

BROADVISION INC

Form 10-Q

November 08, 2012

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, 2012

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.)

1700 Seaport Blvd., Suite 210
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 ☐

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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 ☒

As of October 31, 2012, the registrant had 4,670,933 shares of common stock outstanding.

BROADVISION, INC. AND SUBSIDIARIES

FORM 10-Q

Quarter Ended September 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BROADVISION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)

	September 30, 2012 (unaudited)	December 31, 2011 *
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,147	\$ 45,405
Short-term investments	34,886	9,009
Accounts receivable, net of reserves of \$125 as of September 30, 2012 and \$109 as of December 31, 2011	2,150	4,100
Restricted cash	1,038	1,022
Prepays and other	1,092	1,179
Total current asset	56,313	60,715
Property and equipment, net	328	143
Other assets	219	144
Total assets	\$ 56,860	\$ 61,002
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 651	\$ 595
Accrued expenses	2,004	2,783
Unearned revenue	1,756	2,665
Deferred maintenance	2,769	4,253
Total current liabilities	7,180	10,296
Other non-current liabilities	1,160	936
Total liabilities	8,340	11,232
Stockholders' equity:		
Convertible preferred stock, \$0.0001 par value; 1,000 shares authorized; none issued and outstanding		
Common stock, \$0.0001 par value; 11,200 shares authorized; 4,671 and 4,529 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	-	-
Additional paid-in capital	1,265,272	1,262,726
Accumulated other comprehensive loss	(904)	(1,014)
Accumulated deficit	(1,215,848)	(1,211,942)

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Total stockholders' equity	48,520	49,770
Total liabilities and stockholders' equity	\$ 56,860	\$ 61,002

* Derived from audited consolidated financial statements filed in the Company's 2011 Annual Report on Form 10-K.

See Accompanying Notes to Condensed Consolidated Financial Statements.

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BROADVISION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Software licenses	\$ 1,267	\$ 1,338	\$ 3,818	\$ 3,888
Services	2,361	2,909	7,234	9,471
Total revenues	3,628	4,247	11,052	13,359
Cost of revenues:				
Cost of software revenues	39	1	73	10
Cost of services	1,157	1,472	3,588	4,724
Total cost of revenues	1,196	1,473	3,661	4,734
Gross profit	2,432	2,774	7,391	8,625
Operating expenses:				
Research and development	1,558	1,523	4,796	5,046
Sales and marketing	1,264	1,332	4,316	4,437
General and administrative	908	965	3,037	3,062
Restructuring charges	-	49	12	488
Total operating expenses	3,730	3,869	12,161	13,033
Operating loss	(1,298)	(1,095)	(4,770)	(4,408)
Interest income, net	85	97	312	312
Other income (loss), net	1,223	(623)	658	615
Income (loss) before provision for income taxes	10	(1,621)	(3,800)	(3,481)
Provision for income taxes	(76)	(20)	(106)	(95)
Net loss	\$ (66)	\$ (1,641)	\$ (3,906)	\$ (3,576)
Other comprehensive gain (loss), net of tax:				
Foreign currency translation adjustment	54	(205)	110	(113)
Comprehensive loss	\$ (12)	\$ (1,846)	\$ (3,796)	\$ (3,689)
Earnings per share, basic and diluted:				
Basic and diluted loss per share	\$ (0.01)	\$ (0.36)	\$ (0.84)	\$ (0.80)
Shares used in computing:				
Weighted average shares-basic and diluted	4,657	4,505	4,627	4,494

See Accompanying Notes to Condensed Consolidated Financial Statements.

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BROADVISION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (3,906)	\$ (3,576)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	84	117
Stock based compensation	477	459
Provision of receivable reserves	44	-
Restructuring charge	12	488
Gain on the sale of cost method investment	(827)	-
Changes in operating assets and liabilities:		
Accounts receivable	1,907	2,170
Prepays and other	70	256
Other non-current assets	(75)	178
Accounts payable and accrued expenses	(273)	(475)
Restructuring accrual	(462)	(592)
Unearned revenue and deferred maintenance	(2,393)	(2,387)
Other noncurrent liabilities	223	(798)
Net cash used for operating activities	(5,119)	(4,160)
Cash flows from investing activities:		
Purchase of property and equipment	(268)	(25)
Proceeds received from cost method investments	827	-
Purchase of short-term investment	(55,562)	(12,076)
Maturities of short term investment	29,684	20,955
Net cash (used for) provided by investing activities	(25,319)	8,854
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	298	262
Proceeds from exercise of common stock options, net	1,772	-
Net cash provided by financing activities	2,070	262
Effect of exchange rates on cash and cash equivalents	110	(113)
Net (decrease) increase in cash and cash equivalents	(28,258)	4,843
Cash and cash equivalents at beginning of period	45,405	32,966
Cash and cash equivalents at end of period	\$ 17,147	\$ 37,809

See Accompanying Notes to Condensed Consolidated Financial Statements.

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BROADVISION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

There have been no material changes in our critical accounting policies, estimates and judgments during the nine-month period ended September 30, 2012 compared to the disclosures in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission (the "SEC") on March 8, 2012, 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, 2012 and 2011 are unaudited. The Condensed Consolidated Balance Sheet at December 31, 2011 has been derived from the audited consolidated financial statements as of that date but does not necessarily reflect all of the 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 2011 Annual Report on Form 10-K filed with the SEC on March 8, 2012.

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, 2012 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2012 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 using different assumptions or conditions.

Stock-Based Compensation

The following table sets forth the components of the total stock-based compensation expense recognized in our Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cost of services	\$ 34,779	\$ 17,920	\$ 76,210	\$ 50,502
Research and development	64,389	34,200	130,939	161,855
Sales and marketing	87,541	24,504	169,179	111,388
General and administrative	44,090	32,367	100,282	135,263
	\$ 230,799	\$ 108,991	\$ 476,610	\$ 459,008

Earnings Per Share Information

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Basic net loss per share is computed using the weighted-average number of shares of common stock outstanding less shares subject to repurchase. Diluted net 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 396,000 and 375,000 potential common shares excluded from the determination of diluted net loss per share for the three months ended September 30, 2012 and 2011, 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 average market price. There were 100,000 and 315,000 potential common shares excluded from the determination of diluted net loss per share for the nine months ended September 30, 2012 and 2011, 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 average market price. The following table sets forth the basic and diluted net 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,	
	2012	2011	2012	2011
Net Loss	\$ (66)	\$ (1,641)	\$ (3,906)	\$ (3,576)
Weighted-average common shares outstanding used to compute basic and diluted loss per share	4,657	4,505	4,627	4,494
Basic and diluted loss per share	\$ (0.01)	\$ (0.36)	\$ (0.84)	\$ (0.80)

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 consolidated financial position or consolidated results of operation.

Foreign Currency Translations

The functional currencies of all foreign subsidiaries are the local currencies of their 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 periods. 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 Comprehensive Loss. For the nine-month periods ended September 30, 2012, and 2011, translation gain (loss) was \$110,000 and (\$113,000), respectively. These amounts are included in the accumulated

other comprehensive loss account in the Condensed Consolidated Balance Sheets.

Comprehensive Loss

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

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, 2011	\$ (1,014)
Net Change during period	110
Balance, September 30, 2012	\$ (904)

Recent Accounting Pronouncements

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There have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2012, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the year ended December 31, 2011, that are of significance, or potential significance to us.

Note 2. Selected Condensed Consolidated Balance Sheet Detail

Accrued expenses consisted of the following (in thousands):

	September 30, 2012 (unaudited)	December 31, 2011
Employee benefits	\$ 908	\$ 896
Commissions and bonuses	101	112
Sales and other taxes	184	286
Income tax and tax contingency reserves	143	290
Restructuring	-	450
Customer advances	36	66
Other	632	683
Total accrued expenses	\$ 2,004	\$ 2,783

Other Non-Current Liabilities consisted of the following (in thousands):

	September 30, 2012 (unaudited)	December 31, 2011
Deferred maintenance and unearned revenue	\$ 453	\$ 408
Other	707	528
Total other non-current liabilities	\$ 1,160	\$ 936

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, 2012 and December 31, 2011 (in thousands) are as follows:

		Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical	Significant Other Observable	Significant Unobservable
	September 30, 2012	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Cash and cash equivalents:				
Cash	\$ 17,044	\$ 17,044	\$ -	\$ -
Money market funds	103	103	-	-
Total cash and cash equivalents	\$ 17,147	\$ 17,147	\$ -	\$ -
Fixed income securities				
Certificates of deposits	\$ 27,893	\$ -	\$ 27,893	\$ -
Corporate bonds - financial	5,489	-	5,489	-
Corporate bonds - industrial	500	-	500	-
International bonds - financial	1,004	-	1,004	-
Total fixed income securities	\$ 34,886	\$ -	\$ 34,886	\$ -

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		Fair Value at Reporting Date Using		
		Quoted		
		Prices in		
		Active		
		Markets	Significant	
		for	Other	Significant
		Identical	Observable	Unobservable
	December			
	31,	Assets	Inputs	Inputs
	2011	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents:				
Cash	\$ 40,993	\$ 40,993	\$ -	\$ -
Money market funds	4,412	4,412	-	-
Total cash and cash equivalents	\$ 45,405	\$ 45,405	\$ -	\$ -
Fixed income securities				
Certificates of deposits	\$ 3,447	\$ -	\$ 3,347	\$ -
Corporate bonds - financial	4,431	-	4,431	-
Corporate bonds - industrial	1,131	-	1,131	-
Total fixed income securities	\$ 9,009	\$ -	\$ 9,009	\$ -

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. During the nine months ended September 30, 2012, approximately \$26,000,000 was transferred from the Level 1 to the Level 2 fair value measurement tier. Management transferred certain amounts into corporate bonds because the coupon rate of corporate bonds was high during the period.

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

Note 4. Commitments and Contingencies

Warranties and Indemnification

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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, 2012 and December 31, 2011, 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 non-cash credit redeemable for our products, worth \$300,000. We recorded this credit as an operating expense and liability as of September 30, 2010. Pursuant to the settlement agreement, any remaining unused credits expired after the second anniversary of the agreement. During the quarter ended September 30, 2012, the credit expired, completely unused. Consequently, we reversed the \$300,000 operating expense and extinguished the liability from our Consolidated Balance Sheets as of September 30, 2012.

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, 2012 or December 31, 2011. 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

During the second quarter of 2012, the lease for our Redwood City, California headquarters expired and we entered into a new noncancelable operating lease agreement that expires on June 30, 2015. This new lease provides office space to be used as our corporate headquarters and is located in the same business campus in which we had previously leased space. Under the terms of the agreement, we are required to pay property taxes, insurance and normal maintenance costs.

A summary of total future minimum lease payments under noncancelable operating lease agreements is as follows (in thousands) as of September 30, 2012:

Years ending December 31,	Operating Lease
2012	\$ 252
2013	886
2014	699
2015	318
2016 and thereafter	-
Total minimum lease payments	\$ 2,155

As of September 30, 2012, we do not have any restructuring accruals.

Standby Letter of Credit Commitments

As of September 30, 2012 and December 31, 2011, 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 previous facility leases. This standby letter of credit is collateralized by the restricted cash listed in the Condensed Consolidated Balance Sheets.

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Note 5. Geographic, Segment and Significant Customer Information

The disaggregated revenue information regarding types of revenues is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Software licenses	\$ 1,267	\$ 1,338	\$ 3,818	\$ 3,888
Consulting services	633	835	2,041	2,781
Maintenance	1,728	2,074	5,193	6,690
Total revenues	\$ 3,628	\$ 4,247	\$ 11,052	\$ 13,359

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

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,	
Revenues:	2012	2011	2012	2011
Americas	\$ 1,610	\$ 1,572	\$ 4,744	\$ 5,245
Europe	1,259	1,550	4,005	4,566
Asia/Pacific	759	1,125	2,303	3,548
Total revenues	\$ 3,628	\$ 4,247	\$ 11,052	\$ 13,359

	September 30, 2012	December 31, 2011
Long-Lived Assets:		
Americas	\$ 197	\$ 43
Europe	8	7

Asia/Pacific	123	93
Total Company	\$ 328	\$ 143

For the three-month and nine-month periods ended September 30, 2012 and 2011, none of our customers accounted for more than 10% of our revenues.

Note 6. Restructuring Charges

The net restructuring charge of \$12,000 for the nine-month period ended September 30, 2012 pertained to operating expenses paid in the period in excess of the initial estimated accrual for our vacant office space in Redwood City. Our lease for this vacant office space in Redwood City was expired in June of 2012. As of June 30, 2012, we no longer have any restructuring accruals or any future payments related to restructuring accrual. The net restructuring charge of \$488,000 for the nine-month period ended September 30, 2011 consisted of lease payments and operating expenses in the amount of \$286,000 for our headquarters in Redwood City and a \$202,000 charge for the re-evaluation of future sublease rental income on our vacant office space in Redwood City.

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, 2012				
Lease cancellations and commitments	\$ -	\$ -	\$ -	\$ -
Three Months Ended September 30, 2011				
Lease cancellations and commitments	\$ 566	\$ 49	\$ (185)	\$ 430
Nine Months Ended September 30, 2012				
Lease cancellations and commitments	\$ 450	\$ 12	\$ (462)	\$ -
Nine Months Ended September 30, 2011				
Lease cancellations and commitments	\$ 534	\$ 488	\$ (592)	\$ 430

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Note 7. Related Party Transactions

On November 14, 2008, BroadVision (Delaware) LLC, a Delaware limited liability company (“BVD”), which was then our wholly owned subsidiary, entered into a Share Purchase Agreement with CHRM LLC, a Delaware limited liability company, that is controlled by Dr. Pehong Chen, our CEO and largest stockholder. We and CHRM LLC then entered into an Amended and Restated Operating Agreement of BroadVision (Delaware) LLC dated as of November 14, 2008 (the “BVD Operating Agreement”). Under these agreements, CHRM LLC received, in exchange for the assignment of certain intellectual property rights, 20 Class B Shares of BVD, representing the right to receive 20% of any “net profit” from a “capital transaction” (as such terms are defined in the BVD Operating Agreement) of BroadVision (Barbados) Limited (“BVB”), an entity wholly owned by BVD. A “capital transaction” under that agreement is any merger or sale of substantially all of the assets of BVB as a result of which the members of BVB will no longer have an interest in BVB or the assets of BVB will be distributed to its members. BVB is the sole owner of BroadVision On Demand, a Chinese entity (“BVOD”). We have invested approximately \$6.2 million in BVOD (directly and through BVD and BVB) to date and expect to continue to make additional investments in BVOD of approximately \$400,000 per quarter for the foreseeable future.

In April 2012, we executed a renewal contract with a third party of which Dr. Pehong Chen, our CEO and largest stockholder, is a board member. The total renewal license associated with that contract is \$152,000. We recognized \$38,000 of license revenue related to this contract for the third quarter of 2012.

Note 8. Proceeds from Sale of Cost Method Investment

In August 2010, a third party acquired a company in which we held an equity stake and distributed \$1.3 million to us in connection with the closing of the acquisition. We had fully written off the investment to other expenses in 2002 due to an other-than-temporary decline in the fair market value at that time. Additional sale proceeds were placed in an escrow account for up to two years, subject to certain contingencies. In August 2012, we received an additional \$0.8 million distribution from the escrow account, as a final distribution relating to this sale.

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.

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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, 2012 compared to the disclosures in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2011, other than as disclosed herein.

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2012, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the year ended December 31, 2011, that are of significance, or potential significance to us.

Results of Operations

The following table sets forth certain items reflected in our Consolidated Statements of Comprehensive Loss expressed as a percent of total revenues for the periods indicated.

	Three Months Ended		Nine Months Ended	
	September 30, 2012 2011		September 30, 2012 2011	
Revenues:				
Software licenses	35 %	32 %	35 %	29 %
Services	65	68	65	71
Total revenues	100	100	100	100
Cost of revenues:				
Cost of software licenses	1	0	1	0
Cost of services	32	35	32	35
Total cost of revenues	33	35	33	35
Gross profit	67	65	67	65
Operating expenses:				
Research and development	43	36	43	38

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Sales and marketing	35	31	39	33
General and administrative	25	23	27	23
Restructuring charges, net	0	1	0	4
Total operating expenses	103	91	109	98
Operating loss	(36)	(26)	(42)	(33)
Interest income, net	2	2	3	2
Other income (loss), net	34	(15)	6	5
Loss before provision for income taxes	0	(39)	(33)	(26)
Income taxes expense	(2)	0	(1)	(1)
Net loss	(2)%	(39)%	(34)%	(27)%

Revenues. License revenue from the sales of software licenses for the three months ended September 30, 2012 was \$1.3 million, remaining unchanged from the prior year. License revenue from the sales of software licenses for the nine months ended September 2012 was \$3.8 million, down \$0.1 million, or 3% from \$3.9 million for the nine months ended September 30, 2011. Maintenance revenue, which is generally derived from maintenance contracts sold with initial customer licenses and from subsequent contract renewals, for the three months ended September 30, 2012 was \$1.7 million, down \$0.4 million or 19% from \$2.1 million for the three months ended September 30, 2011. Maintenance revenue for the nine months ended September 30, 2012 was \$5.2 million, down \$1.5 million or 22% from \$6.7 million for the nine months ended September 30, 2011. Consulting revenue, which is generally related to services in connection with our licensed software for the three months ended September 30, 2012 was \$0.6 million, down \$0.2 million, or 25% from the three months ended September 30, 2011. Consulting revenue was \$2.0 million for the nine months ended September 30, 2012, down \$0.8 million, or 29%, from \$2.8 million for the nine months ended June 30, 2011. The decrease of revenues was due to product transitioning. We are investing heavily

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in our new product, Clearvale, while our older products mature. We may not be able to generate substantial revenue from Clearvale, but if we are able to do so, it will take time for such new product revenue to ramp up.

Cost of software licenses. Cost of software licenses includes the cost of our Cloud hosting operation, 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 software licenses for the three months ended September 30, 2012 increased \$38,000 compared to the same period in year 2011. Cost of software licenses for the nine months ended September 30, 2012 increased \$63,000 compared to the same period in year 2011. The increase was mainly due to the increase of the cost of our Cloud hosting operation.

Cost of services. 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. Cost of services was \$1.2 million for the three months ended September 30, 2012, down \$0.3 million, or 20%, from \$1.5 million for the three months ended September 30, 2011. Cost of services was \$3.6 million for the nine months ended September 30, 2012, down \$1.1 million, or 23%, from \$4.7 million for the nine months ended September 30, 2011. This decrease was mainly due to lower contract expenses in response to lower revenues.

Research and development. The research and development expenses consist primarily of salaries, employee-related benefit costs and consulting fees incurred in association with the development of our products. Research and development expenses remained unchanged at \$1.6 million for the three months ended September 30, 2012 and 2011. Research and development expenses were \$4.8 million for the nine months ended September 30, 2012, down \$0.2 million, or 4%, from \$5.0 million for the nine months ended September 30, 2011. This decrease was mainly due to the reduction of research and development expenses related to our legacy products, which exceeded the increase in research and development expenses related to our new Clearvale products.

Sales and marketing. The sales and marketing expenses consist primarily of salaries, employee-related benefit costs, commissions and other incentive compensation, travel and entertainment and marketing program-related expenditures such as for collateral materials, trade shows, public relations, advertising and creative services. Sales and marketing expenses remained unchanged at \$1.3 million for the three months ended September 30, 2012 and 2011. During the third quarter of 2012, we reversed a \$0.3 million litigation expense accrual, a non-cash credit redeemable for our software products, as reported in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010. This credit expired, unused, during the third quarter of 2012. Sales and marketing expenses remained unchanged around \$4.4 million for the nine months ended September 30, 2012 and 2011. Excluding the \$0.3 million reversal, sales and marketing expenses increased due to concerted efforts to sell and promote Clearvale.

General and administrative. The general and administrative expenses consist primarily of salaries, employee-related benefit costs, provisions and credits related to uncollectible accounts receivable, professional service fees and legal

fees. Our general and administrative expenses remained unchanged at \$0.9 million for the three months ended September 30, 2012 and 2011. Our general and administrative expenses remained unchanged at approximately \$3.1 million for the nine months ended September 30, 2012 and 2011.

Restructuring charges, net. The net restructuring charge of \$12,000 for the nine-month period ended September 30, 2012 pertained to operating expenses paid in the period in excess of the initial estimated accrual for our vacant office space in Redwood City. The net restructuring charge of \$488,000 for the nine-months ended September 30, 2011 was attributable to rent payments and operating expense payments made by us for that portion of our Redwood City facilities that we did not occupy and that we were not able to sublease in the period.

Interest income, net. Net interest income includes interest income on investment funds. We generated \$312,000 in interest income from our cash and cash equivalents as well as short-term investment balances during the nine months ended September 30, 2012 and 2011, respectively.

Other income (loss), net. Other income (loss), net during the nine months ended September 30, 2012, was income of \$0.6 million for the nine months ended September 30, 2012, and 2011, respectively. For the quarter ended September 30, 2012, other income (loss), net included a return of capital in the amount of \$785,000 from a cost method investment that was 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 the quarter ended September 30, 2012. The variance between the periods was primarily due to unrealized losses and gains from currency exchange rate fluctuation on our Euro cash and investment balances.

Provision for Income taxes. The provision for income taxes was \$76,000 for the three months ended September 30, 2012 compared to a provision for income tax expense of \$20,000 for the three months ended September 30, 2011. The provision for income taxes was \$106,000 for the nine months ended September 30, 2012, down \$11,000 or 12%, from \$95,000 for the nine months ended September 30, 2011. The provision for the nine months ended September 30, 2012 and 2011 primarily relates to foreign tax and state income tax expenses.

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Liquidity and Capital Resources

Overview

We continue to maintain a strong cash position as shown on our Condensed Consolidated Balance Sheet. As of September 30, 2012, we had \$52.0 million of cash and cash equivalents and short-term investments with no long-term debt borrowings, as compared to a balance of \$54.4 million of cash and cash equivalents and short-term investments at December 31, 2011.

We continued to focus on expense control in the third quarter of 2012. Operating expenses for the third quarter of 2012 and 2011 were \$3.7 million and \$3.9 million, respectively. For the three months ended September 30, 2012, net loss was \$66,000, or \$0.01 per diluted share. This compares to net loss of \$1.6 million, or \$0.36 per diluted share, for the three months ended September 30, 2011.

The following table represents our liquidity at September 30, 2012 and December 31, 2011 (dollars in thousands):

	September 30, 2012	December 31, 2011
Cash and cash equivalents	\$ 17,147	\$ 45,405
Short-term investments	\$ 34,886	\$ 9,009
Restricted cash, current portion	\$ 1,038	\$ 1,022
Working capital	\$ 49,133	\$ 50,419
Working capital ratio	7.84	5.90

Cash Used For Operating Activities

Cash used for operating activities was \$5.1 million for the nine months ended September 30, 2012, and was mainly attributable to a \$3.9 million operating loss offset by noncash items and changes in operating assets and liabilities. Cash used for operating activities was \$4.2 million for the nine months ended September 30, 2011, and was mainly attributable to a \$3.6 million operating loss and a decrease in cash collection from accounts receivable due to lower revenues.

Cash (Used For) Provided By Investing Activities

Cash used for investing activities was \$25.3 million for the nine months ended September 30, 2012, primarily related to the net maturities of short-term investments in bonds and certificates of deposit and return of capital received from a previously written-off cost-method investment. Cash provided by investing activities was \$8.9 million for the nine months ended September 30, 2011. This figure reflects short-term investments in bonds and certificates of deposit.

Cash Provided By Financing Activities

Cash provided by financing activities was \$2.0 million for the nine months ended September 30, 2012, primarily consisting of cash received in connection with employees' exercise of stock options and purchases of common stock under the Employee Stock Purchase Plan. Cash provided by financing activities was \$262,000 for the nine months ended September 30, 2011 and primarily consisted of cash received from employees' purchases of common stock under the Employee Stock Purchase Plan, as amended.

Leases and Other Contractual Obligations

During the second quarter of 2012, we leased our headquarters facility and other facilities under non-cancelable operating lease agreements expiring in the year 2015. A total of \$1.0 million of restricted cash as shown on our Condensed Consolidated Balance Sheets represents collateral for the letter of credit which was issued in connection with our previous facility lease obligation.

Off-Balance Sheet Arrangements

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We did not have any off-balance sheet arrangements in the third quarter of 2012 or in any prior periods.

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, 2012 and 2011. 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, 2012 we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). 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, 2012 to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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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 base. When existing customers move away from us, often due to budget 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 initially released Clearvale in 2009. We have been actively enhancing it and adding editions such as Clearvale Enterprise, Clearvale PaasPort and Clearvale Express. 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. To date our Clearvale offerings have not generated significant revenues. 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. 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.

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, BroadVision offers perpetual software licenses, with customers responsible for the IT equipment needed for running BroadVision software. The new Clear and Clearvale products, on the other hand, 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. BroadVision has limited 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. BroadVision has limited 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 offers customers to use basic functions for free, a business practice gaining popularity in our industry. If we do not have enough customers upgrading to for-fee premium packages, 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 competitor's prices or price reductions, and we may fail to win customers that choose to purchase an information technology solution as part of a broader software and services package. As a result, we may be unable to compete successfully with current or new competitors.

If we are unable to keep pace with the rapid technological changes in online commerce, 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

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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, 2012, 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 increased investments in new products, 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.

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

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

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

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

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

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 165 at the end of 2011. On September 30, 2012, we had 170 employees. As a consequence of our employee base growing and then contracting so rapidly, we entered into significant contracts for facilities space for which we ultimately determined we did not have a future use. We announced during the third and fourth quarters of 2004 that we had agreed with the landlords of various facilities to renegotiate future lease commitments, extinguishing a total of approximately \$155 million of future obligations. The management of the expansion and later reduction of our operations has taken a considerable amount of our management's attention during the past several years. As we manage our business to introduce and support new products, we will need to continue to monitor our workforce and make appropriate changes as necessary. If we are unable to support past changes and implement future changes effectively, we may have to divert additional resources away from executing our business plan and toward internal administration. If our expenses significantly outpace our revenues, we may have to make additional changes to our management systems and our business plan may not succeed.

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

We currently expect to be able to fund our working capital requirements from our existing cash and cash equivalents and short-term investments through at least September 30, 2013. 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.

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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) and 15d-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 the region in which we compete consists of many established companies that can offer more lucrative compensation packages. Our inability to staff the department with competent personnel with sufficient training will affect our internal controls over financial reporting to the extent that we may not be able to prevent or detect material misstatements.

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

To date, we have sold our products primarily through our direct sales force. Our ability to achieve significant revenue growth in the future largely will depend on our success in recruiting, training and retaining sufficient direct sales personnel and establishing and maintaining relationships with distributors, resellers and systems integrators. Our products and services require a sophisticated sales effort targeted at the senior management of our prospective customers. New hires as well as employees of our distributors, resellers and systems integrators require training and may take a significant amount of time before achieving full productivity. Our recent hires may not become as productive as necessary, and we may be unable to hire and retain sufficient numbers of qualified individuals in the future. We have entered into strategic alliance agreements with partners, under which partners have agreed to resell and support our current BroadVision product suite. These contracts are generally terminable by either party upon

30 days' notice of an uncured material breach or for convenience upon 90 days' notice prior to the end of any annual term. Termination of any of these alliances could harm our expected revenues. We may be unable to expand our other distribution channels, and any expansion may not result in revenue increases. If we fail to maintain and expand our direct sales force or other distribution channels, our revenues may not grow or they may decline. Revenue generated from third-party distributors in recent years has not been significant.

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.

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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, 2012, approximately 57% 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.

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

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

Our success and ability to compete are dependent to a significant degree on our proprietary technology. We hold a U.S. patent, issued in January 1998, on elements of the BroadVision platform, which covers electronic commerce operations common in today's web business. We also hold a U.S. patent, issued in November 1996, acquired as part of the Interleaf acquisition on the elements of the extensible electronic document processing system for creating new classes of active documents. Although we hold these patents, they may not provide an adequate level of intellectual

property protection. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others. It is also possible that third parties may claim we have infringed their patent, trademark, copyright or other proprietary rights. Claims may be made for indemnification resulting from allegations of infringement. Intellectual property infringement claims may be asserted against us as a result of the use by third parties of our products. Claims or litigation, with or without merit, could result in substantial costs and diversions of resources, either of which could harm our business.

We also rely on copyright, trademark, service mark, trade secret laws and contractual restrictions to protect our proprietary rights in products and services. We have registered "BroadVision", "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 is 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

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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 3rd-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 Oracle and JBoss; 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.

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. In addition, the European Union is in the process of proposing reforms to its existing data protection legal

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framework, which may result in a greater compliance burden for companies with customers in Europe. Various government and consumer agencies have also called for new regulation and changes in industry practices.

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. 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.

We are subject to foreign currency exchange risk.

A total of 57% and 61% of our first nine months of year 2012 and 2011 revenues, respectively, were derived from international operations. Our revenues outside the United States may be adversely affected by fluctuations in foreign currency exchange rates. In addition, a total of 33% of our cash and cash equivalents as well as investments are denominated in foreign currencies as of September 30, 2012. A discussion of the financial impact of exchange rate fluctuations and the ways and extent to which we may attempt to address any impact is contained in Management's Discussion of Financial Condition and Results of Operations. We do not engage in any hedging activities in order to manage any potential adverse financial impact resulting from unfavorable changes in foreign currency exchange rates. We cannot predict with any certainty changes in foreign currency exchange rates or the degree to which we can address these risks.

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, 2012, Dr. Pehong Chen, our Chairman and Chief Executive Officer (“CEO”), beneficially owned approximately 1.6 million shares of our common stock, which represents approximately 34% of the outstanding common stock as of such date. As a result, Dr. Chen exerts substantial control over all matters coming to a vote of our stockholders, including with respect to:

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

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

Our stock price has been highly volatile.

The trading price of BroadVision common stock has been highly volatile, especially since the beginning of fiscal year 2012. The trading price of BroadVision common stock ranged from \$7.81 per share to \$56.46 per share between October 1, 2010 and September 30, 2012. The trading price of our common stock in fiscal year 2012 to date has ranged from \$7.81 per share to \$56.46 per share, which was a four year high trading price for our stock. 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.

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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, enterprise social networking 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 4. Mine Safety Disclosures

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.
 - 101 The following materials from BroadVision, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language); (i) Condensed Consolidated Balance Sheets at September 30, 2012 and December 31, 2011, (ii) Condensed Consolidated Statement of Comprehensive Loss for the three and nine months ended September 30, 2012 and 2011, (iii) Consolidated Statement of Cash Flows for the nine months ended September 30, 2012 and 2011, and (iv) Notes to Condensed Consolidated Financial Statements.
-
- (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 Annual Report on 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 Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008 filed on November 6, 2008.

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.

Date: November 8, 2012 By: /s/ Pehong Chen
Pehong Chen
Chairman of the Board,
President and Chief Executive
Officer

Date: November 8, 2012 By: /s/ Shin-Yuan Tzou
Shin-Yuan Tzou
Chief Financial Officer

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