

BROADVISION INC
Form 10-Q
November 06, 2008

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 Quarter ended September 30, 2008

OR

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

0-28252

(Commission File Number)

BROADVISION, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

94063
(Zip code)

(650) 331-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 31, 2008 there were 4,389,377 shares of the Registrant's Common Stock issued and outstanding.

BROADVISION, INC. AND SUBSIDIARIES

FORM 10-Q

Quarter Ended September 30, 2008

TABLE OF CONTENTS

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets at September 30, 2008 (unaudited) and December 31, 2007</u>	<u>1</u>
	<u>Condensed Consolidated Income Statements and Comprehensive Income - three and nine months ended September 30, 2008 and 2007 (unaudited)</u>	<u>2</u>
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 (unaudited)</u>	<u>3</u>
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>4</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>14</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>19</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>19</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>20</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>20</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>28</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>28</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	<u>29</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>29</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>30</u>
 <u>SIGNATURES</u>		
 <u>EXHIBIT 3.3</u>		
<u>EXHIBIT 31.1</u>		
<u>EXHIBIT 31.2</u>		
<u>EXHIBIT 32.1</u>		

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2008 (unaudited)	December 31, 2007 *
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 62,530	\$ 53,973
Accounts receivable, less allowance for doubtful accounts of \$493 as of September 30, 2008 and \$585 as of December 31, 2007	5,346	7,614
Prepaid and other current assets	2,602	1,410
Restricted cash, current portion	20	20
Total current assets	70,498	63,017
Property and equipment, net	575	688
Restricted cash, net of current portion	1,000	1,000
Goodwill	25,066	25,066
Other assets	605	541
Total assets	\$ 97,744	\$ 90,312
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 819	\$ 1,359
Accrued expenses	5,508	6,386
Warrant liability	534	4,195
Unearned revenue	5,963	2,857
Deferred maintenance	8,766	7,726
Total current liabilities	21,590	22,523
Other non-current liabilities	3,100	3,024
Total liabilities	24,690	25,547
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.0001 par value; 1,000 shares authorized as of September 30, 2008 and December 31, 2007; none issued and outstanding	-	-
Common stock, \$0.0001 par value; 11,200 shares authorized; 4,382 shares issued and outstanding as of September 30, 2008 and 4,357 shares issued and outstanding as of December 31, 2007	-	-
Additional paid-in capital	1,258,622	1,257,142
Accumulated other comprehensive (loss) income	(268)	16
Accumulated deficit	(1,185,300)	(1,192,393)
Total stockholders' equity	73,054	64,765
Total liabilities and stockholders' equity	\$ 97,744	\$ 90,312

* Derived from audited consolidated financial statements filed in the Company's 2007 Annual Report on Form 10-K.

See Accompanying Notes to Condensed Consolidated Financial Statements

~ 1 ~

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Software licenses	\$ 2,096	\$ 5,280	\$ 8,521	\$ 16,508
Services	6,095	7,476	17,729	22,261
Total revenues	8,191	12,756	26,250	38,769
Cost of revenues:				
Cost of software licenses	7	3	20	37
Cost of services	2,218	2,102	6,626	6,710
Total cost of revenues	2,225	2,105	6,646	6,747
Gross profit	5,966	10,651	19,604	32,022
Operating expenses:				
Research and development	2,217	2,283	6,863	7,422
Sales and marketing	1,937	1,898	5,783	5,748
General and administrative	1,659	1,705	4,960	4,250
Restructuring charge (credit)	6	260	(17)	845
Total operating expenses	5,819	6,146	17,589	18,265
Operating income	147	4,505	2,015	13,757
Interest income, net	478	456	1,280	1,366
Gain (loss) on revaluation of warrants	581	(680)	3,661	(4,918)
Other (expense) income, net	(876)	762	458	1,068
Income before provision for income taxes	330	5,043	7,414	11,273
(Provision) benefit for income taxes	(41)	419	(328)	133
Net income	\$ 289	\$ 5,462	\$ 7,086	\$ 11,406
Basic net income per share	\$ 0.07	\$ 1.26	\$ 1.62	\$ 2.65
Diluted net income per share	\$ 0.06	\$ 1.22	\$ 1.60	\$ 2.58
Shares used in computing:				
Weighted average shares-basic	4,431	4,330	4,387	4,298
Weighted average shares-diluted	4,466	4,464	4,433	4,420
Comprehensive income:				
Net income	\$ 289	\$ 5,462	\$ 7,086	\$ 11,406
Other comprehensive gain (loss), net of tax:				
Foreign currency translation adjustment	22	(159)	(284)	(79)
Total comprehensive income	\$ 311	\$ 5,303	\$ 6,802	\$ 11,327

See Accompanying Notes to Condensed Consolidated Financial Statements

~ 2 ~

Table of Contents

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

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 7,086	\$ 11,406
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	225	831
Reversal of receivable reserves	(93)	(571)
Restructuring (credit) charge	(18)	844
Stock-based compensation	886	909
Dividend received from cost method investments	(35)	-
(Gain) loss on revaluation of warrants	(3,661)	4,918
Changes in operating assets and liabilities:		
Accounts receivable	2,361	3,101
Prepays and other current assets	(1,192)	(285)
Other non-current assets	(64)	(21)
Accounts payable and accrued expenses	(833)	(2,144)
Restructuring accrual	(349)	(1,446)
Unearned revenue and deferred maintenance	4,146	(4,690)
Other non-current liabilities	(142)	(353)
Net cash provided by operating activities	8,317	12,499
Cash flows from investing activities:		
Purchase of property and equipment	(105)	(471)
Dividend received from cost method investments	35	-
Transfer from restricted cash	-	201
Net cash used for investing activities	(70)	(270)
Cash flows from financing activities:		
Proceeds from issuance of common stock from warrants exercise	-	505
Proceeds from issuance of common stock, net	594	1,077
Net cash provided by financing activities	594	1,582
Effect of exchange rates on cash and cash equivalents	(284)	(79)
Net increase in cash and cash equivalents	8,557	13,732
Cash and cash equivalents at beginning of period	53,973	37,003
Cash and cash equivalents at end of period	\$ 62,530	\$ 50,735
Supplemental information of noncash financing and investing activities:		
Retirement of fully depreciated property and equipment	\$ 85	\$ 5,869
Reclassification of tax liability to accumulated deficit	\$ -	\$ 388
Reclassification of warrant liability to additional paid-in capital upon exercise of warrants	\$ -	\$ 561

See Accompanying Notes to Condensed Consolidated Financial Statements

~ 3 ~

Table of Contents

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

(Unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

There have been no material changes in our critical accounting policies, estimates and judgments during the nine month period ended September 30, 2008 compared to the disclosures in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission on February 20, 2008.

Basis of Presentation

The condensed consolidated financial results and related information as of and for the three and nine months ended September 30, 2008 and 2007 are unaudited. The Condensed Consolidated Balance Sheet at December 31, 2007 has been derived from the audited consolidated financial statements as of that date but does not necessarily reflect all of the informational disclosures previously reported in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The unaudited condensed consolidated financial statements should be reviewed in conjunction with the audited consolidated financial statements and related notes contained in our 2007 Annual Report on Form 10-K filed with the SEC on February 20, 2008.

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, 2008 are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2008 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 our Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make certain assumptions and estimates that affect reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to allowance for doubtful accounts, stock-based compensation, investments, goodwill and intangible assets, 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. We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our Condensed Consolidated Financial Statements.

Revenue Recognition

Consulting revenues are generally accounted for separately from new software license revenues because the arrangements qualify as service transactions as defined in Statement of Position (“SOP”) No. 97-2, Software Revenue Recognition (“SOP 97-2”), as amended by SOP No. 98-9, Software Revenue Recognition, With Respect to Certain Transactions (“SOP 98-9”), and Staff Accounting Bulletin (“SAB”) 104, Revenue Recognition (“SAB 104”). The more significant factors considered in determining whether the revenue should be accounted for separately include the nature of services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments and impact of milestones or acceptance criteria on the realizability of the software license fee. Revenues for consulting services are generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved. For the fixed or “not to exceed” fees contracts, revenue are recognized based on SOP No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (“SOP 81-1”). We estimate the proportional performance on contracts on a basis of utilizing hours incurred to date as a percentage of total estimated hours to complete the project.

Maintenance revenues, which include revenues bundled with software license agreements that entitle the customers to technical support and future unspecified enhancements to our products, are deferred and recognized ratably over the related agreement period, generally twelve months.

Our consulting services, which consist of consulting, maintenance and training, were delivered through the BroadVision Global Services (“BVGS”) organization until December 2007. In January 2008, we renamed BVGS to Worldwide E-Business Solution Organization (“WebSo”). In order to support our customers’ expanded needs relating to recently launched products, WebSo involves more internal departments than did the BVGS organization. The services that we provide are not essential to the functionality of the software. We record reimbursement from our customers for out-of-pocket expenses as an increase to services revenues.

Stock-Based Compensation

We measure stock-based compensation at the grant date based on the award’s fair value and recognize the expense ratably over the requisite vesting period, net of estimated forfeitures, for all stock-based awards granted after January 1, 2006 and all stock-based awards granted prior to, but not vested as of January 1, 2006.

We have elected to calculate an award’s fair value based on the Black-Scholes option pricing model. The Black-Scholes model requires various assumptions, including expected option life and volatility. If any of the assumptions used in the Black-Scholes model or the estimated forfeiture rate change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

We currently have in effect the following stock-based compensation plans: the 2006 Equity Incentive Plan (the “Equity Plan”), the 2000 Non-Officer Plan and Non-plan Grants, and the Employee Stock Purchase Plan (the “Purchase Plan”). These are described in detail in Note 1 of Notes to Condensed Consolidated Financial Statements in our 2007 Annual Report on Form 10-K.

[Table of Contents](#)

The following table sets forth the total stock-based compensation expense recognized in our Condensed Consolidated Income Statements for the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Cost of services	\$ 60,067	\$ 63,228	\$ 133,278	\$ 172,992
Research and development	137,565	120,816	257,344	353,044
Sales and marketing	95,240	66,946	231,293	204,148
General and administrative	118,847	64,703	263,603	178,711
	\$ 411,719	\$ 315,693	\$ 885,518	\$ 908,895

As of September 30, 2008, the total compensation cost expense to be recognized related to the non-vested stock options, net of estimated forfeitures, is approximately \$289,000 for the remainder of year 2008, \$1,042,000 for year 2009, \$914,000 for year 2010, and \$222,000 for year 2011.

Stock Split

On September 9, 2008, we announced that our Board of Directors and requisite stockholders had approved at a reverse split ratio of one-for-twenty-five a reverse split of our common stock. Our common stock began trading on a post-split basis at the opening of trading on October 27, 2008. The accompanying consolidated financial statements and related financial information contained herein for all periods presented have been retroactively restated to give effect to the stock split in accordance with U.S. GAAP.

Earnings Per Share Information

Basic net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding less shares subject to repurchase. Diluted net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding and, when dilutive, common equivalent shares from outstanding stock options and warrants using the treasury stock method, and shares subject to repurchase, if any using the as-if converted method. There were 433,000 and 110,000 potential common shares excluded from the determination of diluted net income per share for the three months ended September 30, 2008 and 2007, respectively, as the effect of each share was anti-dilutive because the per-share strike price of the options under which these shares may be issued is higher than the current market price. We excluded 300,000 and 136,000 potential common shares from the determination of diluted net income per share for the nine months ended September 30, 2008 and 2007, 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 current market price. The following table sets forth the basic and diluted net income per share computational data for the periods presented (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net income	\$ 289	\$ 5,462	\$ 7,086	\$ 11,406
Weighted-average common shares outstanding used to compute basic net income per share	4,431	4,330	4,387	4,298
Weighted-average common equivalent shares from outstanding common stock options and warrants	35	134	46	122
Total weighted-average common and common equivalent shares outstanding used to compute diluted net income per share	4,466	4,464	4,433	4,420
Basic net income per share	\$ 0.07	\$ 1.26	\$ 1.62	\$ 2.65

Edgar Filing: BROADVISION INC - Form 10-Q

Diluted net income per share	\$	0.06	\$	1.22	\$	1.60	\$	2.58
------------------------------	----	------	----	------	----	------	----	------

~ 6 ~

Legal Proceedings

We are subject from time to time to various legal actions and other claims arising in the ordinary course of business. In our opinion, the outcomes of current legal proceedings will not be material to our financial statements.

Foreign Currency Transactions

During fiscal 2004, we changed the functional currencies of all foreign subsidiaries from the U.S. dollar to the local currency of the respective countries. Assets and liabilities of these subsidiaries are translated into U.S. dollars at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Foreign exchange gains and losses resulting from the remeasurement of foreign currency assets and liabilities are included as other income (expense) in the Condensed Consolidated Income Statements. For the nine-month periods ended September 30, 2008, and 2007, translation losses were \$284,000, and \$79,000, respectively. These amounts are included in the accumulated other comprehensive income (loss) account in the Condensed Consolidated Balance Sheets.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income and other comprehensive income (loss), which primarily consists of foreign currency translation adjustments. Total comprehensive income (loss) is presented in the accompanying Condensed Consolidated Income Statements. Total accumulated other comprehensive income (loss) is displayed as a separate component of stockholder's equity in the accompanying Condensed Consolidated Balance Sheets. The accumulated balances of other comprehensive income (loss) consist of the following, net of taxes (in thousands):

	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2007	\$ 16
Net change during period	(284)
Balance, September 30, 2008	\$ (268)

Recent Accounting Pronouncements

In May 2008, the Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 defines the order in which accounting principles that are generally accepted should be followed. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We do not expect the adoption of SFAS 162 to have a material impact on our Condensed Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combination ("SFAS 141R"), which replaces FASB Statement No. 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. We will evaluate the impact of SFAS 141R on our Condensed Consolidated Financial Statements if and when a future acquisition occurs.

~ 7 ~

Table of Contents

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51 ("SFAS 160"), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our Condensed Consolidated Financial Statements.

Effective January 1, 2008, we adopted the provisions of SFAS No. 157, Fair Value Measurements ("SFAS 157"), for financial assets and liabilities and any other assets and liabilities carried at fair value. This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB agreed to a one-year deferral for the implementation of SFAS 157 for other non-financial assets and liabilities. Our adoption of SFAS 157 did not have a material effect on our financial statements for financial assets and liabilities and any other assets and liabilities carried at fair value.

In October 2008, the FASB issued FASB Staff Position FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active, and demonstrates how the fair value of a financial asset is determined when the market for the financial assets is inactive. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of this standard did not have an impact on our Condensed Consolidated Financial Statements.

Note 2. Selected Condensed Consolidated Balance Sheet Detail

Cash and Cash Equivalents and Short-term Investments

We consider all highly liquid instruments with maturity of three months or less when purchased to be cash equivalents. Our cash and cash equivalents as of September 30, 2008 include \$15.6 million in cash and \$46.9 million in money market funds. Our cash and cash equivalents as of December 31, 2007 include \$13.2 million in cash and \$40.7 million in money market funds. All of our fair market value measurements of our financial assets utilize quoted prices in active markets, and as such, are valued at "Level 1" of the fair value hierarchy defined in SFAS 157. Short-term investments if any are classified as available-for-sale and are reported at fair value, with unrealized gains and losses recorded in stockholders' equity as a component of other comprehensive income/loss. Realized gains and losses on sales of all investments are reported in results of operations and computed using the specific identification method. There were no short-term investments for the periods presented.

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

	September 30, 2008 (unaudited)	December 31, 2007
Furniture and fixtures	\$ 577	\$ 654
Computers and software	5,475	5,359
Leasehold improvements	1,287	1,296
	7,339	7,309
Less accumulated depreciation and amortization	(6,764)	(6,621)
Property and equipment, net	\$ 575	\$ 688

~ 8 ~

Accrued expenses consisted of the following (in thousands):

	September 30, 2008 (unaudited)	December 31, 2007
Employee benefits	\$ 1,130	\$ 1,076
Commissions and bonuses	378	656
Sales and other taxes	934	1,245
Income tax and tax contingency reserves	597	427
Restructuring	354	439
Customer advances	283	288
Royalties	1,376	1,376
Other	456	879
Total accrued expenses	\$ 5,508	\$ 6,386

Note 3. Warrants and Other Non-Current Liabilities

Warrants

As of September 30, 2008, the following warrants to purchase our common stock were outstanding:

	Underlying Shares	Exercise Price per Share
Issued to landlord in real estate buyout transaction in August 2004	28,000	\$ 125.00
Issued to convertible notes investors in November 2004	154,631	37.00
Total warrants	182,631	

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Warrants related to the Notes	\$ 580	\$ (731)	\$ 3,495	\$ (4,597)
Warrants related to real estate buyout	1	51	166	(321)
Gain (loss) on revaluation of warrants	\$ 581	\$ (680)	\$ 3,661	\$ (4,918)

~ 9 ~

Other Non-Current Liabilities

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

	September 30, 2008 (unaudited)	December 31, 2007
Restructuring	\$ 613	\$ 895
Deferred maintenance and unearned revenue	1,817	1,481
Other	670	648
Total other non-current liabilities	\$ 3,100	\$ 3,024

Note 4. Commitments and Contingencies

Warranties and Indemnification

We provide a warranty to our customers that our software will perform substantially in accordance with the documentation we provide with the software, typically for a period of 90 days following receipt of the software. Historically, costs related to these warranties have been immaterial. Accordingly, we have not recorded any warranty liabilities as of September 30, 2008 and December 31, 2007.

Our software license agreements typically provide for indemnification of customers for intellectual property infringement claims caused by use of a current release of our software consistent with the terms of the license agreement. The term of these indemnification clauses is generally perpetual. The potential future payments we could be required to make under these indemnification clauses is generally limited to the amount the customer paid for the software. Historically, costs related to these indemnification provisions have been immaterial. We also maintain liability insurance that limits our exposure. As a result, we believe the potential liability of these indemnification clauses is minimal. Accordingly, we have not recorded any liabilities for these agreements as of September 30, 2008 and December 31, 2007.

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, 2008 or December 31, 2007. We assess the need for an indemnification reserve on a quarterly basis and there can be no guarantee that an indemnification reserve will not become necessary in the future.

Leases

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

Table of Contents

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

Years ending December 31,	Operating Leases
2008	\$ 0.5
2009	2.1
2010	1.6
2011	1.2
2012	0.6
Total minimum facilities payments	\$ 6.0

These future minimum lease payments are net of approximately \$2.5 million of sublease income to be received under sublease agreements. As of September 30, 2008, we have accrued \$1.0 million of estimated future facilities costs as a restructuring accrual.

Standby Letter of Credit Commitments

As of September 30, 2008 and December 31, 2007, we had \$1.0 million, of outstanding commitments in the form of a standby letter of credit, in favor of our landlord to secure obligations under our facility leases. This standby letter of credit is collateralized by the restricted cash listed in the Condensed Consolidated Balance Sheets.

Note 5. Geographic, Segment and Significant Customer Information

We operate in one segment, electronic business commerce solutions. Our reportable segment includes our facilities in North and South America (Americas), Europe and Asia Pacific and the Middle East (Asia/Pacific). We consider our CEO to be our chief operating decision-maker. Our CEO reviews financial information presented on a consolidated basis accompanied by disaggregated information about revenues by geographic region and by product for purposes of making operating decisions and assessing financial performance. The disaggregated revenue information reviewed by the CEO is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Software licenses	\$ 2,096	\$ 5,280	\$ 8,521	\$ 16,508
Consulting services	1,650	1,640	4,399	4,827
Maintenance	4,445	5,836	13,330	17,434
Total revenues	\$ 8,191	\$ 12,756	\$ 26,250	\$ 38,769

We sell our products and provide services worldwide through a direct sales force and through a channel of independent distributors, value-added resellers ("VARs") and Application Service Providers ("ASPs"). In addition, the sales of our products are promoted through independent professional consulting organizations known as systems integrators. We provided services worldwide through our BVGS Organization until December 2007 and in January 2008 renamed the organization WebSo. In order to support our customers' expanded needs relating to recently launched products, WebSo involves more internal departments than did the BVGS organization. We also provide services worldwide indirectly through distributors, VARs, ASPs, and systems integrators. We currently operate in three primary geographical territories: Americas, Europe and Asia/Pacific.

Table of Contents

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,	
	2008	2007	2008	2007
Revenues:				
Americas	\$ 4,097	\$ 9,788	\$ 13,132	\$ 25,196
Europe	3,124	1,631	9,552	8,449
Asia/Pacific	970	1,337	3,566	5,124
Total revenues	\$ 8,191	\$ 12,756	\$ 26,250	\$ 38,769

	September 30, 2008 (unaudited)	December 31, 2007
Long-Lived Assets:		
Americas	\$ 25,484	\$ 25,581
Europe	30	62
Asia/Pacific	127	111
Total long-lived assets	\$ 25,641	\$ 25,754

For the three-month and nine-month periods ended September 30, 2008, no single customer accounted for more than 10% of our revenues. For the three-month and nine-month periods ended September 30, 2007, no single customer accounted for more than 10% of our revenues.

Note 6. Restructuring Charges

As of September 30, 2008, the total restructuring accrual of \$1.0 million consisted of the following (in millions):

	Current	Non-Current	Total
Excess Facilities	\$ 0.4	\$ 0.6	\$ 1.0

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

Years ending December 31,	Total Future Minimum Payments
2008	\$ 0.2
2009	0.3
2010	0.2
2011	0.1
2012	0.2
Total minimum facilities payments	\$ 1.0

Table of Contents

The following table summarizes the activity related to the restructuring plans initiated subsequent to December 31, 2002, and accounted for in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (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, 2008				
Lease cancellations and commitments	\$ 46	\$ 37	\$ 14	\$ 97
Three Months Ended September 30, 2007				
Lease cancellations and commitments	\$ 59	\$ 19	\$ (5)	\$ 73
Nine Months Ended September 30, 2008				
Lease cancellations and commitments	\$ 8	\$ 49	\$ 40	\$ 97
Nine Months Ended September 30, 2007				
Lease cancellations and commitments	\$ 77	\$ 133	\$ (137)	\$ 73

The following table summarizes the activity related to the restructuring plans initiated on or prior to December 31, 2002, and accounted for in accordance with Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) (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, 2008				
Lease cancellations and commitments	\$ 1,043	\$ (46)	\$ (127)	\$ 870
Three Months Ended September 30, 2007				
Lease cancellations and commitments	\$ 1,741	\$ 241	\$ (469)	\$ 1,513
Termination payments to employees and related costs	356	-	18	374
	\$ 2,097	\$ 241	\$ (451)	\$ 1,887
Nine Months Ended September 30, 2008				
Lease cancellations and commitments	\$ 1,326	\$ (88)	\$ (368)	\$ 870
Nine Months Ended September 30, 2007				
Lease cancellations and commitments	\$ 2,138	\$ 712	\$ (1,337)	\$ 1,513
Termination payments to employees and related costs	347	-	27	374
	\$ 2,485	\$ 712	\$ (1,310)	\$ 1,887

Note 7. Related Party Transactions

In June 2007, we executed a software license agreement with a third party in which Dr. Pehong Chen, our CEO and largest stockholder, is a board member. In March 2008, we executed a renewal of the license agreement and we recognized license revenue starting April 1, 2008. The contract value of the renewed agreement is \$62,000. As of September 30, 2008, we recognized revenue of approximately \$31,000.

Note 8. Subsequent Events

On September 9, 2008, we announced that our Board of Directors and requisite stockholders had approved at a reverse split ratio of one-for-twenty-five a reverse split of our common stock. Our common stock began trading on a post-split basis at the opening of trading on October 27, 2008. The accompanying consolidated financial statements and related financial information contained herein for all periods presented have been retroactively restated to give effect to the stock split in accordance with U.S. GAAP.

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

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

Critical Accounting Policies, Estimates and Judgments

There have been no material changes in our critical accounting policies, estimates and judgments during the nine month period ended September 30, 2008 compared to the disclosures in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007, other than as disclosed herein.

Revenue Recognition

Consulting revenues are generally accounted for separately from new software license revenues because the arrangements qualify as service transactions as defined in SOP 97-2. The more significant factors considered in determining whether the revenue should be accounted for separately include the nature of services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments and impact of milestones or acceptance criteria on the realizability of the software license fee. Revenues for consulting services are generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved. For the fixed or "not to exceed" fees contracts, revenue are recognized based on SOP 81-1. We estimate the proportional performance on contracts on a basis of utilizing hours incurred to date as a percentage of total estimated hours to complete the project.

Maintenance revenues, which include revenues bundled with software license agreements that entitle the customers to technical support and future unspecified enhancements to our products, are deferred and recognized ratably over the related agreement period, generally twelve months.

Our consulting services, which consist of consulting, maintenance and training, were delivered through the BVGS organization until December 2007. In January 2008, we renamed BVGS to WebSo. In order to support our customers' expanded needs relating to recently launched products, WebSo involves more internal departments than did the BVGS organization. The services that we provide are not essential to the functionality of the software. We record reimbursement from our customers for out-of-pocket expenses as an increase to services revenues.

~ 14 ~

Results of Operations
Revenues

Total revenues decreased 36% during the three months ended September 30, 2008, to \$8.2 million, as compared to \$12.8 million for the three months ended September 30, 2007. Total revenues decreased 32% during the nine months ended September 30, 2008, to \$26.3 million, as compared to \$38.8 million for the nine months ended September 30, 2007. A summary of our revenues by geographic region is as follows (dollars in thousands, unaudited):

	Software Licenses	%	Services	%	Total	%
Three Months Ended:						
September 30, 2008						
Americas	\$ 1,669	80%	\$ 2,428	40%	\$ 4,097	50%
Europe	384	18	2,740	45%	3,124	38
Asia Pacific	43	2	927	15%	970	12
Total	\$ 2,096	100%	\$ 6,095	100%	\$ 8,191	100%
September 30, 2007						
Americas	\$ 4,386	83%	\$ 5,402	72%	\$ 9,788	77%
Europe	586	11	1,045	14	1,631	13
Asia Pacific	308	6	1,029	14	1,337	10
Total	\$ 5,280	100%	\$ 7,476	100%	\$ 12,756	100%
Nine Months Ended:						
September 30, 2008						
Americas	\$ 5,237	61%	\$ 7,895	45%	\$ 13,132	50%
Europe	2,347	28	7,205	41%	9,552	36
Asia Pacific	937	11	2,629	14%	3,566	14
Total	\$ 8,521	100%	\$ 17,729	100%	\$ 26,250	100%
September 30, 2007						
Americas	\$ 10,798	65%	\$ 14,398	65%	\$ 25,196	65%
Europe	3,810	23	4,639	21	8,449	22
Asia Pacific	1,900	12	3,224	14	5,124	13
Total	\$ 16,508	100%	\$ 22,261	100%	\$ 38,769	100%

We experienced declines in revenues as a result of a decline in general economic conditions and the fact that we operate in a very competitive industry. Financial comparisons discussed herein may not be indicative of future performance. We believe one of our major remaining challenges is increasing prospective customers' prioritization of purchasing our products and services over competing IT projects.

Software license revenues decreased 60% during the three months ended September 30, 2008, to \$2.1 million, as compared to \$5.3 million for the three months ended September 30, 2007. Software license revenues decreased 49% during the nine months ended September 30, 2008, to \$8.5 million, as compared to \$16.5 million for the nine months ended September 30, 2007. The decrease was caused primarily by the weak macroeconomic conditions internationally. Economic uncertainties also negatively impacted the timing of spending decisions and the spending level of prospective customers. We attribute the decline to a delay in spending as our customers adjust to the uncertain economic climate, particularly those in the financial services and government segments. We believe our sales of products to the financial services sector may have also been adversely affected by the deterioration of the mortgage markets and corresponding adverse effects on our potential customers.

Services revenues consisting of consulting revenues, customer training revenues and maintenance revenues decreased 19% during the three months ended September 30, 2008, to \$6.1 million, as compared to \$7.5 million for the three months ended September 30, 2007. Services revenues (including maintenance and consulting) decreased 20% during the nine months ended September 30, 2008, to \$17.7 million, as compared to \$22.3 million for the nine months ended September 30, 2007. The decrease in service revenues was mainly attributable to lower maintenance revenues. Maintenance revenues decreased 24% for the three months ended September 30, 2008, to \$4.4 million, as compared to \$5.8 million for the three months ended September 30, 2007. Maintenance revenues decreased 24% for the nine months ended September 30, 2008, to \$13.3 million, as compared to \$17.4 million for the nine months ended September 30, 2007. This decrease in maintenance revenues was due to a decline in demand for additional licenses by customers. Consulting and training revenues increased 6% for the three months ended September 30, 2008, to \$1.7 million, as compared to \$1.6 million for the three months ended September 30, 2007. Consulting revenues decreased 8% for the nine months ended September 30, 2008, to \$4.4 million, as compared to \$4.8 million for the nine months ended September 30, 2007. This decrease in consulting revenues was attributable to a decline in demand for new licenses from our customers. Consulting revenues tend to trail license revenues by 6 to 12 months.

Cost of Revenues

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008	% ⁽¹⁾	2007	% ⁽¹⁾	2008	% ⁽¹⁾	2007	% ⁽¹⁾
Cost of software licenses	\$ 7	-%	\$ 3	-%	\$ 20	-%	\$ 37	-%
Cost of services	2,218	27%	2,102	17%	6,626	25%	6,710	17%
Total cost of revenues	\$ 2,225	27%	\$ 2,105	17%	\$ 6,646	25%	\$ 6,747	17%

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

Cost of software licenses increased 133% during the three months ended September 30, 2008, to \$7,000, as compared to \$3,000 for the three months ended September 30, 2007. Cost of software licenses decreased 46% during the nine months ended September 30, 2008, to \$20,000, as compared to \$37,000 for the nine months ended September 30, 2007. This decrease is primarily a result of a decrease in the portion of license revenues generated from royalty-bearing products.

Cost of services increased 5% during the three months ended September 30, 2008, to \$2.2 million, as compared to \$2.1 million for the three months ended September 30, 2007. Cost of services decreased 2% during the nine months ended September 30, 2008, to \$6.6 million, as compared to \$6.7 million for the nine months ended September 30, 2007. This decrease was the result of the reduction in consulting expenses and less services revenue.

Gross margin decreased to 73% during the three months ended September 30, 2008 as compared to 83% for the three months ended September 30, 2007. Gross margin decreased to 75% during the nine months ended September 30, 2008 from 83% for the nine months ended September 30, 2007. This decrease is a result of a decline in total revenues along with steady cost of revenues.

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

	Three Months Ended				Nine Months Ended			
	2008	September 30, %(1)	2007	%(1)	2008	September 30, %(1)	2007	%(1)
Research and development	\$ 2,217	27%	\$ 2,283	18%	\$ 6,863	26%	\$ 7,422	19%
Sales and marketing	1,937	24	1,898	15	5,783	22%	5,748	15
General and administrative	1,659	20	1,705	14	4,960	19%	4,250	11
Restructuring charges	6	-	260	2	(17)	-%	845	3
Total operating expenses	\$ 5,819	71%	\$ 6,146	49%	\$ 17,589	67%	\$ 18,265	48%

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

Research and development expenses decreased 4% during the three months ended September 30, 2008, to \$2.2 million, as compared to \$2.3 million for the three months ended September 30, 2007. Research and development expenses decreased 7% during the nine months ended September 30, 2008, to \$6.9 million, as compared to \$7.4 million for the nine months ended September 30, 2007. This decrease was the result of reductions in a number of areas, including a reduction in bonus, computer supplies, depreciation expenses in computers and software.

Sales and marketing expenses remained constant at \$1.9 million during the three months ended September 30, 2008, as compared to the three months ended September 30, 2007. Sales and marketing expenses increased 2% during the nine months ended September 30, 2008, to \$5.8 million, as compared to \$5.7 million for the nine months ended September 30, 2007. This increase was the result of marketing expansions during the nine months ended September 30, 2008.

General and administrative expenses remained constant at \$1.7 million during the three months ended September 30, 2008, as compared to the three months ended September 30, 2007. General and administrative expenses increased 16% during the nine months ended September 30, 2008, to \$5.0 million, as compared to \$4.3 million for the nine months ended September 30, 2007. This increase is primarily as a result of a one-time reduction of approximately \$550,000 due to a settlement with our telephone provider for the nine months ended September 30, 2007.

Interest income, net increased 5% for the three months ended September 30, 2008, to \$478,000, as compared to \$456,000 for the three months ended September 30, 2007. The increase is due to increased cash balances throughout 2008. Interest income, net decreased 6% for the nine months ended September 30, 2008, to \$1,280,000, as compared to \$1,366,000 for the nine months ended September 30, 2007. The decrease is due to a decline in interest rates.

Gain on revaluation of warrants for the three months ended September 30, 2008 was \$581,000, as compared to a loss of \$680,000 for the three months ended September 30, 2007. Gain on revaluation of warrants was \$3,661,000 for the nine months ended September 30, 2008 as compared to loss on revaluation of warrants of \$4,918,000 for the nine months ended September 30, 2007. These changes are primarily due to fluctuations in our stock price during the relevant periods.

Other income, net during the three months ended September 30, 2008, was a loss of \$876,000, as compared to a gain of \$762,000 for the three months ended September 30, 2007. Other income, net, decreased 57% for the nine

Edgar Filing: BROADVISION INC - Form 10-Q

months ended September 30, 2008, to \$458,000, as compared to \$1,068,000 for the nine months ended September 30, 2007. The changes were primarily due to unrealized loss on the foreign exchange transactions.

Provision for income taxes expense during the three months ended September 30, 2008, was \$41,000, as compared to a benefit for income tax expenses of \$419,000 for the three months ended September 30, 2007. Provision for income taxes was \$328,000 for the nine months ended September 30, 2008 as compared to a benefit for income tax expenses \$133,000 for the nine months ended September 30, 2007. The provision primarily relates to Alternative Minimum Taxes (AMT) calculated for Federal purposes after application of net operating loss (NOL) carryforwards and state income tax in various jurisdictions.

~ 17 ~

Liquidity and Capital Resources

Overview

Our consolidated balance sheet strengthened considerably throughout 2007 and in the first nine months of 2008 compared to prior periods. As of September 30, 2008, we had \$62.5 million of cash and cash equivalents with no long-term debt borrowings, as compared to a balance of \$54.0 million at December 31, 2007. The increase was due primarily to the \$8.5 million cash generated from our operations in the nine months ended September 30, 2008.

Revenues for the first nine months of 2008 were \$26.3 million, as compared to revenues of \$38.8 million for the first nine months of 2007. License revenue for the first nine months of 2008 was \$8.5 million compared to \$16.5 million for the first nine months of 2007. The majority of our license revenue for the first nine months of 2008 was generated by our core Business Agility Suite™, Commerce Agility Suite™ and eMerchandising™ solutions and from customers such as Saipem SPA, Zain, Raiffeisen Hungary, State of Minnesota, Bio-Rad and several other international customers. License revenues decreased in all regions as compared to the first nine months of 2007. The decline in revenue was caused primarily by the weak macroeconomic conditions internationally. We attribute the overall decline in revenues in part to the general economic slowdown in 2008.

We continued to focus on expense control in the third quarter of 2008. Operating expenses for the third quarter of 2008 were \$5.8 million, as compared to \$6.1 million for the third quarter of 2007. For the three months ended September 30, 2008 and 2007, we had a gain of \$581,000 and a loss of \$680,000, respectively, on the revaluation of warrants. As a result, for the three months ended September 30, 2008, net income was \$289,000, or \$0.06 per diluted share. This compares to net income of \$5.5 million, or \$1.22 per diluted share, for the three months ended September 30, 2007.

The following table represents our liquidity at September 30, 2008 and December 31, 2007 (dollars in thousands):

	September 30, 2008 (unaudited)	December 31, 2007
Cash and cash equivalents	\$ 62,530	\$ 53,973
Restricted cash, current portion	\$ 20	\$ 20
Working capital	\$ 48,908	\$ 40,494
Working capital ratio	3.27	2.80

Cash Provided By Operating Activities

Cash provided by operating activities was \$8.3 million for the nine months ended September 30, 2008. Net cash provided by operating activities in this period consisted primarily of \$3.1 million in operating profit (excluding restructuring charges and revaluation of warrants) generated from sales margin improvement and company-wide cost reduction efforts, plus the increase of \$5.2 million in the other areas, such as prepaid, other current assets, unearned revenue accounts, accounts receivable and other liabilities.

Cash provided by operating activities was \$12.5 million for the nine months ended September 30, 2007. Net cash provided by operating activities in this period consisted primarily of \$15.7 million in operating profit (excluding restructuring charges) generated from sales margin improvement and company-wide cost reduction efforts, offset by payment of \$3.1 million of accounts payable and accrued expenses and reduction in accounts receivable and unearned revenue accounts.

Cash Used For Investing Activities

Cash used for investing activities was \$70,000 for the nine months ended September 30, 2008. This figure reflects a dividend received of \$35,000 from a cost method investment previously written off, offset by \$105,000 in expenditures for the purchase of property and equipment. Cash used for investing activities was \$270,000 for the nine months ended September 2007. This figure reflects the release of \$201,000 of restricted cash, offset by \$471,000 in expenditures for the purchase of property and equipment and leasehold improvements related to the relocation of our corporate headquarters.

Cash Provided By Financing Activities

Cash provided by financing activities was \$594,000 for the nine months ended September 30, 2008, primarily consisting of cash received in connection with the exercise of stock options and employees' purchases of common stock under the Employee Stock Purchase Plan ("Purchase Plan"). Cash provided by financing activities was \$1.6 million for the nine months ended September 30, 2007, primarily consisting of cash received in connection with employees' exercise of stock options and warrants and employees' purchases of common stock under the Purchase Plan.

Leases and Other Contractual Obligations

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We had no derivative financial instruments as of September 30, 2008 and 2007. We place our investments in instruments that meet high credit quality standards and the amount of credit exposure to any one issue, issuer and type of instrument is limited.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2008 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.

~ 19 ~

Table of Contents

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. In our opinion, the outcomes of current legal proceedings will not be not material to our financial statements.

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.

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.

While we have recently generated positive operating income and cash flow, we have incurred substantial cumulative net operating losses and negative cash flows from operations since 2000. As of September 30, 2008, we had an accumulated deficit of approximately \$1.2 billion.

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

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

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 product 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.

~ 20 ~

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

In early 2007, we introduced a product roadmap that included new products, services and technologies, to complement and replace certain of our existing products, services and technologies. We formally released the BroadVision 8.1 version at the end of the third quarter of 2007. We have spent significant resources in developing these offerings and training our employees to implement and support the offerings, and we plan to add additional sales and marketing resources to support these new products, services and technologies. We do not yet know whether any of these new offerings will appeal to existing and potential new customers, and if so, whether sales of these new offerings will be sufficient for us to offset the costs of development, implementation, support and marketing. Our existing customers may determine that the BroadVision products and services they currently use are sufficient for their purposes, or that the added benefit from these new offerings is not sufficient to merit the additional cost. As a result we may need to decrease our prices or develop modifications. Although we have performed extensive testing of our new products and technologies, their broad-based implementation may require more support than we anticipate, which would further increase our expenses. If sales of our new products, services and technologies are lower than we expect, or if we must lower our prices or delay implementation to fix unforeseen problems and develop modifications, our operating margins are likely to decrease and we may not be able to operate profitably. A failure to operate profitably would significantly harm our business.

Because our quarterly operating results are volatile and difficult to predict, our quarterly operating results in one or future periods are likely to fluctuate significantly, which could cause our stock price to 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 future projections are below the levels expected by securities analysts or investors, our stock price is likely to decline.

We may 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;
- 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;
- the timing of receipt and fulfillment of significant orders; and
- costs associated with litigation, regulatory compliance and other corporate events such as operational reorganizations.

~ 21 ~

Table of Contents

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.

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

We have evaluated our “disclosure controls and procedures” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as well as our internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002. Our independent registered public accounting firm has performed a similar evaluation of our internal control over financial reporting. Effective controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. As of December 31, 2007, we concluded that our internal controls over financial reporting were effective, as further described below in Item 9A, Controls and Procedures.

We previously reported that as of March 31, 2006, we did not have a sufficient number of experienced personnel in our accounting and finance organization to facilitate an efficient financial statement close process and permit the preparation of our financial statements in accordance with U.S. GAAP. For example, there were a significant number of adjustments to our financial statements during the course of the 2005 audit, at least one of which was individually material and required us to restate several prior quarters. Our personnel also lacked certain required skills and competencies to oversee the accounting operations and perform certain important control functions, such as the review, periodic inspection and investigation of transactions of our foreign locations. We consider this to be a deficiency that was also a material weakness in the operation of entity-level controls. Despite taking a variety of remedial measures, we were unable to conclude that no material weakness existed as of December 31, 2006. Accordingly, when our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006, this assessment identified one material weakness.

While we have remedied this material weakness as of December 31, 2007, maintaining sufficient expertise and historical institutional knowledge in our accounting and finance organization is dependent upon retaining existing employees and filling any open positions with experienced personnel in a timely fashion. The market for skilled accounting and finance personnel is competitive and we may have continued difficulty in retaining our staff. We lost three experienced senior accountants in March and April 2008 to established companies who offered 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.

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

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

emergence of new industry standards and practices can render existing products and services obsolete. Our future success will depend, in part, on our ability to:

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

~ 22 ~

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.

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.

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.

~ 23 ~

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 181 at the end of 2005, and 159 at the end of 2006. On September 30, 2008, we had 225 employees. As a consequence of our employee base growing and then contracting so rapidly, we entered into significant contracts for facilities space for which we ultimately determined we did not have a future use. We announced during the third and fourth quarters of 2004 that we had agreed with the landlords of various facilities to renegotiate future lease commitments, extinguishing a total of approximately \$155 million of future obligations. The management of the expansion and later reduction of our operations has taken a considerable amount of our management's attention during the past several years. As we manage our business to introduce and support new products, we will need to continue to monitor our workforce and make appropriate changes as necessary. If we are unable to support past changes and implement future changes effectively, we may have to divert additional resources away from executing our business plan and toward internal administration. If our expenses significantly outpace our revenues, we may have to make additional changes to our management systems and our business plan may not succeed.

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

We currently expect to be able to fund our working capital requirements from our existing cash and cash equivalents and our anticipated cash flows from operations and subleases through at least September 30, 2009. 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.

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.

~ 24 ~

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

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

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

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

We derive a significant portion of our revenue from our operations outside North America. In the nine months ended September 30, 2008, approximately 50% of our revenue was derived from international sales. If we are unable to manage or grow our existing international operations, we may not generate sufficient revenue required to establish and maintain these operations, which could slow our overall growth and impair our operating margins.

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

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

Management of international operations presents special challenges, particularly at our reduced staffing levels. For example, in December 2005, an inappropriate transfer of approximately \$60,000 was made from our bank account in Japan to a consulting services provider affiliated with two officers of our Japan subsidiary without the approvals required under our internal control policies. Although this transfer was later detected, the funds were recaptured and the services of the Japan subsidiary officers involved were terminated, we face the risk that other similar

misappropriations of assets may occur in the future.

During the second quarter of 2007, we recorded, for the first time, modest subscription and consulting revenues related to our new CHRM on-demand solution, which we officially launched in Beijing in August 2007. 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.

~ 25 ~

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

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

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

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

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

~ 26 ~

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

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

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

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

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

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

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

In addition, new laws and regulations could heighten privacy concerns by requiring businesses to notify web site users that the data captured from them while online may be used by marketing entities to direct product messages to them.

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

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

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

~ 27 ~

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, 2008, Dr. Pehong Chen, our Chairman and CEO, beneficially owned approximately 1.6 million shares of our common stock, which represents approximately 37% of the outstanding common stock as of such date. As a result, Dr. Chen exerts substantial control over all matters coming to a vote of our stockholders, including with respect to:

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

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

Our stock price has been highly volatile.

The trading price of BroadVision common stock has been highly volatile. For example, the trading price of BroadVision common stock has ranged from \$10.25 per share to \$114.25 per share between January 1, 2006 and September 30, 2008. On November 5, 2008 the closing price of BroadVision common stock was \$14.00. 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 OTC Bulletin Board;
- general economic conditions; or
- other events or factors that are beyond our control.

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

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

~ 29 ~

Item 6. Exhibits

Exhibits

Exhibits Description

- 3.1 (1) Amended and Restated Certificate of Incorporation.
- 3.2 (2) Certificate of Amendment of Certificate of Incorporation.
- 3.3 Certificate of Amendment of Certificate of Incorporation.
- 3.4 (3) Amended and Restated Bylaws.
- 4.1 (1) References are hereby made to Exhibits 3.1 to 3.3
- 31.1 Certification of the Chief Executive Officer of BroadVision.
- 31.2 Certification of the Chief Financial Officer of BroadVision.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer of BroadVision pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (1) Incorporated by reference to the Company's Registration Statement on Form S-1 filed on April 19, 1996 as amended by Amendment No. 1 filed on May 9, 1996, Amendment No. 2 filed on May 29, 1996 and Amendment No. 3 filed on June 17, 1996.
- (2) Incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2006 filed on March 27, 2007.
- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 16, 2008.

~ 30 ~

Table of Contents

SIGNATURES

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

BROADVISION, INC.

Date: November 6, 2008 By: /s/ Pehong Chen
Pehong Chen
Chairman of the Board, President and Chief Executive Officer

BROADVISION, INC.

Date: November 6, 2008 By: /s/ Shin-Yuan Tzou
Shin-Yuan Tzou
Chief Financial Officer

~ 31 ~

Table of Contents

EXHIBIT INDEX

Exhibits	Description
3.1 (1)	Amended and Restated Certificate of Incorporation.
3.2 (2)	Certificate of Amendment of Certificate of Incorporation.
3.3	Certificate of Amendment of Certificate of Incorporation.
3.4 (3)	Amended and Restated Bylaws.
4.1 (1)	References are hereby made to Exhibits 3.1 to 3.3
31.1	Certification of the Chief Executive Officer of BroadVision.
31.2	Certification of the Chief Financial Officer of BroadVision.
32.1	Certification of the Chief Executive Officer and Chief Financial Officer of BroadVision pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (1) Incorporated by reference to the Company's Registration Statement on Form S-1 filed on April 19, 1996 as amended by Amendment No. 1 filed on May 9, 1996, Amendment No. 2 filed on May 29, 1996 and Amendment No. 3 filed on June 17, 1996.
- (2) Incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2006 filed on March 27, 2007.
- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed on October 16, 2008.

