VIEWPOINT CORP
Form 10-Q
November 09, 2005

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 September 30, 2005

or

o **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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes x No o

As of November 8, 2005, 59,581,000 shares of $0.001 par value common stock were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

VIEWPOINT CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

(Unaudited)

	September 30, 2005	**December 31, 2004**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,471	$ 5,905
Marketable securities	1,941	2,757
Accounts receivable, net of reserve of $437 and $430, respectively	3,213	2,583
Related party accounts receivable	26	26
Prepaid expenses and other current assets	658	421
Total current assets	9,309	11,692
Restricted cash	181	320
Property and equipment, net	1,288	1,485
Goodwill, net	33,409	31,276
Intangible assets, net	4,269	230
Other assets, net	113	270
Total assets	$ 48,569	$ 45,273
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,403	$ 1,218
Accrued expenses	1,157	244
Deferred revenues	308	431
Related party deferred revenues	1,117	4,607
Current portion of notes payable	665	
Accrued incentive compensation	545	545
Current liabilities related to discontinued operations	231	231
Total current liabilities	5,426	7,276
Deferred rent	356	365
Warrants to purchase common stock	249	1,286
Subordinated notes	2,011	2,388
Unicast notes	1,627	
Total liabilities	9,669	11,315
Stockholders equity:		
Preferred stock, $.001 par value; 5,000 shares authorized - no shares issued and outstanding at June 30, 2005 and December 31, 2004		
Common stock, $.001 par value; 100,000 shares authorized - 59,713 shares issued and 59,553 shares outstanding at September 30, 2005, and 56,704 shares issued and 56,544 shares outstanding at December 31, 2004	60	57
Paid-in capital	297,843	290,260
Deferred compensation	(3)	(5)
Treasury stock at cost; 160 at June 30, 2005 and December 31, 2004	(1,015)	(1,015)
Accumulated other comprehensive loss	(64)	(60)
Accumulated deficit	(257,921)	(255,279)
Total stockholders equity	38,900	33,958
Total liabilities and stockholders equity	$ 48,569	$ 45,273

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

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VIEWPOINT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenues:				
Search	$ 2,498	$ 905	$ 7,071	$ 913
Advertising systems	566	46	2,461	83
Services	1,744	888	4,551	3,477
Related party services	154	497	903	2,097
Licenses	124	158	506	542
Related party licenses	873	873	2,618	2,652
Total revenues	5,959	3,367	18,110	9,764
Cost of revenues:				
Search	39	10	134	10
Advertising systems	358	43	1,723	49
Services	907	736	2,743	2,279
Licenses	8		11	4
Total cost of revenues	1,312	789	4,611	2,342
Gross profit	4,647	2,578	13,499	7,422
Operating expenses:				
Sales and marketing	1,325	929	3,828	2,925
Research and development	1,126	783	3,479	2,556
General and administrative	3,224	1,631	7,965	5,358
Depreciation	213	205	666	629
Amortization of intangible assets	159	12	516	16
Restructuring charges (release)				(17)
Total operating expenses	6,047	3,560	16,454	11,467
Loss from operations	(1,400)	(982)	(2,955)	(4,045)
Other income (expense), net:				
Interest and other income; net	30	23	86	69
Interest expense (inclusive of related party expense of $76 for the three and nine months ended September 30, 2005)	(288)	(231)	(943)	(717)
Changes in fair values of warrants to purchase common stock and conversion options of convertible notes	207	(162)	1,037	(3,715)
Loss on conversion of debt				(810)
Total other income (expense)	(51)	(370)	180	(5,173)
Loss before provision for income taxes	(1,451)	(1,352)	(2,775)	(9,218)
Provision for taxes		33	12	68
Net loss from continuing operations	(1,451)	(1,385)	(2,787)	(9,286)
Adjustment to net loss on disposal of discontinued operations, net of tax		90	145	129
Net loss	$ (1,451)	$ (1,295)	$ (2,642)	$ (9,157)
Basic and diluted net loss per common share:				
Net loss per common share from continuing operations	$ (0.02)	$ (0.03)	$ (0.05)	$ (0.18)
Net loss per common share	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.17)
Weighted average number of shares outstanding basic and diluted	59,136	54,205	58,274	52,364

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

VIEWPOINT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended September 30, 2005	2004
Cash flows from operating activities:		
Net loss	$ (2,642)	$ (9,157)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash stock-based compensation charges	1,743	284
Restructuring charges (release)		(17)
Depreciation and amortization	1,183	645
Provision for bad debt	95	(84)
Interest expense paid using common stock		18
Changes in fair values of warrants to purchase common stock and conversion feature of convertible debt	(1,037)	3,715
Amortization of debt discount and issuance costs	805	474
Loss on conversion of debt		330
Issuance of stock below market price on conversion of debt		480
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	1,329	(978)
Related party accounts receivable		866
Prepaid expenses	(165)	200
Accounts payable	(2,028)	(196)
Accrued expenses	(581)	(393)
Deferred revenues	(123)	92
Related party deferred revenues	(3,490)	(3,813)
Net cash used in operating activities	(4,911)	(7,534)
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	9,050	3,750
Purchases of marketable securities	(8,232)	(7,351)
Releaes of cash collateral	139	69
Purchases of property and equipment	(341)	(233)
Effect of exchange rates changes on cash	3	(3)
Acquisition of Unicast, net of cash acquired	(512)	
Unrealized loss on cash equivalent	(9)	(3)
Purchases of patents and trademarks	(48)	(58)
Net cash used in investing activities	50	(3,829)
Cash flows from financing activities:		
Payment of modification fee relating to debt extension	(61)	
Proceeds from issuance of common stock	2,000	3,675
Proceeds from exercise of stock options	488	270
Net cash provided by financing activities	2,427	3,945
Net decrease in cash and cash equivalents	(2,434)	(7,418)
Cash and cash equivalents at beginning of year	5,905	8,130
Cash and cash equivalents at end of year	$ 3,471	$ 712

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

VIEWPOINT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended September 30, 2005	2004
Supplemental disclosure of cash flow activities:		
Cash paid during the year for income taxes	$ 12	$ 68
Cash paid during the year for interest	183	169
Supplemental disclosure of non-cash investing and financing activities:		
Non-cash financing activities related to the Unicast acquistion		
Supplemental disclosure of non-cash investing and financing activities:		
Net assets acquired in Unicast acquisition		
Accounts receivable, net	$ 2,056	
Prepaids	7	
Other assets	22	
Fixed assets	128	
Goodwill and intangible assets	6,641	
Accounts payable and accrued expenses	(3,672)	
Unicast Debt	(1,702)	
Non-cash cost of Unicast acquisition		
Common stock	(1)	
APIC	(2,967)	
Issuance of common stock in repayment of convertible notes		2,700
Cancellation of common stock option award		17

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

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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, 2004. The interim financial information is unaudited, but reflects all adjustments which are, in the opinion of management, necessary for a fair presentation 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, 2004. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the year ending December 31, 2005 or other future periods.

Certain reclassifications have been made to the 2004 consolidated financial statements to conform to the 2005 presentation.

Liquidity

The Company had cash, cash equivalents and marketable securities of $5.4 million at September 30, 2005. During the nine months ended September 30, 2005, net cash used in operations amounted to $4.9 million. As of September 30, 2005, the Company had an accumulated deficit of $257.9 million. There can be no assurance that Viewpoint will achieve or sustain positive cash flows from operations or profitability.

The Company believes that its current cash, cash equivalents, and marketable securities balances and cash provided by expected future operations are sufficient to meet its operating cash flow needs and anticipated capital expenditure requirements through the next twelve months from the filing date.

The Company has contingency plans for 2005 and through 2006 if expected revenue targets are not achieved. These plans include further workforce reductions as well as reductions in overhead and capital expenditures. The Company may seek additional funds when necessary through public or private equity financing or from other sources to fund operations and pursue growth, although there are no assurances that the Company can obtain such financing with reasonable terms.

As further discussed in Note 4, on July 27, 2005, the Company and a holder of the Company s subordinated debt entered into a Stock Purchase Agreement, under which the Company issued 1.3 million shares of common stock in a private placement to the holder in exchange for aggregate gross proceeds of $2.0 million. The Company currently has no commitment for additional financing and may experience difficulty in obtaining additional financing on favorable terms, if at all. Any financing the Company obtains may contain covenants that restrict the Company s freedom to operate the business or may have rights, preferences or privileges senior to the Company s common stock and may dilute the current shareholders ownership interest in the Company. If the Company is unable to achieve profitable operations and/or raise additional capital, future operations will need to be scaled back further or discontinued.

Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended, and Staff Accounting Bulletin (SAB) No. 101 Revenue Recognition in Financial Statements as amended by SAB No. 104 Revenue Recognition. Per SOP 97-2 and SAB No. 101, as amended by SAB No. 104, the Company recognizes revenue when the following criteria are met: (a) persuasive evidence of an arrangement exists, (b) delivery has occurred or services have been rendered, (c) the Company s fee is fixed or determinable, and (d) collectibility is reasonably assured.

Viewpoint has generated revenues through four sources: (a) search advertising, (b) advertising systems revenue, (c) software licenses, and (d) services. Search revenue is derived from a share of the fees charged by its search results provider Yahoo Corporation (Yahoo!) to advertisers who pay for sponsored links when a customer clicks on the paid link on the results provided by the Viewpoint Toolbar. Advertising systems revenue is generated by charging customers to host advertising campaigns based on a cost per thousand (CPM) impressions. License revenues are generated from licensing the rights to use products directly to customers and indirectly through Value Added Resellers (VARs). Service revenues are generated from fee-based professional services, customer support services (maintenance arrangements), and training services performed for customers that license the Company s products.

Search revenue is generated when a customer uses the Viewpoint Toolbar to search the internet, and clicks on a sponsored advertisement included in the search results. The Viewpoint Toolbar s search results are provided by Yahoo!, who collects a fee from the advertiser and remits a percentage of the fee to Viewpoint. Revenue generated is a function of the number of Viewpoint Toolbars performing searches, the number of searches that are sponsored by advertisers, the number of advertisements that are clicked on by Viewpoint Toolbar searchers, the rate advertisers pay for those advertisements, and the percentage retained by Yahoo! for providing the results.

Viewpoint also offers an online advertising campaign management and deployment product. This advertising system permits publishers, advertisers, and their agencies to manage the process of deploying online advertising campaigns. The Company charges customer on a cost per thousand (CPM) impression basis, and recognizes revenue when the impressions are served, so long as all other revenue recognition criteria are satisfied. The Company also provides another advertising services product whereby the Company purchases media space from web-site publishers and re-sells that space to advertisers. The Company acts as the principal party in the transaction, assumes the title to the inventory purchased, and assumes the risks of collection and therefore recognizes the entire amount billed to the customer as revenue.

Fee-based professional services for customized software development are performed on a fixed-fee or time-and-materials basis under separate service arrangements. Revenues for fixed-fee arrangements are recognized over the pattern of performance in accordance with the provisions of SAB No. 104. The pattern of performance for service arrangements is measured by the percentage of costs incurred and accrued to date for each contract, which primarily consist of direct labor costs, cost of outsourcing, and overhead, to the estimated total cost for each contract at completion. The percentage approximates the percentage of a customer s contract that has been completed and would be available for the customer to use at that point in time. Use of this method is based on the availability of reasonably dependable estimates. If reasonably dependable estimates are not available due to the complexity of the services to be performed, the Company defers recognition of any revenues for the project until the project is completed, delivered and accepted by the customer, provided all other revenue recognition criteria are met and no further significant obligations exist. Revenues from customer support services are recognized ratably over the term of the contract. Revenues from training services are recognized as services are performed.

License revenues from direct customers included sales of perpetual and term-based licenses for broadcasting digital content in the Viewpoint format. License revenues were recognized up-front provided no further significant obligations exist and the resulting receivable was deemed collectible by management. The Viewpoint Media Player will no longer require a broadcast key to display content, thereby giving all developers free access to the Viewpoint Distribution Network.

Fees from licenses sold together with fee-based professional services were generally recognized upon delivery of the software, provided that the payment of the license fees were not dependent upon the performance of the services, and the services were not essential to the functionality of the licensed software. If the services were essential to the functionality of the software, or payment of the license fees were dependent upon the performance of the services, both the software license and service fees were recognized in accordance with SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts. The percentage of completion method was used for those arrangements in which reasonably dependable estimates were available. If reas