VIEWPOINT CORP
Form 10-Q
May 11, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

or

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

For the transition period from ______________________ to ______________________

Commission file number: 0-27168

VIEWPOINT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-4102687**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

498 Seventh Avenue, Suite 1810, New York, NY 10018
(Address of principal executive offices and zip code)

(212) 201-0800
(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 shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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 [X]   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 [X]

As of May 9, 2007, 81,587,000 shares of $0.001 par value common stock were outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

VIEWPOINT CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(Unaudited)

	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,749	$ 4,154
Marketable securities	1,034	113
Accounts receivable, net of reserve of $223 and $230, respectively	2,520	3,037
Prepaid expenses and other current assets	547	543
Total current assets	5,850	7,847
Restricted cash	192	190
Property and equipment, net	919	1,023
Goodwill	14,882	14,882
Intangible assets, net	3,534	3,689
Other assets	43	56
Total assets	$ 25,420	$ 27,687
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,390	$ 1,660
Accrued expenses	387	401
Deferred revenues	61	70
Current portion of notes payable	389	389
Accrued incentive compensation	545	545
Current liabilities related to discontinued operations	231	231
Total current liabilities	3,003	3,296
Deferred rent	206	232
Warrants to purchase common stock	310	467
Subordinated notes	2,368	2,456
Unicast notes	1,500	1,541
Total liabilities	7,387	7,992
Commitments and Contingencies (note 5)		
Stockholders' equity:		
Preferred stock, $.001 par value; 5,000 shares authorized - no shares issued and outstanding at March 31, 2007 and December 31, 2006	-	-
Common stock, $.001 par value; 67,830 shares issued and 67,670 shares outstanding at March 31, 2007, and 67,830 shares issued and 67,670 shares outstanding at December 31, 2006	68	68
Paid-in capital	306,552	306,214
Treasury stock at cost; 160 at March 31, 2007 and December 31, 2006	(1,015)	(1,015)
Accumulated other comprehensive income	4	14
Accumulated deficit	(287,576)	(285,586)
Total stockholders' equity	18,033	19,695
Total liabilities and stockholders' equity	$ 25,420	$ 27,687

The accompanying notes are an integral part of these consolidated financial statements.

VIEWPOINT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Revenues:		
Advertising systems	$ 1,110	$ 1,595
Search	1,485	1,789
Services	719	553
Licenses	6	46
Total revenues	3,320	3,983
Cost of Revenues:		
Advertising systems	452	1,040
Search	43	36
Services	481	663
Licenses	-	6
Total cost of revenues	976	1,745
Gross profit	2,344	2,238
Operating expenses:		
Sales and marketing	1,195	1,578
Research and development	810	1,088
General and administrative	2,078	2,359
Depreciation	115	117
Amortization of intangible assets	128	110
Restructuring charges	-	92
Total operating expenses	4,326	5,344
Loss from operations	(1,982)	(3,106)
Other income (expense):		
Interest and other income	51	79
Interest expense	(204)	(287)
Change in fair value of warrants to purchase common stock	157	(628)
Other income (expense):	4	(836)
Loss before provision for income taxes	(1,978)	(3,942)
Provision for income taxes	12	7
Net loss	$ (1,990)	$ (3,949)
Basic and diluted net loss per common share:		
Net loss per common share	$ (0.03)	$ (0.06)
Weighted average number of shares outstanding basic and diluted	67,670	64,864

The accompanying notes are an integral part of these consolidated financial statements.

VIEWPOINT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flows from operating activities:		
Net loss	$ (1,990)	$ (3,949)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation charges	338	668
Depreciation and amortization	297	283
Provision for bad debt	(7)	1
Changes in fair values of warrants to purchase common stock	(157)	628
Amortization of debt discount and issuance costs	146	236
Changes in operating assets and liabilities		
Accounts receivable	524	1,758
Prepaid expenses	(4)	(831)
Accounts payable	(270)	(491)
Accrued expenses	(40)	4
Deferred revenues	(9)	(26)
Other	-	(1)
Net cash used in operating activities	(1,172)	(1,720)
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	-	3,645
Purchases of marketable securities	(931)	(4,790)
Increase in restricted cash	(2)	(2)
Purchases of property and equipment	(37)	(53)
Purchases of patents and trademarks	(1)	(16)
Net cash used in investing activities	(971)	(1,216)
Cash flows from financing activities:		
Repayment of Subordinate Notes	(165)	(450)
Repayment of Unicast Debt	(97)	(33)
Proceeds from exercise of stock options	-	761
Net cash (used in) provided by financing activities	(262)	278
Net decrease in cash and cash equivalents	(2,405)	(2,658)
Cash and cash equivalents at beginning of year	4,154	6,437
Cash and cash equivalents at end of year	$ 1,749	$ 3,779
Supplemental disclosure of cash flow activities:		
Cash paid during the period for income taxes	$ 12	$ 7
Cash paid during the period for interest	21	53
Unrealized (loss) on marketable securities	(10)	(1)

The accompanying notes are an integral part of these consolidated financial statements.

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, consistent in all material respects with those applied in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The interim financial information is unaudited, but reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the financial position and operating results of Viewpoint Corporation ("Viewpoint" or the "Company") for the interim periods.

These unaudited consolidated financial statements have been prepared in accordance with the instructions to Rule 10-01 of Regulation S-X and, therefore, do not include all of the information and footnotes normally provided in annual financial statements. As a result, these unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in Viewpoint's Annual Report on Form 10-K for the year ended December 31, 2006. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007 or other future periods.

The 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation regarding the allocation of depreciation and amortization expense from operating expense to cost of revenues; this allocation commenced during the three months ended June 30, 2006. Depreciation and amortization expense of $0.1 million was recorded in cost of revenues for the three months ended March 31, 2006.

The year-end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Liquidity

The accompanying consolidated financial statements of the Company have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company had cash, cash equivalents and marketable securities of $2.8 million at March 31, 2007. During the quarter ended March 31, 2007, net cash used in operations amounted to $1.2 million. As of March 31, 2007, the Company had an accumulated deficit of $287.6 million. The Company has incurred negative cash flows and net losses since inception. Based on current operating levels combined with limited capital resources, financing operations during 2007 will require that the Company improve operating results through cost cutting measures, increases in revenues or both, and/or raise sufficient additional equity or debt capital. If the Company's expected revenue targets are not achieved or the Company fails to raise sufficient equity or debt capital, management would implement cost reduction measures including work force reduction as well as reduction in overhead costs and capital expenditures.

There can be no assurance that the Company will achieve or sustain positive cash flows from operations or profitability. Without improving operating results through increasing revenues, reducing expenses and/or raising additional capital, future operations will need to be discontinued. All these factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company entered into a Securities Purchase Agreement with certain accredited investors, including DG FastChannel, Inc., as to which the Company also entered into a strategic partnership (see note 8), dated as of May 4, 2007, under which Viewpoint issued 13.3 million shares of Viewpoint common stock in a private placement to such accredited investors at a purchase price of $0.40 per share (resulting in aggregate gross proceeds of $5.3 million). The investors in the transaction also received warrants to purchase an additional 3.3 million shares of common stock at an exercise price of $0.45 per share (subject to certain adjustments). Such warrants are not exercisable for six months following issuance and have an aggregate term of three and one-half years. As discussed in note 8, on May 7, 2007 the Company announced the closing of the transaction and the receipt of $5.3 million. While the proceeds from the private placement provide additional liquidity, the Company still believes that near term operating levels require that the Company improve operating results through cost cutting measures, increases in revenues or both in order to mitigate the substantial doubt as to the Company's ability to continue as a going concern.

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Of the 13.3 million shares and 3.3 million warrants issued in the agreement, DG FastChannel, Inc. received 10.8 million shares and 2.7 million warrants in consideration for $4.3 million.

In connection with the private placement, Viewpoint entered into a Registration Rights Agreement with the investors pursuant to which Viewpoint is required to file a registration statement with the SEC covering the shares within 45 days of the closing of the private placement.

On November 27, 2006 the Company received notice from The NASDAQ Listing Qualifications Department that for the prior 30 consecutive business days, the bid price of the Company's common stock closed below the minimum $1.00 per share requirement for continued listing under Marketplace Rule 4450(a)(5). The Company may regain compliance with Marketplace Rule 4450(a)(5) if at any time before May 29, 2007, the bid price of the Company's common stock closes at $1.00 per share for a minimum of ten consecutive business days.

If the Company does not regain compliance by May 29, 2007, the Company will be notified that its securities will be delisted. At that time the Company may appeal NASDAQ's determination to delist its securities to a Listing Qualifications Panel. Alternatively, the Company may also apply for listing on The NASDAQ Capital Market. If its application is approved, the Company will be afforded the remainder of The NASDAQ Capital Market's second 180 calendar day compliance period in order to regain compliance while on The NASDAQ Capital Market.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include revenue, receivables, liabilities, warrants, goodwill, and the useful lives of intangible and fixed assets.

Net Loss Per Common Share

Basic net loss per common share is computed using the weighted average number of shares of outstanding and diluted net loss per common share is computed using the weighted average number of shares of common and common equivalent shares outstanding. The calculation of diluted loss per common share for March 31, 2007 and 2006 excludes approximately 10.6 million and 13.5 million of common share equivalents respectively, because they do not have a dilutive effect.

Comprehensive Income (Loss)

For all periods presented, the difference between net loss and comprehensive net loss was not material.

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of an uncertain tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48 on January 1, 2007. Since the Company does not have any uncertain tax positions, the implementation of FIN 48 did not have a material impact on its consolidated financial statements. At March 31, 2007 there were no accrued liabilities for tax-related interest and penalties, which the Company recognizes as general and administrative expense as incurred. Since the Company has incurred net losses for tax purposes since inception, all tax years remain open to examination by major taxing jurisdictions, which are the federal government and states of New York and California.

VIEWPOINT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (FAS 157). FAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. We will be required to adopt the provisions of FAS 157 beginning with our first quarter ending March 31, 2008. We do not believe that the adoption of the provisions of FAS 157 will materially impact our consolidated financial statements.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We are currently evaluating the potential impact of this statement.

2. Goodwill and Intangible Assets

As required by SFAS No. 142, the Company discontinued amortizing the remaining balances of goodwill as of January 1, 2002. All remaining and future acquired goodwill is subject to impairment tests annually, or earlier if indicators of potential impairment exist, using a fair-value-based approach. All other intangible assets continue to be amortized over their estimated useful lives and are assessed for impairment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

Goodwill impairment has been assessed on a reporting unit basis based on the net asset value of each segment, including goodwill, and the estimated fair market value of each reporting unit. Fair market value of a reporting unit is estimated based on a comparison of that segments revenue or gross profit performance to the performance of similar companies, as well as discounted cash flows, using a discount rate of 16%.

A summary of changes in the Companys goodwill by reporting unit and intangible assets during the quarter ended March 31, 2007 by aggregated segment are as follows (in thousands):

	Goodwill				
	Technology	Advertising Systems	Services	Total	Intangible Assets
Balance as of December 31, 2006	10,206	2,039	2,637	14,882	3,689
Additions during period	-	-	-	-	1
Amortization	-	-	-	-	(156)
Balance as of March 31, 2007	10,206	2,039	2,637	14,882	3,534

The changes in the carrying amounts of goodwill by reporting unit, and intangible assets for the quarter ended March 31, 2006, are as follows (in thousands):

	Goodwill				
	Technology	Advertising Systems	Services	Total	Intangible Assets
Balance as of December 31, 2005	10,206	2,039	13,292	25,537	4,131

Additions during period	-	-	-	-	16
Amortization	-				