cause our revenue to decline. The information services, software and communications industries are characterized by rapid technological change, changes in customer requirements, frequent new product and service introductions and enhancements and evolving industry standards and practices. The introduction of products and services embodying new technologies and the emergence of new industry standards and practices can render existing products and services obsolete. Our future success will depend, in part, on our ability to:

- develop leading technologies;
- enhance our existing products and services;
- develop new products and services that address the increasingly sophisticated and varied needs of our prospective customers; and
- respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis.

We have a history of losses and our future profitability on a quarterly or annual basis is uncertain, which could have a harmful effect on our business and the value of BroadVision common stock.

Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control. As of September 30, 2009, we had an accumulated deficit of approximately \$1.2 billion.

Given our planned operating and capital expenditures, for the foreseeable future we expect our results of operations to fluctuate, and during this period we may incur losses and/or negative cash flows. If our revenue does not increase or if we fail to maintain our expenses at an amount less than our projected revenue, we will not be able to achieve or sustain operating profitability on a consistent basis. We are continuing our efforts to reduce and control our expense structure. We believe strict cost containment and expense reductions are essential to achieving positive cash flow and profitability. A number of factors could preclude us from successfully bringing costs and expenses in line with our revenues, including unplanned uses of cash, the inability to accurately forecast business activities and further deterioration of our revenues. If we are not able to effectively reduce our costs and achieve an expense structure commensurate with our business activities and revenues, we may have inadequate levels of cash for operations or for capital requirements, which could significantly harm our ability to operate our business.

Our failure to operate profitably or control negative cash flows on a quarterly or annual basis could harm our business and the value of BroadVision common stock. If the negative cash flow continues, our liquidity and ability to operate our business would be severely and adversely impacted. Additionally, our ability to raise financial capital may be hindered due to our operational losses and negative cash flows, reducing our operating flexibility.

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Our quarterly operating results are volatile and difficult to predict, and our stock price may decline if we fail to meet the expectations of securities analysts or investors.

Historically our quarterly operating results have varied significantly from quarter to quarter and are likely to continue to vary significantly in the future. If our revenues, operating results, earnings or projections are below the levels expected by securities analysts or investors, our stock price is likely to decline.

We are likely to continue to experience significant fluctuations in our future results of operations due to a variety of factors, some of which are outside of our control, including:

- introduction of products and services and enhancements by us and our competitors;
- competitive factors that affect our pricing;
- market acceptance of new products;
- the mix of products sold by us;
- the timing of receipt, fulfillment and recognition as revenue of significant orders;
- changes in our pricing policies or our competitors;
- changes in our sales incentive plans;
- the budgeting cycles of our customers;
- customer order deferrals in anticipation of new products or enhancements by our competitors or us or because of macro-economic conditions;
- nonrenewal of our maintenance agreements, which generally automatically renew for one-year terms unless earlier terminated by either party upon 90-days notice;
- product life cycles;
- changes in strategy;
- seasonal trends;
- the mix of distribution channels through which our products are sold;
- the mix of international and domestic sales;
- the rate at which new sales people become productive;
- changes in the level of operating expenses to support projected growth;
- increase in the amount of third party products and services that we use in our products or resell with royalties attached;
- fluctuations in the recorded value of outstanding common stock warrants that will be based upon changes to the underlying market value of BroadVision common stock; and
- costs associated with litigation, regulatory compliance and other corporate events such as operational reorganizations.

As a result of these factors, we believe that quarter-to-quarter comparisons of our revenue and operating results are not necessarily meaningful, and that these comparisons are not accurate indicators of future performance. Because our staffing and operating expenses are based on anticipated revenue levels, and because a high percentage of our costs are fixed, small variations in the timing of the recognition of specific revenue could cause significant variations in operating results from quarter to quarter. If we were unable to adjust spending in a timely manner to compensate for any revenue shortfall, any significant revenue shortfall would likely have an immediate negative effect on our operating results. If our operating results in one or more future quarters fail to meet the expectations of securities analysts or investors, we would expect to experience an immediate and significant decline in the trading price of our stock.

Our sales and product implementation cycles are lengthy and subject to delay, which make it difficult to predict our quarterly results.

Our sales and product implementation cycles generally span months. Delays in customer orders or product implementations, which are difficult to predict, can affect the timing of revenue recognition and adversely affect our quarterly operating results. Licensing our products is often an enterprise-wide decision by prospective customers. The importance of this decision requires that we engage in a lengthy sales cycle with prospective customers. A successful sales cycle may last up to nine months or longer. Our sales cycle is also affected by a number of other factors, some of which we have little or no control over, including the volatility of the overall software market, the business condition and purchasing cycle of each prospective customer, and the performance of our technology partners, systems integrators and resellers. The implementation of our products can also be time and resource intensive, and subject to unexpected delays. Delays in either product sales or implementations could cause our operating results to vary significantly from quarter to quarter.

Because a significant portion of our sales activity occurs at the end of each fiscal quarter, delays in a relatively small number of license transactions could adversely affect our quarterly operating results.

A significant proportion of our sales are concentrated in the last month of each fiscal quarter. Gross margins are high for our license transactions. Customers and prospective customers may use these conditions in an attempt to obtain more favorable terms. While we endeavor to avoid making concessions that could result in lower margins, the negotiations often result in delays in closing license transactions. Small delays in a relatively small number of license transactions could have a significant impact on our reported operating results for that quarter.

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We have substantially modified our business and operations and will need to manage and support these changes effectively in order for our business plan to succeed.

We have substantially expanded and subsequently contracted our business and operations since our inception in 1993. We grew from 652 employees at the end of 1999 to 2,412 employees at the end of 2000 and then reduced our numbers to 159 at the end of 2006, and 219 at the end of 2008. On September 30, 2009, we had 230 employees. As a consequence of our employee base growing and then contracting so rapidly, we entered into significant contracts for facilities space for which we ultimately determined we did not have a future use. We announced during the third and fourth quarters of 2004 that we had agreed with the landlords of various facilities to renegotiate future lease commitments, extinguishing a total of approximately \$155 million of future obligations. The management of the expansion and later reduction of our operations has taken a considerable amount of our management's attention during the past several years. As we manage our business to introduce and support new products, we will need to continue to monitor our workforce and make appropriate changes as necessary. If we are unable to support past changes and implement future changes effectively, we may have to divert additional resources away from executing our business plan and toward internal administration. If our expenses significantly outpace our revenues, we may have to make additional changes to our management systems and our business plan may not succeed.

We may face liquidity challenges and need additional financing in the future.

We currently expect to be able to fund our working capital requirements from our existing cash and cash equivalents and our anticipated cash flows from operations and subleases through at least September 30, 2010. However, we could experience unforeseen circumstances, such as an economic downturn, difficulties in retaining customers and/or key employees, or other factors that could increase our use of available cash and require us to seek additional financing. We may find it necessary to obtain additional equity or debt financing due to the factors listed above or in order to support a more rapid expansion, develop new or enhanced products or services, respond to competitive pressures, acquire complementary businesses or technologies or respond to unanticipated requirements.

We may seek to raise additional funds through private or public sales of securities, strategic relationships, bank debt, financing under leasing arrangements or otherwise. If additional funds are raised through the issuance of equity securities, the percentage ownership of our stockholders will be reduced, stockholders may experience additional dilution or any equity securities we sell may have rights, preferences or privileges senior to those of the holders of our common stock. We expect that obtaining additional financing on acceptable terms would be difficult, at best. If adequate funds are not available or are not available on acceptable terms, we may be unable to pay our debts as they become due, develop our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could have a material adverse effect on our business, financial condition and future operating results.

If we are unable to maintain our disclosure controls and procedures, including our internal control over financial reporting, our ability to report our financial results on a timely and accurate basis may be adversely affected.

We have evaluated our "disclosure controls and procedures" as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as well as our internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002. Our independent registered public accounting firm has performed a similar evaluation of our internal control over financial reporting. Effective controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed.

We previously reported that as of March 31, 2006, we did not have a sufficient number of experienced personnel in our accounting and finance organization to facilitate an efficient financial statement close process and permit the

preparation of our financial statements in accordance with U.S. GAAP. For example, there were a significant number of adjustments to our financial statements during the course of the 2005 audit, at least one of which was individually material and required us to restate several prior quarters. Our personnel also lacked certain required skills and competencies to oversee the accounting operations and perform certain important control functions, such as the review, periodic inspection and investigation of transactions of our foreign locations. We consider this to be a deficiency that was also a material weakness in the operation of entity-level controls. Despite taking a variety of remedial measures, we were unable to conclude that no material weakness existed as of December 31, 2006. Accordingly, when our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006, this assessment identified one material weakness.

While we have remedied this material weakness as of December 31, 2007, maintaining sufficient expertise and historical institutional knowledge in our accounting and finance organization is dependent upon retaining existing employees and filling any open positions with experienced personnel in a timely fashion. The market for skilled accounting and finance personnel is competitive and we may have continued difficulty in retaining our staff because (1) the region in which we compete consists of many established companies that can offer more lucrative compensation packages and (2) some professionals are reluctant to deal with the complex accounting issues relating to our historical operations. Our inability to staff the department with competent personnel with sufficient training will affect our internal controls over financial reporting to the extent that we may not be able to prevent or detect material misstatements.

We are dependent on direct sales personnel and third-party distribution channels to achieve revenue growth.

To date, we have sold our products primarily through our direct sales force. Our ability to achieve significant revenue growth in the future largely will depend on our success in recruiting, training and retaining sufficient direct sales personnel and establishing and maintaining relationships with distributors, resellers and systems integrators. Our products and services require a sophisticated sales effort targeted at the senior management of our prospective customers. New hires as well as employees of our distributors, resellers and systems integrators require training and may take a significant amount of time before achieving full productivity. Our recent hires may not become as productive as necessary, and we may be unable to hire and retain sufficient numbers of qualified individuals in the future. We have entered into strategic alliance agreements with partners, under which partners have agreed to resell and support our current BroadVision product suite. These contracts are generally terminable by either party upon 30 days' notice of an uncured material breach or for convenience upon 90 days' notice prior to the end of any annual term. Termination of any of these alliances could harm our expected revenues. We may be unable to expand our other distribution channels, and any expansion may not result in revenue increases. If we fail to maintain and expand our direct sales force or other distribution channels, our revenues may not grow or they may decline. Revenue generated from third-party distributors in recent years has not been significant.

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Failure to maintain relationships with third-party systems integrators could harm our ability to achieve our business plan.

Our relationships with third-party systems integrators who deploy our products have been a key factor in our overall business strategy, particularly because many of our current and prospective customers rely on integrators to develop, deploy and manage their online marketplaces. Our efforts to manage our relationships with systems integrators may not succeed, which could harm our ability to achieve our business plan due to a variety of factors, including:

- Systems integrators may not view their relationships with us as valuable to their own businesses. The related arrangements typically may be terminated by either party with limited notice and in some cases are not covered by a formal agreement.
- Under our business model, we often rely on our system integrators' employees to perform implementations. If we fail to work together effectively, or if these parties perform poorly, our reputation may be harmed and deployment of our products may be delayed or inadequate.
- Systems integrators may attempt to market their own products and services rather than ours.
- Our competitors may have stronger relationships with our systems integrators than us and, as a result, these integrators may recommend a competitor's products and services over ours.
- If we lose our relationships with our systems integrators, we will not have the personnel necessary to deploy our products effectively, and we will need to commit significant additional sales and marketing resources in an effort to reach the markets and customers served by these parties.

We may be unable to manage or grow our international operations and assets, which could impair our overall growth or financial position.

We derive a significant portion of our revenue from our operations outside North America. In the nine months ended September 30, 2009, approximately 44% of our revenue was derived from international sales. If we are unable to manage or grow our existing international operations, we may not generate sufficient revenue required to establish and maintain these operations, which could slow our overall growth and impair our operating margins.

As we rely materially on our operations outside of North America, we are subject to significant risks of doing business internationally, including:

- difficulties in staffing and managing foreign operations and safeguarding foreign assets;
- unexpected changes in regulatory requirements;
- export controls relating to encryption technology and other export restrictions;
- tariffs and other trade barriers;
- difficulties in staffing and managing foreign operations;
- political and economic instability;
- fluctuations in currency exchange rates;
- reduced protection for intellectual property rights in some countries;
- cultural barriers;
- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world; and
- potentially adverse tax consequences.

Management of international operations presents special challenges, particularly at our reduced staffing levels. For example, during 2008 we uncovered through our whistle blower program that an officer of our Japan subsidiary was involved in a scheme to submit fraudulent expense reimbursements totaling approximately \$84,000 during the period

between 2007 and 2008. We were able to recover the funds from the officer and the officer was terminated. Although this scheme was detected, we face the risk that other similar misappropriations of assets may occur in the future.

Our international sales growth could be limited if we are unable to establish additional foreign operations, expand international sales channel management and support, hire additional personnel, customize products for local markets and develop relationships with international service providers, distributors and system integrators. Even if we are able to successfully expand our international operations, we may not succeed in maintaining or expanding international market demand for our products.

Our success and competitive position will depend on our ability to protect our proprietary technology.

Our success and ability to compete are dependent to a significant degree on our proprietary technology. We hold a U.S. patent, issued in January 1998, on elements of the BroadVision platform, which covers electronic commerce operations common in today's web business. We also hold a U.S. patent, issued in November 1996, acquired as part of the Interleaf acquisition on the elements of the extensible electronic document processing system for creating new classes of active documents. Although we hold these patents, they may not provide an adequate level of intellectual property protection. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others. It is also possible that third parties may claim we have infringed their patent, trademark, copyright or other proprietary rights. Claims may be made for indemnification resulting from allegations of infringement. Intellectual property infringement claims may be asserted against us as a result of the use by third parties of our products. Claims or litigation, with or without merit, could result in substantial costs and diversions of resources, either of which could harm our business.

We also rely on copyright, trademark, service mark, trade secret laws and contractual restrictions to protect our proprietary rights in products and services. We have registered "BroadVision", "iGuide", "Interleaf" and "Interleaf Xtreme" as trademarks in the United States and in other countries. It is possible that our competitors or other companies will adopt product names similar to these trademarks, impeding our ability to build brand identity and possibly confusing customers.

As a matter of our company policy, we enter into confidentiality and assignment agreements with our employees, consultants and vendors. We also control access to and distribution of our software, documents and other proprietary information. Notwithstanding these precautions, it may be possible for an unauthorized third party to copy or otherwise obtain and use our software or other proprietary information or to develop similar software independently. Policing unauthorized use of our products will be difficult, particularly because the global nature of the Internet makes it difficult to control the ultimate destination or security of software and other transmitted data. The laws of other countries may afford us little or no effective protection of our intellectual property.

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A breach of the encryption technology that we use could expose us to liability and harm our reputation, causing a loss of customers.

If any breach of the security technology embedded in our products were to occur, we would be exposed to liability and our reputation could be harmed, which could cause us to lose customers. A significant barrier to online commerce and communication is the secure exchange of valuable and confidential information over public networks. We rely on encryption and authentication technology, including Open SSL and public key cryptography technology featuring the major encryption algorithms RC2 and MD5, to provide the security and authentication necessary to affect the secure exchange of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could cause a breach of the RSA or other algorithms that we use to protect customer transaction data.

The loss or malfunction of technology licensed from third parties could delay the introduction of our products and services.

We rely in part on technology that we license from third parties, including relational database management systems from Oracle and Sybase, Informix object request broker software from IONA Technologies PLC, and database access technology from Rogue Wave Software. The loss or malfunction of any of these technology licenses could harm our business. We integrate or sublicense this technology with internally developed software to perform key functions. For example, our products and services incorporate data encryption and authentication technology licensed from Open SSL. Third-party technology licenses might not continue to be available to us on commercially reasonable terms, or at all. Moreover, the licensed technology may contain defects that we cannot control. Problems with our technology licenses could cause delays in introducing our products or services until equivalent technology, if available, is identified, licensed and integrated. Delays in introducing our products and services could adversely affect our results of operations.

Our officers, key employees and highly skilled technical and managerial personnel are critical to our business, and they may not remain with us in the future.

Our performance substantially depends on the performance of our officers and key employees. We also rely on our ability to retain and motivate qualified personnel, especially our management and highly skilled development teams. The loss of the services of any of our officers or key employees, particularly our founder and Chief Executive Officer, Dr. Pehong Chen, could cause us to incur increased operating expenses and divert senior management resources in searching for replacements. The loss of their services also could harm our reputation if our customers were to become concerned about our future operations. We do not carry "key person" life insurance policies on any of our employees. Our future success also depends on our continuing ability to identify, hire, train and retain other highly qualified technical and managerial personnel. Competition for these personnel is intense, especially in the Internet industry. We have in the past experienced, and may continue to experience, difficulty in hiring and retaining sufficient numbers of highly skilled employees. The significant downturn in our business over the past several years has had and may continue to have a negative impact on our operations. We have restructured our operations by reducing our workforce and implementing other cost containment activities. These actions could lead to disruptions in our business, reduced employee morale and productivity, increased attrition, and problems with retaining existing and recruiting future employees.

Limitations on the online collection of profile information could impair the effectiveness of our products.

Online users' resistance to providing personal data, and laws and regulations prohibiting use of personal data gathered online without express consent or requiring businesses to notify their web site visitors of the possible dissemination of their personal data, could limit the effectiveness of our products. This in turn could adversely affect our sales and

results of operations.

One of the principal features of our products is the ability to develop and maintain profiles of online users to assist business managers in determining the nature of the content to be provided to these online users. Typically, profile information is captured when consumers, business customers and employees visit a web site and volunteer information in response to survey questions concerning their backgrounds, interests and preferences. Profiles can be augmented over time through the subsequent collection of usage data. Although our products are designed to enable the development of applications that permit web site visitors to prevent the distribution of any of their personal data beyond that specific web site, privacy concerns may nevertheless cause visitors to resist providing the personal data necessary to support this profiling capability. The mere perception by prospective customers that substantial security and privacy concerns exist among online users, whether or not valid, may indirectly inhibit market acceptance of our products.

In addition, new laws and regulations could heighten privacy concerns by requiring businesses to notify web site users that the data captured from them while online may be used by marketing entities to direct product messages to them. We are subject to increasing regulation at the federal and state levels relating to online privacy and the use of personal user information. Several states have proposed legislation that would limit the uses of personal user information gathered online or require online services to establish privacy policies. In addition, the U.S. Federal Trade Commission, or FTC, has urged Congress to adopt legislation regarding the collection and use of personal identifying information obtained from individuals when accessing web sites. The FTC has settled several proceedings resulting in consent decrees in which Internet companies have been required to establish programs regarding the manner in which personal information is collected from users and provided to third parties. We could become a party to a similar enforcement proceeding. These regulatory and enforcement efforts could also harm our customers' ability to collect demographic and personal information from users, which could impair the effectiveness of our products.

We may not have adequate back-up systems, and natural or manmade disasters could damage our operations, reduce our revenue and lead to a loss of customers.

We do not have fully redundant systems for service at an alternate site. A disaster could severely harm our business because our service could be interrupted for an indeterminate length of time. Our operations depend upon our ability to maintain and protect our computer systems at our facility in Redwood City, California, which reside on or near known earthquake fault zones. Although these systems are designed to be fault tolerant, they are vulnerable to damage from fire, floods, earthquakes, power loss, acts of terrorism, telecommunications failures and similar events. In addition, our facilities in California could be subject to electrical blackouts if California faces another power shortage similar to that of 2001. Although we do have a backup generator that would maintain critical operations, this generator could fail. We also have significantly reduced our workforce in a short period of time, which has placed different requirements on our systems and has caused us to lose personnel knowledgeable about our systems, both of which could make it more difficult to quickly resolve system disruptions. Disruptions in our internal business operations could harm our business by resulting in delays, disruption of our customers' business, loss of data, and loss of customer confidence.

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Risks related to BroadVision common stock

One stockholder beneficially owns a substantial portion of the outstanding BroadVision common stock, and as a result exerts substantial control over us.

As of September 30, 2009, Dr. Pehong Chen, our Chairman and CEO, beneficially owned approximately 1.6 million shares of our common stock, which represents approximately 36% of the outstanding common stock as of such date. As a result, Dr. Chen exerts substantial control over all matters coming to a vote of our stockholders, including with respect to:

- the composition of our board of directors and, through it, any determination with respect to our business direction and policies, including the appointment and removal of officers;
- any determinations with respect to mergers and other business combinations;
- our acquisition or disposition of assets;
- our financing activities; and
- the payment of dividends on our capital stock.

This control by Dr. Chen could depress the market price of our common stock or delay or prevent a change in control of BroadVision.

Our stock price has been highly volatile.

The trading price of BroadVision common stock has been highly volatile. For example, the trading price of BroadVision common stock has ranged from \$9.52 per share to \$70.75 per share between September 30, 2007 and September 30, 2009. On November 5, 2009 the closing price of BroadVision common stock was \$14.64 per share. Our stock price is subject to wide fluctuations in response to a variety of factors, including:

- quarterly variations in operating results;
- announcements of technological innovations;
- announcements of new software or services by us or our competitors;
- changes in financial estimates by securities analysts;
- low trading volume on the NASDAQ Global Market;
- general economic conditions; or
- other events or factors that are beyond our control.

In addition, the stock market has experienced significant price and volume fluctuations that have particularly affected the trading prices of equity securities of many technology companies. These fluctuations have often been unrelated or disproportionate to the operating performance of these companies. Any negative change in the public's perception of the prospects of Internet or electronic commerce companies could further depress our stock price regardless of our results. Other broad market fluctuations may decrease the trading price of BroadVision common stock. In the past, following a significant decline in the market price of a company's securities, securities class action litigation, such as the class action lawsuits filed against us and certain of our officers and directors in early 2001, is frequently instituted against the company. Litigation could result in substantial costs and a diversion of management's attention and resources.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

| Exhibits | Description |
|------------|---|
| 3.1 (1) | Amended and Restated Certificate of Incorporation. |
| 3.2 (2) | Certificate of Amendment of Certificate of Incorporation. |
| 3.3 (4) | Certificate of Amendment of Certificate of Incorporation. |
| 3.4 (3) | Amended and Restated Bylaws. |
| 4.1 (1) | References are hereby made to Exhibits 3.1 to 3.3 |
| 10.1(5)(a) | 2009 Employee Profit Sharing Plan Framework Document |
| 10.2(6)(a) | BroadVision, Inc. Severance Benefit Plan, as amended |
| 31.1 | Certification of the Chief Executive Officer of BroadVision. |
| 31.2 | Certification of the Chief Financial Officer of BroadVision. |
| 32.1 | Certification of the Chief Executive Officer and Chief Financial Officer of BroadVision pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| | |
| (1) | Incorporated by reference to the Company's Registration Statement on Form S-1 filed on April 19, 1996 as amended by Amendment No. 1 filed on May 9, 1996, Amendment No. 2 filed on May 29, 1996 and Amendment No. 3 filed on June 17, 1996. |
| (2) | Incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2006 filed on March 27, 2007. |
| (3) | Incorporated by reference to the Company's Current Report on Form 8-K filed on October 16, 2008. |
| (4) | Incorporated by reference to the Company's Form 10-Q for the fiscal quarter ended September 30, 2008 filed on November 6, 2008. |
| (5) | Incorporated by reference to the Company's Current Report on Form 8-K filed on July 24, 2009. |
| (6) | Incorporated by reference to the Company's Current Report on Form 8-K filed on October 27, 2009. |
| (a) | Represents a management contract or Compensatory plan or arrangement. |

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SIGNATURES

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

BROADVISION, INC.

Date: November 6, 2009 By: /s/ Pehong Chen
Pehong Chen
Chairman of the Board, President and Chief Executive Officer

BROADVISION, INC.

Date: November 6, 2009 By: /s/ Shin-Yuan Tzou
Shin-Yuan Tzou
Chief Financial Officer

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EXHIBIT INDEX

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- (4) Incorporated by reference to the Company's Form 10-Q for the fiscal quarter ended September 30, 2008 filed on November 6, 2008.
- (5) Incorporated by reference to the Company's Current Report on Form 8-K filed on July 24, 2009.
- (6) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 27, 2009.
- (a) Represents a management contract or Compensatory plan or arrangement.