

BROADVISION INC

Form 10-Q

August 09, 2013

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 June 30, 2013

OR

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

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

Commission File Number 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 July 31, 2013, the registrant had 4,716,267 shares of common stock outstanding.

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BROADVISION, INC. AND SUBSIDIARIES

FORM 10-Q

Quarter Ended June 30, 2013

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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)

	June 30, 2013 (unaudited)	December 31, 2012 *
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 41,376	\$ 23,789
Short-term investments	8,089	28,492
Accounts receivable, net of reserves of \$133 and \$140 as of June 30, 2013 and December 31, 2012, respectively	2,085	4,018
Prepays and other	1,176	1,075
Total current assets	52,726	57,374
Property and equipment, net	287	306
Other assets	200	206
Total assets	\$ 53,213	\$ 57,886
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 565	\$ 679
Accrued expenses	2,096	2,242
Unearned revenue	2,297	2,342
Deferred maintenance	2,483	3,779
Total current liabilities	7,441	9,042
Other non-current liabilities	928	1,187
Total liabilities	8,369	10,229
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; 4,716 and 4,685 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	-	-
Additional paid-in capital	1,265,972	1,265,505
Accumulated other comprehensive loss	(894)	(854)

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Accumulated deficit	(1,220,234)	(1,216,994)
Total stockholders' equity	44,844	47,657
Total liabilities and stockholders' equity	\$ 53,213	\$ 57,886

\* Derived from audited consolidated financial statements filed in the Company's 2012 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Software licenses	\$ 1,387	\$ 1,152	\$ 2,989	\$ 2,551
Services	2,693	2,451	4,934	4,873
Total revenues	4,080	3,603	7,923	7,424
Cost of revenues:				
Cost of software revenues	46	31	70	34
Cost of services	1,057	1,138	2,234	2,431
Total cost of revenues	1,103	1,169	2,304	2,465
Gross profit	2,977	2,434	5,619	4,959
Operating expenses:				
Research and development	1,836	1,604	3,539	3,238
Sales and marketing	1,506	1,543	2,954	3,052
General and administrative	1,022	1,063	2,117	2,129
Restructuring charges	-	2	-	12
Total operating expenses	4,364	4,212	8,610	8,431
Operating loss	(1,387)	(1,778)	(2,991)	(3,472)
Interest income, net	42	92	101	227
Other income (loss), net	258	(761)	(331)	(565)
Loss before provision for income taxes	(1,087)	(2,447)	(3,221)	(3,810)
Provision for income taxes	(5)	(46)	(19)	(30)
Net loss	\$ (1,092)	\$ (2,493)	\$ (3,240)	\$ (3,840)
Other comprehensive (loss) gain, net of tax:				
Foreign currency translation adjustment	(83)	(105)	(40)	56
Comprehensive loss	\$ (1,175)	\$ (2,598)	\$ (3,280)	\$ (3,784)
Earnings per share, basic and diluted:				
Basic and diluted net loss per share	\$ (0.23)	\$ (0.54)	\$ (0.69)	\$ (0.83)
Shares used in computing:				
Weighted average shares, basic and diluted	4,702	4,642	4,694	4,611

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)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (3,240)	\$ (3,840)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	68	49
Stock-based compensation	257	246
Provision of receivable reserves	(10)	86
Restructuring charge	-	12
Gain on the sale of cost method investments	-	(42)
Changes in operating assets and liabilities:		
Accounts receivable	1,943	1,215
Prepays and other	(101)	(239)
Other non-current assets	6	(74)
Accounts payable and accrued expenses	(259)	(122)
Restructuring accrual	-	(462)
Unearned revenue and deferred maintenance	(1,341)	(1,253)
Other noncurrent liabilities	(258)	160
Net cash used for operating activities	(2,935)	(4,264)
Cash flows from investing activities:		
Purchase of property and equipment	(50)	(248)
Proceeds received from cost method investments	-	42
Purchase of short-term investments	(6,740)	(52,488)
Maturities of short-term investments	27,142	20,681
Net cash provided by (used for) investing activities	20,352	(32,013)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	204	197
Proceeds from exercise of common stock options, net	6	1,772
Net cash provided by financing activities	210	1,969
Effect of exchange rates on cash and cash equivalents	(40)	56
Net increase (decrease) in cash and cash equivalents	17,587	(34,252)
Cash and cash equivalents at beginning of period	23,789	45,405
Cash and cash equivalents at end of period	\$ 41,376	\$ 11,153

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 six-month period ended June 30, 2013 compared to the disclosures in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission (the “SEC”) on March 15, 2013, other than those disclosed herein.

Basis of Presentation

The condensed consolidated financial results and related information as of and for the three and six months ended June 30, 2013 and June 30, 2012 are unaudited. The Condensed Consolidated Balance Sheet at December 31, 2012 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 2012 Annual Report on Form 10-K filed with the SEC on March 15, 2013.

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 six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2013 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 and income taxes, 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 six months ended June 30, 2013 and 2012 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cost of services	\$ 15	\$ 21	\$ 30	\$ 41
Research and development	22	31	42	67
Sales and marketing	88	48	144	82
General and administrative	22	25	41	56
	\$ 147	\$ 125	\$ 257	\$ 246

### 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 using the treasury stock method, and shares subject to repurchase, if any. There were 358,000 and 123,000 potential common shares excluded from the determination of diluted net loss per share for the three months ended June 30, 2013 and 2012, 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 360,000 and 100,000 potential common shares excluded from the determination of diluted net loss per share for the six months ended June 30, 2013 and 2012, respectively, as the effect of each share was anti-dilutive. 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Loss	\$ (1,092)	\$ (2,493)	\$ (3,240)	\$ (3,840)
Weighted-average common shares outstanding used to compute basic and diluted loss per share	4,702	4,642	4,694	4,611
Basic and diluted loss per share	\$ (0.23)	\$ (0.54)	\$ (0.69)	\$ (0.83)

## 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 (loss), net in the Condensed Consolidated Statements of Comprehensive Loss. For the six months ended June 30, 2013, and 2012, translation

(loss) gain was (\$40,000) and \$56,000, 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, 2012	\$ (854)
Net Change during period	(40)
Balance, June 30, 2013	\$ (894)

## Recent Accounting Pronouncements

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In February 2013, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update No. 2013-02, Comprehensive Income - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. These amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional details about those amounts. For public entities, the amendments are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. We adopted this amendment and it has not resulted in changes to our financial statements disclosure.

## Note 2. Selected Condensed Consolidated Balance Sheet Detail

Accrued expenses consisted of the following (in thousands):

	June 30, 2013 (unaudited)	December 31, 2012
Employee benefits	\$ 852	\$ 1,004
Commissions and bonuses	185	94
Sales and other taxes	197	295
Income tax and tax contingencies	216	199
Customer advances	9	36
Other	637	614
Total accrued expenses	\$ 2,096	\$ 2,242

Other non-current liabilities consisted of the following (in thousands):

	June 30, 2013 (unaudited)	December 31, 2012
Deferred maintenance and unearned revenue	\$ 344	\$ 551
Other	584	636
Total other non-current liabilities	\$ 928	\$ 1,187

### 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:



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- 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 June 30, 2013 (in thousands) is as follows:

		Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	June 30, 2013			
Cash and cash equivalents:				
Cash	\$ 41,334	\$ 41,334	\$ -	\$ -
Money market funds	42	42	-	-
Total cash and cash equivalents	\$ 41,376	\$ 41,376	\$ -	\$ -
Fixed income securities				
Certificates of deposits	\$ 1,045	\$ -	\$ 1,045	\$ -
Corporate bonds - financial	5,725	-	5,725	-
Corporate bonds - industrial	1,319	-	1,319	-
Total fixed income securities	\$ 8,089	\$ -	\$ 8,089	\$ -

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.

The fair value of 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

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 June 30, 2013 and December 31, 2012, 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. Accordingly, we did not record any liabilities for these agreements as of June 30, 2013 and December 31, 2012, respectively.

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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 June 30, 2013 or December 31, 2012. 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 June 30, 2013:

Years ending December 31,	Operating Lease
2013	\$ 522
2014	888
2015	380
2016	46
2017 and thereafter	-
Total minimum lease payments	\$ 1,836

As of June 30, 2013 we do not have any estimated future facilities costs as a restructuring accrual.

Note 5. Geographic, Segment and Significant Customer Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Software licenses	\$ 1,387	\$ 1,152	\$ 2,989	\$ 2,551
Consulting services	934	715	1,524	1,408
Maintenance	1,759	1,736	3,410	3,465
Total revenues	\$ 4,080	\$ 3,603	\$ 7,923	\$ 7,424

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 (Europe); and Asia, Pacific and Japan (Asia/Pacific).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Americas	\$ 1,781	\$ 1,489	\$ 3,676	\$ 3,134
Europe	1,287	1,366	2,387	2,746
Asia/Pacific	1,012	748	1,860	1,544
Total revenues	\$ 4,080	\$ 3,603	\$ 7,923	\$ 7,424

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	June 30, 2013	December 31, 2012
Long-Lived Assets:		
Americas	\$ 151	\$ 181
Europe	8	6
Asia/Pacific	128	119
Total long-lived assets	\$ 287	\$ 306

For the three-month period ended June 30, 2013, one of our customers accounted for approximately \$439,000 our revenues. For the six-month period ended June 30, 2013, none of our customers accounted for more than 10% of our revenues. For the three-month and six-month period ended June 30, 2012, 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 six-month period ended June 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 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 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 June 30, 2012				
Lease cancellations and commitments	\$ 236	\$ 2	\$ (238)	\$ -

Six Months Ended June 30, 2012

Lease cancellations and commitments	\$	450	\$	12	\$	(462)	\$	-
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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

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its members. BVB is the sole owner of BroadVision On Demand, a Chinese entity ("BVOD"). We have invested approximately \$7.4 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 2013, 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 \$156,000. We recognized \$39,000 of license revenue related to this contract for the second quarter of 2013.

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 six month period ended June 30, 2013 compared to the disclosures in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2012, other than as disclosed herein.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements, if any, and the impact of these pronouncements on our Condensed Consolidated Financial Statements, if any, see Note 1 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

## 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 June 30, 2013		2012		Six Months Ended June 30, 2013		2012	
Revenues:								
Software licenses	34	%	32	%	38	%	34	%
Services	66		68		62		66	
Total revenues	100		100		100		100	
Cost of revenues:								
Cost of software revenues	1		1		1		-	
Cost of services	26		31		28		33	
Total cost of revenues	27		32		29		33	
Gross profit	73		68		71		67	
Operating expenses:								
Research and development	45		45		45		44	
Sales and marketing	37		43		37		41	
General and administrative	25		30		27		29	
Restructuring charges	-		-		-		-	
Total operating expenses	107		118		109		114	
Operating loss	(34)		(50)		(38)		(47)	
Interest income, net	1		3		1		3	
Other income (loss), net	6		(21)		(4)		(8)	
Loss before provision for income taxes	(27)		(68)		(41)		(52)	
Provision for income taxes	-		(1)		-		-	
Net loss	(27) %		(69) %		(41) %		(52) %	



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**Revenues.** License revenue from the sales of software licenses for the three months ended June 30, 2013 was \$1.4 million, up \$0.2 million, or 17% from \$1.2 million for the three months ended June 30, 2012. License revenue from the sales of software licenses for the six months ended June 2013 was \$3.0 million, up \$0.4 million, or 15% from \$2.6 million for the six months ended June 30, 2012. Maintenance revenue, which is generally derived from maintenance contracts sold with initial customer licenses and from subsequent contract renewals, for the three months ended June 30, 2013 was \$1.7 million, remaining unchanged from the prior year. Maintenance revenue remained unchanged at \$3.4 million for the six months ended June 30, 2013 and 2012. Consulting revenue, which is generally related to services in connection with our licensed software for the three months ended June 30, 2013 was \$0.9 million, up \$0.2 million, or 29% from the three months ended June 30, 2012. Consulting revenue was \$1.5 million for the six months ended June 30, 2013, up \$0.1 million, or 7%, from \$1.4 million for the six months ended June 30, 2012. We are investing heavily in our new social networking product while our older products mature. It will take time for the 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 June 30, 2013 increased by \$15,000 compared to the same period in the prior year. Cost of software licenses for the six months ended June 30, 2013 increased \$36,000 compared to the same period in year 2012. The increase was mainly due to an increase in 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. Our cost of services remained unchanged at \$1.1 million for the three months ended June 30, 2013 and 2012. Cost of services was \$2.2 million for the six months ended June 30, 2013, down \$0.2 million, or 8%, from \$2.4 million for the six months ended June 30, 2012.

**Research and development.** 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 was \$1.8 million for the three months ended June 30, 2013, up \$0.2 million, or 13%, from \$1.6 million for the three months ended June 30, 2012. Research and development expenses were \$3.5 million for the six months ended June 30, 2013, up \$0.3 million, or 9%, from \$3.2 million for the six months ended June 30, 2012. The increases in research and development costs for these periods were primarily attributable to increased costs associated with increasing the number of employees in our research and development function.

**Sales and marketing.** 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 \$1.5 million for the three months ended June 30, 2013 and 2012. Sales and marketing expenses remained unchanged at \$3.0 million for the six months ended June 30, 2013 and 2012.

General and administrative. 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 approximately \$1.0 million for the three months ended June 30, 2013 and 2012. Our general and administrative expenses remained unchanged at \$2.1 million for the six months ended June 30, 2013 and 2012.

Restructuring charges, net. There is no restructuring charge for the three and six months ended June 30, 2013. The net restructuring charge of \$12,000 for the six months ended June 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.

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Interest income, net. Net interest income includes interest income on investment funds. We generated \$101,000 and \$227,000 in interest income from our cash and cash equivalents as well as short-term investment balances during the six months ended June 30, 2013 and 2012, respectively.

Other income (loss), net. Other income (loss), net during the six months ended June 30, 2013, was a loss of \$0.3 million compared to a loss of \$0.6 million for the six months ended June 30, 2012. The variance between the periods was primarily due to losses and gains from the remeasurement of the foreign currency exchange rate fluctuation on our Euro cash and investment balances.

Provision for income taxes. The provision for income taxes was \$5,000 for the three months ended June 30, 2013 compared to a provision for income tax of \$46,000 for the three months ended June 30, 2012. The provision for income taxes was \$19,000 for the six months ended June 30, 2013, down \$11,000 or 36%, from \$30,000 for the six months ended June 30, 2012. The provision for the six months ended June 30, 2013 and 2012 primarily relates to foreign income tax expenses.

Liquidity and Capital Resources

Overview

We continue to maintain a strong cash position as shown on our Condensed Consolidated Balance Sheet. As of June 30, 2013, we had \$49.5 million of cash and cash equivalents and short-term investments with no long-term debt borrowings, as compared to a balance of \$52.3 million of cash and cash equivalents and short-term investments at December 31, 2012.

We continued to focus on expense control in the second quarter of 2013. Operating expenses for the second quarter of 2013 and 2012 remained unchanged around \$4.3 million. For the three months ended June 30, 2013, net loss was \$1.1 million, or (\$0.23) per diluted share. This compares to net loss of \$2.4 million, or (\$0.54) per diluted share, for the three months ended June 30, 2012.

The following table represents our liquidity at June 30, 2013 and December 31, 2012 (dollars in thousands):

	June 30, 2013	December 31, 2012
Cash and cash equivalents	\$ 41,376	\$ 23,789
Short-term investments	\$ 8,089	\$ 28,492
Working capital	\$ 45,285	\$ 48,332
Working capital ratio	7.08	6.35

#### Cash Used For Operating Activities

Cash used for operating activities was \$2.9 million for the six months ended June 30, 2013, mainly attributable to a \$3.0 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 six months ended June 30, 2012, mainly attributable to a \$3.5 million operating loss offset by noncash items and changes in operating assets and liabilities.

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

Cash provided by investing activities was \$20.4 million for the six months ended June 30, 2013. Cash used for investing activities was \$32.0 million for the six months ended June 30, 2012. Both periods' changes are primarily related to the purchases or maturities of short-term investments in bonds and certificates of deposit.

#### Cash Provided By Financing Activities

Cash provided by financing activities was \$0.2 million for the six months ended June 30, 2013, primarily from purchases of common stock under the Employee Stock Purchase Plan. Cash provided by financing activities was \$1.9 million for the six months ended

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June 30, 2012 and primarily consisted of cash received in connection with employees' exercise of stock options and purchases of common stock under the Employee Stock Purchase Plan.

Leases and Other Contractual Obligations

As of June 30 2013, we leased our headquarters facility and other facilities under non-cancelable operating lease agreements expiring in the year 2016.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements in the second quarter of 2013 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 June 30, 2013 and 2012. 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 June 30, 2013 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 June 30, 2013 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 June 30, 2013 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



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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 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 and have recently integrated Clearvale's social and mobile capabilities into BroadVision 9, a new solution we announced at the beginning of 2013. We have been actively enhancing Clearvale 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 and BroadVision 9 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, we have offered 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 we provide hosted IT equipment and operation for subscribing customers. The Cloud model is also known as Software-as-a-Service, or SaaS. We have 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. We have 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 allows 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

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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 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 June 30, 2013, 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 175 at the end of 2012. On June 30, 2013, we had 165 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

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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 June 30, 2014. 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 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:



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- 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 systems 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. For the six months ended June 30, 2013, approximately 54% 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. Third parties have claimed and may claim in the future that 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", "Clearvale", "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

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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 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.

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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 framework, which may result in a greater compliance burden for companies with customers in Europe.

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 54% and 59% of our revenues for the first six months of each of 2013 and 2012, 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 35% of our cash and cash equivalents, as well as some of our investments, are denominated in foreign currencies as of June 30, 2013. 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 June 30, 2013, 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.

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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 July 1, 2011 and June 30, 2013. 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, 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 June 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at June 30, 2013 and December 31, 2012, (ii) Condensed Consolidated Statement of Comprehensive Loss for the three and six months ended June 30, 2013 and 2012, (iii) Consolidated Statement of Cash Flows for the six months ended June 30, 2013 and 2012, 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 (File No. 333-03844).
(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. (File No. 000-28252)
(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.



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SIGNATURES

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

BROADVISION, INC.

Date: August 9, 2013      By: /s/ Pehong Chen  
Pehong Chen  
Chairman of the Board,  
President and Chief Executive  
Officer

BROADVISION, INC.

Date: August 9, 2013      By: /s/ Shin-Yuan Tzou  
Shin-Yuan Tzou  
Chief Financial Officer



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EXHIBIT INDEX

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