

Edgar Filing: BROADVISION INC - Form 10-Q

BROADVISION INC  
Form 10-Q  
November 09, 2010

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, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-34205  
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 No.)

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 the 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 Act).  
Yes ☐ No ☒

Edgar Filing: BROADVISION INC - Form 10-Q

As of October 31, 2010, the registrant had 4,469,418 shares of common stock outstanding.

---

BROADVISION, INC. AND SUBSIDIARIES

FORM 10-Q

Quarter Ended September 30, 2010

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	1
	<u>Condensed Consolidated Balance Sheets at September 30, 2010 and December 31, 2009 (unaudited)</u>	1
	<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2010 and 2009 (unaudited)</u>	2
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009 (unaudited)</u>	3
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	4
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	15
<u>Item 4.</u>	<u>Controls and Procedures</u>	15

PART II. OTHER INFORMATION 15

<u>Item 1.</u>	<u>Legal Proceedings</u>	15
<u>Item 1A.</u>	<u>Risk Factors</u>	16
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	22
<u>Item 5.</u>	<u>Other Information</u>	22
<u>Item 6.</u>	<u>Exhibits</u>	22

SIGNATURES 23

EXHIBIT 31.1

EXHIBIT 31.2

EXHIBIT 32.1

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	September 30, 2010 (unaudited)	December 31, 2009 *
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 32,772	\$ 21,580
Short-term investments	29,132	40,209
Accounts receivable, net of reserves of \$122 as of September 30, 2010 and \$274 as of December 31, 2009	3,225	7,099
Restricted cash	-	20
Prepays and other	1,769	2,190
Total current assets	66,898	71,098
Property and equipment, net	266	384
Restricted cash, net of current portion	1,000	1,000
Other assets	332	385
Total assets	\$ 68,496	\$ 72,867
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 689	\$ 788
Accrued expenses	5,154	4,827
Unearned revenue	1,963	2,010
Deferred maintenance	4,473	7,496
Total current liabilities	12,279	15,121
Other non-current liabilities	2,592	2,353
Total liabilities	14,871	17,474
<b>Stockholders' equity:</b>		
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; 4,469 and 4,433 shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively	-	-
Additional paid-in capital	1,261,457	1,260,257
Accumulated other comprehensive loss	(999)	(1,195)
Accumulated deficit	(1,206,833)	(1,203,669)
Total stockholders' equity	53,625	55,393
Total liabilities and stockholders' equity	\$ 68,496	\$ 72,867

\* Derived from audited consolidated financial statements filed in the Company's 2009 Annual Report on Form 10-K.

See Accompanying Notes to Condensed Consolidated Financial Statements

~ 1 ~

---

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Software licenses	\$ 1,380	\$ 2,663	\$ 4,943	\$ 8,676
Services	3,805	4,879	11,787	15,039
Total revenues	5,185	7,542	16,730	23,715
<b>Cost of revenues:</b>				
Cost of software licenses	4	6	16	26
Cost of services	1,569	1,784	4,787	5,707
Total cost of revenues	1,573	1,790	4,803	5,733
Gross profit	3,612	5,752	11,927	17,982
<b>Operating expenses:</b>				
Research and development	1,738	2,169	5,779	6,346
Sales and marketing	1,887	2,024	5,393	6,002
General and administrative	1,160	1,006	3,692	3,603
Restructuring charge (credit)	98	(4)	744	50
Total operating expenses	4,883	5,195	15,608	16,001
Operating (loss) income	(1,271)	557	(3,681)	1,981
Interest income, net	90	117	319	601
Gain on revaluation of warrants	-	154	-	147
Other income, net	2,907	867	547	669
Income (loss) before provision for income taxes	1,726	1,695	(2,815)	3,398
(Provision) benefit for income taxes	(244)	104	(349)	(116)
Net income (loss)	\$ 1,482	\$ 1,799	\$ (3,164)	\$ 3,282
Basic income (loss) per share	\$ 0.33	\$ 0.41	\$ (0.71)	\$ 0.75
Diluted income (loss) per share	\$ 0.33	\$ 0.41	\$ (0.71)	\$ 0.75
<b>Shares used in computing:</b>				
Weighted average shares-basic	4,463	4,415	4,454	4,397
Weighted average shares-diluted	4,464	4,435	4,454	4,400
<b>Comprehensive income (loss):</b>				
Net income (loss)	\$ 1,482	\$ 1,799	\$ (3,164)	\$ 3,282
<b>Other comprehensive gain (loss), net of tax:</b>				
Foreign currency translation adjustment	17	(256)	196	(629)
Total comprehensive income (loss)	\$ 1,499	\$ 1,543	\$ (2,968)	\$ 2,653

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

BROADVISION, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net (loss) income	\$ (3,164)	\$ 3,282
Adjustments to reconcile net (loss) income to net cash (used for) provided by operating activities:		
Depreciation and amortization	124	162
Restructuring charge	744	50
Provision for receivable reserves	25	27
Stock based compensation	857	882
Gain on sale of cost method investments	(1,322)	(22)
Gain on revaluation of warrants	-	(147)
Changes in operating assets and liabilities:		
Accounts receivable	3,849	4,798
Prepays and other	441	747
Other non-current assets	52	68
Accounts payable and accrued expenses	128	(464)
Restructuring accrual	(527)	(338)
Unearned revenue and deferred maintenance	(3,070)	(7,091)
Other noncurrent liabilities	121	(402)
Net cash (used for) provided by operating activities	(1,742)	1,552
Cash flows from investing activities:		
Purchase of property and equipment	(4)	(63)
Proceeds from sale of cost method investments	1,322	22
Purchase of short term investments	(32,463)	(46,477)
Maturities of short term investments	43,540	28,387
Net cash provided by (used for) investing activities	12,395	(18,131)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	343	409
Net cash provided by financing activities	343	409
Effect of exchange rates on cash and cash equivalents	196	(629)
Net increase (decrease) in cash and cash equivalents	11,192	(16,799)
Cash and cash equivalents at beginning of period	21,580	52,884
Cash and cash equivalents at end of period	\$ 32,772	\$ 36,085

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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, 2010 compared to the disclosures in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission (the “SEC”) on March 5, 2010, 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, 2010 and 2009 are unaudited. The Condensed Consolidated Balance Sheet at December 31, 2009 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 2009 Annual Report on Form 10-K filed with the SEC on March 5, 2010.

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. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2010 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 receivable reserves, 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.

Stock-Based Compensation

The following table sets forth the total stock-based compensation expense recognized in our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009:

Edgar Filing: BROADVISION INC - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of services	\$ 35,174	\$ 36,247	\$ 91,757	\$ 92,427
Research and development	112,230	136,105	277,964	325,874
Sales and marketing	72,689	78,253	234,890	193,243
General and administrative	99,142	101,114	252,400	270,013
	\$ 319,235	\$ 351,719	\$ 857,011	\$ 881,557

~ 4 ~

---

Table of Contents

## Earnings Per Share Information

Basic net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding less shares subject to repurchase. Diluted net income (loss) 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 682,000 and 462,000 potential common shares excluded from the determination of diluted net income (loss) per share for the three months ended September 30, 2010 and 2009, 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 620,000 and 622,000 potential common shares excluded from the determination of diluted net income (loss) per share for the nine months ended September 30, 2010 and 2009, respectively, as the effect of including each share would be anti-dilutive because the per-share strike price of the option under which the share would be issued exceeds the current market price. The following table sets forth the basic and diluted net income (loss) per share computational data for the periods presented (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss)	\$ 1,482	\$ 1,799	\$ (3,164)	\$ 3,282
Weighted-average common shares outstanding used to compute basic income (loss) per share	4,463	4,415	4,454	4,397
Weighted-average common equivalent shares from outstanding common stock options and warrants	1	20	-	3
Total weighted-average common and common equivalent shares outstanding used to compute diluted income (loss) per share	4,464	4,435	4,454	4,400
Basic income (loss) per share	\$ 0.33	\$ 0.41	\$ (0.71)	\$ 0.75
Diluted income (loss) per share	\$ 0.33	\$ 0.41	\$ (0.71)	\$ 0.75

## 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 operations.

## 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, net in the Condensed Consolidated Statements of Operations. For the nine-month periods ended September 30, 2010 and 2009, the foreign currency translation adjustment gain (loss) was \$196,000 and (\$629,000), respectively. These amounts are included in accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets (see below).

## Comprehensive Income (Loss)

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

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, 2009	\$ (1,195)
Net change during period	196
Balance, September 30, 2010	\$ (999)

~ 5 ~

Table of Contents

## Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (“FASB”) issued new authoritative literature that provides guidance on determining multiple elements in an arrangement and how total consideration should be allocated amongst the elements. It also expands disclosure requirements for multiple-element arrangements. Concurrently, the FASB also issued new authoritative literature for arrangements that include both software and tangible products. This guidance excludes tangible products and certain related elements from the scope of the authoritative revenue recognition guidance specific to software transactions. The standards must both be adopted in the same period and can be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted, or they can be adopted on a retrospective basis. We are currently evaluating whether the standard will have any significant impact on our Condensed Consolidated Financial Statements.

In January 2010, the FASB issued new accounting guidance related to the disclosure requirements for fair value measurements and provides clarification for existing disclosure requirements. More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This guidance clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The new disclosures and clarifications of existing disclosure are effective for fiscal years beginning after December 15, 2009, except for the disclosure requirements related to the purchases, sales, issuances and settlements in the rollforward activity of Level 3 fair value measurements. Those disclosure requirements are effective for fiscal years ending after December 31, 2010. We have provided the additional required disclosures effective January 1, 2010.

## Note 2. Selected Condensed Consolidated Balance Sheet Detail

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

	September 30, 2010	December 31, 2009
Computers and software	\$ 3,942	3,956
Furniture and fixtures	546	548
Leasehold improvements	605	1,275
Total Property and Equipment	5,093	5,779
Less accumulated depreciation	(4,827)	(5,395)
Property and Equipment, net	\$ 266	\$ 384

Accrued expenses consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
Employee benefits	\$ 942	\$ 1,033
Commissions and bonuses	783	975
Sales and other taxes	705	743
Income tax and tax contingency reserves	315	75

Edgar Filing: BROADVISION INC - Form 10-Q

Restructuring	344	244
Customer advances	86	81
Royalties	1,086	1,086
Other	893	590
Total accrued expenses	\$ 5,154	\$ 4,827

~ 6 ~

---

Table of Contents

## Note 3. Fair Value of Financial Instruments

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

- Level 1 – 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, 2010 and December 31, 2009 (in thousands) are as follows:

Fair Value at Reporting Date Using					
	September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Input (Level 3)	
<b>Cash and cash equivalents:</b>					
Cash	\$ 23,670	\$ 23,670	\$ -	\$ -	
Money market fund	9,102	9,102	-	-	
Total cash and cash equivalents	\$ 32,772	\$ 32,772	\$ -	\$ -	
<b>Fixed income securities:</b>					
Certificates of deposits	\$ 10,494	\$ 10,494	\$ -	\$ -	
Corporate bonds - financial	6,078	-	6,078	-	
Corporate bonds - industrial	4,963	-	4,963	-	
Corporate bonds - utility	2,783	-	2,783	-	
International bonds - financial	256	-	256	-	
International bonds - industrial	3,553	-	3,553	-	
International bonds - utility	1,005	-	1,005	-	
Total fixed income securities	\$ 29,132	\$ 10,494	\$ 18,638	\$ -	
Fair Value at Reporting Date Using					

	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Input (Level 3)
<b>Cash and cash equivalents:</b>				
Cash	\$ 6,817	\$ 6,817	\$ -	\$ -
Money market fund	12,763	12,763	-	-
Commercial paper	2,000	2,000	-	-
Total cash and cash equivalents	\$ 21,580	\$ 21,580	\$ -	\$ -
<b>Fixed income securities:</b>				
Certificates of deposits	\$ 12,843	\$ 12,843	\$ -	\$ -
Corporate bonds - financial	9,580	-	9,580	-
Corporate bonds - industrial	10,721	-	10,721	-
Corporate bonds - utility	2,843	-	2,843	-
International bonds - industrial	4,222	-	4,222	-
Total fixed income securities	\$ 40,209	\$ 12,843	\$ 27,366	\$ -

Level 2 securities are priced using quoted market prices for similar instruments, nonbinding market prices that are corroborated by observable market data, or discounted cash flow techniques. There has been \$7,862,000 of transfers from Level 2 to Level 1 measurements. Maturing holdings in bonds were not renewed due to the low corporate coupon rate of corporate bonds during the nine months ended September 30, 2010 and were thus converted back to cash.

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.

Table of Contents

## Note 4. Warrants and Other Non-Current Liabilities

## Warrants

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Warrants related to the convertible notes (1)	\$ -	\$ 154	\$ -	\$ 146
Warrants related to real estate buyout (2)	-	-	-	1
Gain on revaluation of warrants and change in value of derivatives	\$ -	\$ 154	\$ -	\$ 147

(1) The warrants issued to convertible notes investors in November 2004 were not exercised and expired in May 2010.

(2) 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, 2010	December 31, 2009
	(in thousands)	
Restructuring	\$ 272	\$ 155
Deferred maintenance and unearned revenue	1,547	1,444
Other	773	754
Total other non-current liabilities	\$ 2,592	\$ 2,353

Table of Contents

## Note 5. Commitments and Contingencies

## Warranties and Indemnification

We provide a warranty to our perpetual license 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, 2010 and 2009, respectively.

Our perpetual 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. We rarely have litigation initiated against us by customers. However, during the quarter ended September 30, 2010, we entered into a litigation settlement agreement with one customer that resulted in a payment of a non-cash credit redeemable for our products worth \$300,000. Pursuant to the settlement agreement, any remaining unused credits shall expire after the second anniversary of the agreement. We have recorded this credit as an operating expense and liability as of September 30, 2010. There were no such agreements that we recorded as liability as of September 30, 2009.

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, 2010 or December 31, 2009. 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 our other facilities under noncancelable operating lease agreements expiring through the year 2014. Under the terms of the agreements, we are required to pay property taxes, insurance and normal maintenance costs.

As discussed under Note 7, Restructuring Charges, as of November 9, 2010 we have 22,500 square feet of vacant office space that we are actively seeking to sublease. If we are unable to sublease this space our future expected cash outflows will be approximately \$200,000 per quarter until our lease terminates in June 2012.

A summary of total future minimum lease payments under noncancelable operating lease agreements is as follows (in millions) as of September 30, 2010:

	Operating Leases
Years ending December 31,	
2010	\$ 0.4
2011	1.4

2012	0.7
2013	0.2
2014 and thereafter	0.2
Total minimum facilities payments	\$ 2.9

As of September 30, 2010, we have accrued \$0.6 million of estimated future facilities costs as a restructuring accrual.

#### Standby Letter of Credit Commitments

As of September 30, 2010 and December 31, 2009, 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.

~ 9 ~

---

Table of Contents

## Note 6. Geographic, Segment and Significant Customer Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Software licenses	\$ 1,380	\$ 2,663	\$ 4,943	\$ 8,676
Consulting services	1,016	1,258	3,006	3,843
Maintenance	2,789	3,621	8,781	11,196
Total revenues	\$ 5,185	\$ 7,542	\$ 16,730	\$ 23,715

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 September 30,		Nine Months ended September 30,	
	2010	2009	2010	2009
Revenues:				
Americas	\$ 2,527	\$ 3,787	\$ 8,213	\$ 13,090
Europe	1,644	2,921	5,329	8,153
Asia/Pacific	1,014	834	3,188	2,472
Total revenues	\$ 5,185	\$ 7,542	\$ 16,730	\$ 23,175

	September 30, 2010	December 31, 2009
Long-Lived Assets:		
Americas	\$ 170	\$ 265
Europe	6	12
Asia/Pacific	90	107
Total long-lived assets	\$ 266	\$ 384

For the three and nine-month periods ended September 30, 2010, none of our customers accounted for more than 10% of our revenues. For the three and nine-month periods ended September 30, 2009, one customer accounted for 12% of our revenues.

Table of Contents

## Note 7. Restructuring Charges

The net restructuring charge of \$744,000 for the nine months ended September 30, 2010 consists of a \$702,000 charge resulting from a sublease income assumption adjustment made in the quarter ended March 31, 2010 for our vacant Redwood City, California facilities and a \$218,000 charge related to rent payments made by us for the quarter ending September 30, 2010 resulting from our inability to sublease the facilities in the period, offset by the collection of \$176,000 from our former subtenant from our New York City facilities during the quarter ended March 31, 2010.

We have leased approximately 22,500 square feet of office space in Redwood City that we previously subleased to Dexterra Inc. As reported in an 8-K filed in June 2009, Dexterra exercised an early termination option, and we received Dexterra's last sublease payment in January 2010. During the quarter ended March 31, 2010, we re-evaluated the estimated restructuring charge for this space, which resulted in an additional charge of \$702,000. We are actively seeking a subtenant, while continuing to pay rent and operating expenses for this space. If we are unable to rent out the space, we will have a cash outflow of approximately \$200,000 per quarter until the lease termination in June 2012.

Our 10-year office lease in New York City expired in March 2010. This space had been subleased out since 2004. In connection with the expiration of the sublease, we collected \$176,000 more from the subtenant than we had expected, and recorded the excess as a restructuring gain.

As of September 30, 2010, the total restructuring accrual of \$616,000 consisted of the following (in thousands):

	Current	Non-Current	Total
Excess Facilities	\$ 344	\$ 272	\$ 616

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

	Total Future Minimum Payments
Years ending December 31,	
2010	\$ 95
2011	341
2012 and thereafter	180
Total minimum facilities payments	\$ 616

The following table summarizes the activity related to the restructuring plans (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, 2010				
Lease cancellations and commitments	\$ 709	\$ 98	\$ (191)	\$ 616
Three Months Ended September 30, 2009				
Lease cancellations and commitments	\$ 674	\$ (4)	\$ (112)	\$ 558

## Nine Months Ended September 30, 2010

Lease cancellations and commitments	\$	399	\$	744	\$	(527)	\$	616
-------------------------------------	----	-----	----	-----	----	-------	----	-----

## Nine Months Ended September 30, 2009

Lease cancellations and commitments	\$	845	\$	50	\$	(337)	\$	558
-------------------------------------	----	-----	----	----	----	-------	----	-----

## Note 8. Related Party Transactions

In 2009 and 2010, we renewed a 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, 2010, we recognized \$26,000 and \$66,000 in license revenue relating to this contract, respectively. For the three and nine months ended September 30, 2010, we incurred \$3,000 and \$11,000 in direct costs and expenses relating to these renewals, respectively.

## Note 9. Proceeds from Sale of Cost Method Investment

During the current quarter, we received a total of \$1.3 million in cash from the August 2010 sale of a company in which we held a partial ownership interest in and which we accounted for under the cost method. We originally invested \$2.0 million in 2000 in what was then a startup company, and subsequently wrote down the investment's carrying value to \$0 in 2002 due to other-than-temporary decline in the fair market value of the investment at that time.

Table of Contents

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, including, but not limited to, statements regarding expectations for working capital requirements, anticipated increases in competition and assumptions regarding the impact of certain products on future revenue, 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, 2010 compared to the disclosures in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2009, other than as disclosed herein.

Recent Accounting Pronouncements

In October 2009, the FASB issued new authoritative literature that provides guidance on determining multiple elements in an arrangement and how total consideration should be allocated amongst the elements. It also expands disclosure requirements for multiple-element arrangements. Concurrently, the FASB also issued new authoritative literature for arrangements that include both software and tangible products. This guidance excludes tangible products and certain related elements from the scope of the revenue recognition authoritative guidance specific to software transactions. The standards must both be adopted in the same period and can be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted, or they can be adopted on a retrospective basis. We are currently evaluating whether the standard will have any significant impact on our Condensed Consolidated Financial Statements.

In January 2010, the FASB issued new accounting guidance related to the disclosure requirements for fair value measurements and provides clarification for existing disclosures requirements. More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This guidance clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The new disclosures and clarifications of existing disclosure are effective for fiscal years beginning after December 15, 2009, except for the disclosure requirements related to the purchases, sales, issuances and settlements in the rollforward activity of Level 3 fair value measurements. Those disclosure requirements are effective for fiscal years ending after December 31, 2010. We have provided the additional required disclosures effective January 1, 2010.

Results of Operations

Revenues

## Edgar Filing: BROADVISION INC - Form 10-Q

Total revenues decreased 31% during the three months ended September 30, 2010, to \$5.2 million, as compared to \$7.5 million for the three months ended September 30, 2009. Total revenues decreased 30% during the nine months ended September 30, 2010, to \$16.7 million, as compared to \$23.7 million for the nine months ended September 30, 2009. A summary of our revenues by geographic region is as follows (dollars in thousands, unaudited):

	Software			Services			
	Licenses	%			%	Total	%
Three Months Ended:							
September 30, 2010							
Americas	\$ 936	68%	\$ 1,591	42%	\$ 2,527	48%	
Europe	302	22%	1,342	35%	1,644	32%	
Asia Pacific	142	10%	872	23%	1,014	20%	
Total	\$ 1,380	100%	\$ 3,805	100%	\$ 5,185	100%	
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%	
Nine Months Ended:							
September 30, 2010							
Americas	\$ 3,059	62%	\$ 5,154	44%	\$ 8,213	49%	
Europe	1,292	26%	4,037	34%	5,329	32%	
Asia Pacific	592	12%	2,596	22%	3,188	19%	
Total	\$ 4,943	100%	\$ 11,787	100%	\$ 16,730	100%	
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	101%	\$ 23,715	100%	

Our revenues declined during the nine months ended September 30, 2010 as compared to the same period of 2009. The decline is primarily due to transitioning our product focus. We are investing heavily in our new product, the Clearvale Enterprise Social Network (“Clearvale”), while our older products mature. Clearvale offers Cloud-based subscriptions, with free basic functions. Because of how recently we launched Clearvale and as a result of this new pricing model, we do not anticipate recognizing significant revenues from Clearvale in the near term.

Our more established products produced most of our revenues for the first nine months of 2010. Revenues from these products have decreased as compared to the first nine months of 2009 primarily for two reasons: 1) as these products mature, the number of potential new customers and expansion opportunities has continued to decrease, and 2) our increasing focus on Clearvale has reduced the share of our sales and marketing resources that we allocate to our established products. Software license revenues decreased 48% during the three months ended September 30, 2010, to \$1.4 million, as compared to \$2.7 million for the three months ended September 30, 2009. Software license revenues decreased 44% during the nine months ended September 30, 2010, to \$4.9 million, as compared to \$8.7 million for the nine months ended September 30, 2009. Services revenues consisting of consulting, training and maintenance decreased 22% during the three months ended September 30, 2010, to \$3.8 million, as compared to \$4.9 million for the three months ended September 30, 2009. Services revenues consisting of consulting, training and maintenance decreased 21% during the nine months ended September 30, 2010, to \$11.8 million, as compared to \$15.0 million for the nine months ended September 30, 2009. Maintenance revenues decreased 22% for the three months ended September 30, 2010, to \$2.8 million, as compared to \$3.6 million for the three months ended September 30, 2009. Maintenance revenues decreased 21% for the nine months ended September 30, 2010, to \$8.8 million, as

compared to \$11.2 million for the nine months ended September 30, 2009, due primarily to a decreasing rate of renewal by existing customers. Consulting and training revenues decreased 23% for the three months ended September 30, 2010, at \$1.0 million, as compared to \$1.3 million for the three months ended September 30, 2009. Consulting and training revenues decreased 21% for the nine months ended September 30, 2010, to \$3.0 million, as compared to \$3.8 million for the nine months ended September 30, 2009. The decrease in consulting revenue roughly corresponded to the decrease in license revenues.

~ 12 ~

---

Table of Contents

## Cost of Revenues

Cost of software licenses includes the net 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 sold 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,			
	2010	% (1)	2009	% (1)	2010	% (1)	2009	% (1)
Cost of software licenses	\$ 4	-%	\$ 6	-%	\$ 16	-%	\$ 26	-%
Cost of services	1,569	30%	1,784	24%	4,787	29%	5,707	24%
Total cost of revenues	\$ 1,573	30%	\$ 1,790	24%	\$ 4,803	29%	\$ 5,733	24%

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

Cost of software licenses decreased 33% to \$4,000 during the three months ended September 30, 2010, as compared to \$6,000 for the three months ended September 30, 2009. Cost of software licenses decreased 38% to \$16,000 during the nine months ended September 30, 2010, as compared to \$26,000 for the nine months ended September 30, 2009.

Cost of services decreased 11% during the three months ended September 30, 2010, to \$1.6 million, as compared to \$1.8 million for the three months ended September 30, 2009. Cost of services decreased 16% during the nine months ended September 30, 2010, to \$4.8 million, as compared to \$5.7 million for the nine months ended September 30, 2009. These decreases are the result of a reduction in consulting expenses and employee related expense resulting from a decrease in services revenue.

Gross margin decreased to 70% during the three months ended September 30, 2010 as compared to 76% for the three months ended September 30, 2009. Gross margin decreased to 71% during the nine months ended September 30, 2010 as compared to 76% for the nine months ended September 30, 2009. These decreases are the result of our product transition.

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 September 30,				Nine Months Ended September 30,			
	2010	% (1)	2009	% (1)	2010	% (1)	2009	% (1)
Research and development	\$ 1,738	34%	\$ 2,169	29%	\$ 5,779	35%	\$ 6,346	27%
Sales and marketing	1,887	36%	2,024	27%	5,393	32%	6,002	25%
General and administrative	1,160	22%	1,006	13%	3,692	22%	3,603	15%
Restructuring charges	98	2%	(4)	-%	744	4%	50	0%

Edgar Filing: BROADVISION INC - Form 10-Q

Total operating expenses	\$ 4,883	94%	\$ 5,195	69%	\$ 15,608	93%	\$ 16,001	67%
--------------------------	----------	-----	----------	-----	-----------	-----	-----------	-----

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

Research and development expenses were \$1.7 million for the three months ended September 30, 2010, as compared to \$2.2 million for the three months ended September 30, 2009. Research and development expenses were \$5.8 million for the nine months ended September 30, 2010, as compared to \$6.3 million for the nine months ended September 30, 2009. This decrease was the result of reductions in headcounts and contractor related expenses.

Sales and marketing expenses were \$1.9 million for the three months ended September 30, 2010, as compared to \$2.0 million for the three months ended September 30, 2009. Sales and marketing expenses decreased 10% during the nine months ended September 30, 2010, to \$5.4 million, as compared to \$6.0 million for the nine months ended September 30, 2009. This decrease was primarily due to decreased variable compensation costs due to lower revenues and as a result of various cost-cutting measures.

General and administrative expenses increased 20% for the three months ended September 30, 2010, as compared to \$1.0 million for the three months ended September 30, 2009. General and administrative expenses were \$3.7 million for the nine months ended September 30, 2010, as compared to \$3.6 million for the nine months ended September 30, 2009. These increases are primarily a result of higher legal expenses resulting from the negotiation of a settlement agreement.

Restructuring charge (credit) for the three months ended September 30, 2010 were \$98,000 compared to a credit of \$4,000 for the three months ended September 30, 2009. Restructuring charge for the nine months ended September 30, 2010 was a \$744,000 expense compared to a charge of \$50,000 for the nine months ended September 30, 2009. The net restructuring charge of \$744,000 for the nine months ended September 30, 2010 consists of a \$702,000 charge resulting from a sublease income assumption adjustment made in the quarter ended March 31, 2010 for our vacant Redwood City, California facilities and a \$218,000 charge related to rent payments made by us for the quarter ending September 30, 2010 resulting from our inability to sublease the facilities in the period, offset by the collection of \$176,000 from our former subtenant from our New York City facilities during the quarter ended March 31, 2010.

Interest income, net decreased 23% for the three months ended September 30, 2010, to \$90,000, as compared to \$117,000 for the three months ended September 30, 2009. Interest income, net decreased 47% for the nine months ended September 30, 2010, to \$319,000, as compared to \$601,000 for the nine months ended September 30, 2009. The decreases are due to a decline in interest rates.

Gain on revaluation of warrants for the three months ended September 30, 2010 was zero, as compared to a gain of \$154,000 for the three months ended September 30, 2009. Gain on revaluation of warrants for the nine months ended September 30, 2010 was zero, as compared to a gain of \$147,000 for the nine months ended September 30, 2009. All warrants have expired as of September 30, 2010. These changes are primarily due to fluctuations in our stock price during the relevant periods and the reduction in time to maturity.

Other income, net during the three months ended September 30, 2010, was income of \$2,907,000, as compared to income of \$867,000 for the three months ended September 30, 2009. For the quarter ended September 30, 2010, other income, net included a return of capital \$1,322,000 from a cost method investment written off in 2002. The remaining change was primarily due to unrealized gain from currency rate fluctuations on our Euro cash and short-term investment balance in this quarter. Other income, net during the nine months ended September 30, 2010, was income of \$547,000, as compared to income of \$669,000 for the nine months ended September 30, 2009. For the nine months ended September 30, 2009, the change was primarily due to unrealized loss on foreign exchange transactions.

(Provision) benefit for income taxes expense during the three months ended September 30, 2010, was a provision of income tax expense of \$244,000, as compared to a benefit for income tax expenses of \$104,000 for the three months ended September 30, 2009. Provision for income taxes expense during the nine months ended September 30, 2010, was \$349,000, as compared to a provision for income tax expenses of \$116,000 for the nine months ended September 30, 2009. The provision for 2010 primarily relates to foreign income tax, true up of Federal, States and Foreign income tax returns, and an income tax reserve for uncertain income tax positions. The provision for 2009 was primarily related to a reserve for an ongoing income tax audit of a foreign subsidiary for the tax year ended December 31, 2006 and for Alternative Minimum Taxes calculated for Federal purposes.

~ 13 ~

---

Table of Contents

## Liquidity and Capital Resources

## Overview

We continue to maintain a strong cash position on our Condensed Consolidated Balance Sheet. As of September 30, 2010, we had \$61.9 million of cash and cash equivalents and short-term investments with no long-term debt borrowings, as compared to a balance of \$61.8 million at December 31, 2009. The increase was due primarily to \$1.3 million in cash received from returned capital, offset by decreased sales. This investment was fully written off to other expenses in 2002 due to an other-than-temporary decline in the fair market value at that time. In August 2010, a third party acquired the company in which we had made an equity investment and distributed \$1.3 million to us. We may receive up to an additional \$769,000 from this transaction, which is in an escrow account for up to two years, subject to certain contingencies of the acquisition, which will be recorded as other income upon receipt.

The majority of the third quarter license and subscription revenue was generated from the Company's BroadVision® Business Agility Suite™, Commerce Agility Suite™, QuickSilver™, and Clearvale™ solutions. Revenue during the quarter was generated from sales to both new and existing customers such as Iberia Airlines, Zain Group, Synaptics, Honeywell, Healthcare BCBS, Rockwell Collins, Raytheon, Boeing, Lockheed Martin, Northrop Grumman, State of Wisconsin, Solar Turbines, Bobst SA DMS, SOS Software, EADS Deutschland GmbH, and several other brand-name global customers.

We continued to focus on expense control in the third quarter of 2010. Operating expenses for the third quarter of 2010 were \$4.9 million, as compared to \$5.2 million for the third quarter of 2009. For the three months ended September 30, 2010, net income was \$1.5 million, or \$0.33 per diluted share. This compares to net income of \$1.8 million, or \$0.41 per diluted share, for the three months ended September 30, 2009.

The following table represents our liquidity at September 30, 2010 and December 31, 2009 (dollars in thousands):

	September 30, 2010	December 31, 2009
Cash and cash equivalents	\$ 32,772	\$ 21,580
Short-term investments	\$ 29,132	\$ 40,209
Restricted cash, current portion	\$ -	\$ 20
Restricted cash, net of current portion	\$ 1,000	\$ 1,000
Working capital	\$ 54,619	\$ 55,977
Working capital ratio	5.45	4.70

## Cash (Used For) Provided By Operating Activities

Cash used for operating activities was \$1.7 million for the nine months ended September 30, 2010, and was mainly attributable to a \$3.2 million net loss offset by a gain of \$1.3 million from an investment we had previously written off using the cost method of investment accounting, a decrease of \$3.0 million in unearned revenue accounts offset by the collection of \$3.8 million of accounts receivable, and an adjustment for non-cash items such as a \$0.8 million of stock-based compensation expense.

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 the second quarter of 2009.

#### Cash Provided By (Used For) Investing Activities

Cash provided by investing activities was \$12.4 million for the nine months ended September 30, 2010, primarily related to the net maturities of short-term investments in bonds and certificates of deposit and return of capital received from a prior written-off cost-method investment. 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 Provided By Financing Activities

Cash provided by financing activities was \$343,000 for the nine months ended September 30, 2010, primarily consisting of cash received in connection with employees' exercise of stock options granted under the 2000 Equity Incentive Plan, as amended and purchases of common stock under the Employee Stock Purchase Plan, as amended. Cash provided by financing activities was \$409,000 for the nine months ended September 30, 2009, primarily consisting of cash received from employees' purchases of common stock under the Employee Stock Purchase Plan.

#### Leases and Other Contractual Obligations

We lease our headquarters facility and other facilities under non-cancelable operating lease agreements expiring through the year 2014. A total of \$1.0 million of restricted cash on our Condensed Consolidated Balance Sheets represents collateral for the letter of credit which has been issued in connection with our facility lease obligation.

Table of Contents

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, 2010 and 2009. 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

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, as of September 30, 2010 we evaluated the effectiveness of the design and operation of our "disclosure controls and procedures," which are defined under the Securities and Exchange Commission's rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2010.

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, 2010 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 operations.

Table of Contents

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. Our future financial performance will also depend on our ability to retain our installed customer base. When existing customers terminate or fail to renew their relationships with us, often due to budget constraints or competition, we lose recurring maintenance revenue and future “up-sell” opportunities.

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.

We released BroadVision 8.1™ in 2007, CHRM\*360 in 2008 (which was upgraded and renamed to Clear in 2009), BroadVision 8.2™ in 2009 and Clearvale in 2009. 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 existing and potential new customers, and if so, whether sales of these new offerings will be sufficient for us to offset the costs of development, implementation, support, operation 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.

We have recently introduced Cloud-based offerings. Our business will be harmed and our growth potential will be limited, if we are unable to provide reliable, scalable, and cost-efficient Cloud hosting operation.

Traditionally, we have offered perpetual software licenses, which have required customers to be responsible for the IT equipment needed for running BroadVision software. By comparison, the new Clear and Clearvale products include Cloud-based offerings, where BroadVision provides hosted IT equipment and operation for subscribing customers. The Cloud model is also known as Software-as-a-Service, or SaaS. We do not have significant prior experience in operating Cloud hosting. We may be unable to timely provide adequate computing capacity to keep up with business growth and performance requirements. Our hosted operation may fail due to hardware problems, software problems, power problems, network problems, scalability problems, human errors, hacker attacks, disasters,

third-party data center problems and other reasons. The failures may cause us to compromise security, lose customer data or identity, endure prolonged downtime, etc., all of which will harm our business and limit our growth. We do not have significant prior experience in estimating the costs of Cloud hosting. If we underestimate the costs or under-charge customers, we may not have adequate margins to sustain the Cloud hosting operation. Clearvale allows customers to use basic functions for free, a business practice that is gaining popularity in our industry. If we do not have enough customers upgrading to for-fee premium functions, we may be unable to sustain our Cloud hosting operation economically.

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 competitors' 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.

### Table of Contents

If we are unable to keep pace with the rapid technological changes in online commerce, portal, social networking and enterprise software, 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, portal, social networking and enterprise software. 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, 2010, 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.

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.

Table of Contents

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.

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 195 at the end of 2007, 219 at the end of 2008, and 214 at the end of 2009. On September 30, 2010, we had 181 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. 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 December 31, 2011. 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 amended. 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.

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.

## Table of Contents

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.

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, 2010, approximately 52% 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;
- 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.

Table of Contents

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", "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.

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 or hosted Cloud operation 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, portal, social networking and enterprise software the secure exchange of valuable and confidential information over public networks. We rely on encryption and authentication technology, such as Open SSL, public key cryptography, encryption algorithms RC2 and MD5, digital certificates and HTTPS, 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, new hacking methods, security holes in third-party components (such as operating system bugs) or other events or developments could cause a breach of the above measures that we use to protect customer data and identity.

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

We rely in part on technology that we license from third parties or we obtain from open sources, including relational database management systems from Oracle, Microsoft and MySQL object request broker software from IONA Technologies PLC, J2EE from Sun Microsystems, JBoss application server from open source, and others. The loss or malfunction of any third-party technology could harm our business. We integrate or sublicense third-party technology with internally developed software to perform key functions. For example, our products and services incorporate data encryption and authentication technology from Open SSL. Third-party technology might not continue to be available to us on commercially reasonable terms, or at all. Moreover, third-party technology may contain defects that we

cannot control. Problems with third-party technology could cause delays in introducing our products or services until equivalent technology, if available, is identified, licensed or obtained, 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.

Table of Contents

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.

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, 2010, 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.

## Table of Contents

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 \$18.75 per share between September 30, 2008 and September 30, 2010. On November 8, 2010 the closing price of BroadVision common stock was \$12.99 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 declines 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, has often been instituted against that 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 5. Other Information

Not applicable.

## Item 6. Exhibits

Exhibits	
Number	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
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.

~ 22 ~

---

Table of Contents

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 9, 2010 By: /s/ Pehong Chen

Pehong Chen

Chairman of the Board, President and Chief Executive Officer

Date: November 9, 2010 By: /s/ Shin-Yuan Tzou

Shin-Yuan Tzou

Chief Financial Officer

~ 23 ~

---

Table of Contents

EXHIBIT INDEX

Exhibits	
Number	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
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.