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.

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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.

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 reasonably dependable estimates were not available due to the complexity of the services to be performed, the Company deferred recognition of any revenues for the project until the project was completed, delivered and accepted by the customer, provided all other revenue recognition criteria were met and no further significant obligations exist.

For arrangements involving multiple elements, the Company defers revenue for the undelivered elements based on their relative fair value and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of each undelivered element in multiple element arrangements is based on the price charged when the same element is sold separately. For maintenance and technical support elements, the Company uses renewal rates to determine the price when sold separately. For licenses sold that include updates over a period of time the Company recognizes the license revenue over the period in which updates are provided.

Standard terms for service arrangements, which are typically billed and collected on an installment basis, require final payment within 90 days of completion of the services. Standard terms for license arrangements required payment within 90 days of the contract date, which typically coincided with delivery. Probability of collection is based upon the assessment of the customer s financial condition through the review of their current financial statements and/or credit reports. For follow-on sales to existing customers, prior payment history is also used to evaluate probability of collection. The Company s arrangements with customers do not contain product return rights. If the fee is not fixed or determinable, revenue is recognized as payments become due or as cash is received from the customer. If a nonstandard acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

Stock-Based Compensation

The Company accounts for stock option grants in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , Financial Accounting Standards Board (FASB) issued Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25 (FIN 44), and complies with the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation , as amended by SFAS No. 148 Accounting for Stock-Based Compensation - Transition and Disclosure. Under APB Opinion No. 25, compensation expense is recognized over the vesting period based on the difference, if any, between the fair value of the Company s stock at the date of grant and the exercise price. The Company accounts for stock issued to non-employees in accordance with SFAS No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company has accounted for its Stock Option Plans under the fair value method of SFAS No. 123. The fair value of options issued under the Plans was estimated at the date of grant using a Black-Scholes option-pricing model. For purposes of pro forma disclosures, the estimated fair value of the Company s options is amortized to expense over the options vesting period. The Company s pro forma net loss and net loss per common share would approximate the following (in thousands, except per share amounts):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2005	**2004**	**2005**	**2004**
Net loss, as reported	$ (1,451)	$ (1,295)	$ (2,642)	$ (9,157)
Add: Non-cash stock-based employee compensation charges included in reported net loss, net of related tax effects	1,147	3	1,742	284
Deduct: Non-cash stock-based employee compensation charges determined under fair value based method for all awards, net of related tax effects	(2,550)	(692)	(5,071)	(2,424)
Pro forma net loss	$ (2,854)	$ (1,984)	$ (5,971)	$ (11,297)
Net loss per share:				
Basic and diluted as reported	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.17)
Basic and diluted pro forma	$ (0.05)	$ (0.04)	$ (0.10)	$ (0.22)

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The effects of applying SFAS No. 123, as amended by SFAS No. 148, in this pro forma disclosure are not indicative of future amounts. The Company anticipates grants of additional awards in future years.

On August 25, 2005, the Company entered into a separation agreement with its chief executive officer whereby the officer s employment with the Company would end on September 15, 2005. The separation agreement also modified the terms of option issuances to extend the life of 2.1 million options vested at the date of separation from three months to two years. As the officer s options were fully vested on September 15, 2005, the date of the officer s separation, the Company recorded an expense of $1.1 million on that date, which represented the incremental intrinsic value (difference between market value and the exercise price of the option) on the date of modification .

On April 14, 2003, the Company granted 2.3 million non-statutory stock options to acquire Company common stock, to certain executives of the Company at an exercise price equal to the fair market value of the Company s common stock on the date of grant. Under the initial terms of the grant, twenty-five percent of the options vest on the first anniversary of the date of grant and the remaining options vest at the rate of 1/36th per month thereafter. On July 1, 2003, the Company modified the terms to accelerate the vesting of a grant to one executive. In addition the Company also extended the life of the options vested at the date of termination from three months to three years. This executive s employment terminated on June 30, 2005, at which time the Company recorded a charge of $0.6 million as the modification to the options was determined to be beneficial to the executive on the date of termination.

In November 2003, the Company modified the terms of six stock option grants to certain employees and officers to reduce the vesting period from four years to two years. The Company may record a non-cash stock-based compensation charge based upon the difference between the closing price on the day of the modification and the closing price on the date of the grant for any of the 1.25 million options modified. The weighted average grant price for these options is $0.76. Such charge would be recorded if the executives are expected to derive a benefit from the acceleration. If any recipient ceases employment before the end of the initially-established vesting period of four years, then the modification to accelerate will be determined to be beneficial, resulting in a non-cash compensation charge of less then $0.1 million.

Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is computed using the weighted average number of common shares outstanding and diluted net loss per common share is computed using the weighted average number of shares of common and common equivalent shares outstanding. Common equivalent shares related to stock options totaling 8.2 million and 8.6 million for the three and nine months ended September 30, 2005 and common equivalent shares related to stock options totaling 7.9 million for the three and nine months ended September 30, 2004, are excluded from the computation of diluted net loss per common share because their effect was anti-dilutive.

In March 2004, the Company sold 1.5 million shares of common stock, in a private placement to an institutional investor for $3.7 million or $2.45 per share. The institutional investor was one of the holders of the Company s convertible notes. Prior to the closing of the March 2004 private placement the institutional investor converted $0.9 million of outstanding notes and received 0.9 million shares of Company common stock in the exchange.

In June 2004, the Company exercised its right to convert the remaining outstanding convertible notes of $1.8 million and the related outstanding interest into 1.7 million shares of Viewpoint common stock.

In December 2004, the Company sold 1.9 million shares of common stock in a private placement for $5.0 million or $2.65 per share.

As further discussed in Note 4, in July 2005, the Company sold 1.3 million shares of common stock in a private placement for $2.0 million or $1.55 per share.

Derivatives

In 2002 and 2003, the Company issued convertible notes and warrants which would require Viewpoint to issue registered shares of common stock upon conversion of these securities. The Company accounts for the fair values of these outstanding warrants to purchase common stock and conversion options of its convertible notes in

accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, and EITF Issue No. 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock, which requires the Company to bifurcate and separately account for the conversion option and warrants as embedded derivatives contained in the Company s convertible notes. The Company is required to carry these embedded derivatives on its balance sheet at fair value and the unrealized changes in the value of these embedded derivatives are reflected in net income as changes in fair values of warrants to purchase common stock and conversion options of convertible notes. In 2004, all of the outstanding convertible notes were converted into shares of common stock. At September 30, 2005, warrants to purchase 0.7 million shares of common stock remain outstanding.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (SFAS 123R), Share-Based Payment, which requires companies to expense the fair value of employee stock options and other forms of stock-based compensation for interim periods that begin after June 15, 2005. This requirement represents a significant change because stock option awards have not been recognized as compensation expense in the Company s historical consolidated financial statements under Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees. SFAS 123R requires the cost of an award, based upon fair value on the date of grant, to be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). The fair value of the award on the date of grant will be estimated using option pricing models. In April 2005, the Securities and Exchange Commission (the SEC) delayed the effective date of SFAS 123R for public companies until the first annual period, rather than the first interim period, that begins after June 15, 2005. The Company will adopt SFAS 123R on January 1, 2006 and recognize compensation expense prospectively for non-vested stock options outstanding at December 31, 2005 and for all future stock option grants.

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47), which clarifies that the term conditional asset retirement , as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 requires that a liability be recognized for the fair value of a conditional asset retirement obligation when incurred, if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and method of settlement of a conditional asset retirement obligation would be factored into the measurement of the liability when sufficient information exists. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Management believes that the future adoption of FIN 47 will not have a material impact on the Company s consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and SFAS No. 3. This statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It requires, unless impracticable, retrospective application for reporting a change in accounting principle, unless the newly adopted accounting principle specifies otherwise, and reporting of a correction of an error. The provisions of this statement are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to materially impact the Company s consolidated financial statements.

2. Unicast Acquisition

On December 1, 2004, Viewpoint Corporation entered into an agreement to acquire all of the outstanding capital stock of Unicast Communications Corp. (Unicast). The transaction closed on January 3, 2005, and Viewpoint assumed ownership of Unicast as a wholly owned subsidiary at that date. The aggregate purchase price for the acquisition was $3.5 million.

Under the terms of the agreement, Viewpoint issued an aggregate of 1.1 million shares of Viewpoint common stock, with a fair value of $3.0 million to the selling stockholders of Unicast and paid $0.4 million in cash and acquisition costs of $0.1 million. Viewpoint also assumed negative networking capital from Unicast of $1.2 million. Based upon the working capital calculation during the period following the acquisition Viewpoint has no additional obligation to issue shares or pay cash to the seller.

Additionally, long-term debt issued by Unicast (Unicast notes) remains outstanding at the Unicast subsidiary level following the closing. This debt is comprised primarily of two notes. Unicast issued an unsecured promissory note dated February 27, 2004 in the principal amount of $1.0 million. This promissory note bears interest at 5% per annum, compounding annually, and matures in February 2011. No payments of principal or interest are due until the maturity date. In addition, Unicast issued an amended and restated secured promissory note dated February 27, 2004 in the principal amount of $2.0 million. This promissory note bears interest of 5% per annum and is collateralized by substantially all of the Unicast subsidiary s assets. Concurrently with the closing of the Unicast acquisition, Viewpoint made a payment of $0.3 million to the secured note holder which was applied towards reducing the amount outstanding under the promissory note. Viewpoint will become an additional obligor under the promissory note and Viewpoint s assets will become additional collateral to secure the obligations if certain contingencies occur, such as Viewpoint s failure to operate the Unicast ad-serving business through the Unicast subsidiary or the ad-serving business fails to achieve certain revenue targets. No payments under the secured promissory note are due until March 2006. All unpaid principal and interest is payable in 60 equal monthly installments from March 2006 through March 2011 amounting to $2.2 million.

Viewpoint recorded all working capital assets and liabilities at their fair market value on the date of the acquisition. Liabilities assumed included an obligation to an employee to make certain payments on behalf of the selling stockholders in the maximum amount of $0.4 million, payable in equal bi-monthly installments over the one-year period following the closing.

Tangible equipment value was determined based on fair market value at the date of acquisition. The remaining useful life of this equipment was predominantly determined to be one year. Intangible values acquired included trademarks, acquired technology, website partner relationships and goodwill. Acquired technology was determined to have a life of three years while the other intangible values were determined to have a life of 5-10 years. Unicast had no in-process research and development.

Goodwill was determined based upon the residual value based upon fair value of the common stock issued, the cash paid less the liabilities assumed less the identifiable asset values. Values assigned to goodwill and other acquired assets and liabilities are preliminary and are subject to adjustment based upon finalizing the fair values of acquired assets and liabilities. Consideration paid for the acquisition amounted to $3.5 million, made up of cash consideration of $0.4 million, acquisition costs of $0.1 million and the issuance of 1.1 million shares of common stock valued at $3.0 million. The following table summarizes amounts recorded associated with the Unicast transaction, based upon the consideration paid.

	(in thousands)
Current assets	$ 2,097
Property and equipment	128
Intangible assets	4,508
Goodwill	2,133
Total assets acquired	8,866
Less: liabilities assumed	(5,374)
Total purchase price	$ 3,492

The results of operations of Unicast are included in the Company s Consolidated Statement of Operations beginning in the first quarter of 2005.

The following unaudited pro forma results of operations have been prepared assuming that the acquisition of Unicast occurred at the beginning of the respective period presented. Pro forma financial information for the three and nine months ended September 30, 2005 has been intentionally omitted as the Company s reported operating results for those periods include the operating results of Unicast for the beginning of the respective periods.

This pro forma financial information should not be considered indicative of the actual results that would have been achieved had the acquisition been completed on the date indicated and does not purport to indicate results of operations as of any future date or any future period.

	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Revenue	$ 4,353	$ 13,563
Net loss	(2,012)	(11,121)
Basic and diluted net loss per common share	$ (0.04)	$ (0.21)

3. Goodwill and Intangible Assets

Goodwill is subject to impairment tests annually at January 1, or earlier if indicators of potential impairment exist, using a fair-value-based approach. All other intangible assets will continue to be amortized over their estimated useful lives and assessed for impairment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

On January 3, 2005, Viewpoint entered into an agreement to acquire all of the outstanding capital stock of Unicast. See Note 2 for the details of the acquisition.

The changes in the carrying amounts of goodwill and intangible assets during the three and nine months ended September 30, 2005, are as follows (in thousands):

	Goodwill	Intangible Assets	Total
Balance as of December 31, 2004	$ 31,276	$ 230	$ 31,506
Additions during period		9	9
Additions during period related to Unicast acquisition	2,101	5,170	7,271
Amortization		(1)	(1)
Amortization related to Unicast acquisition		(177)	(177)
Balance as of March 31, 2005	$ 33,377	$ 5,231	$ 38,608
Additions during period		2	2
Fair value adjustments during the period related to Unicast acquisition	32	(662)	(630)
Amortization		(1)	(1)
Amortization related to Unicast acquisition		(177)	(177)
Balance as of June 30, 2005	$ 33,409	$ 4,393	$ 37,802
Additions during period		36	36
Amortization		(1)	(1)
Amortization related to Unicast acquisition		(159)	(159)
Balance as of September 30, 2005	$ 33,409	$ 4,269	$ 37,678

The changes in the carrying amounts of goodwill and intangible assets for the three and nine months ended September 30, 2004, are as follows (in thousands):

	Goodwill	Intangible Assets	Total
Balance as of December 31, 2003	$ 31,276	$ 186	$ 31,462
Additions during period		38	38
Amortization		(3)	(3)
Balance as of March 31, 2004	$ 31,276	$ 221	$ 31,497
Additions during period			
Amortization		(1)	(1)
Balance as of June 30, 2004	$ 31,276	$ 220	$ 31,496
Additions during period		20	20
Amortization		(12)	(12)
Balance as of September 30, 2004	$ 31,276	$ 228	$ 31,504

As of September 30, 2005 and December 31, 2004, the Company s intangible assets and related accumulated amortization consisted of the following (in thousands):

	September 30, 2005				December 31, 2004		
	Gross	Accumulated Amortization	Adjustment	Net	Gross	Accumulated Amortization	Net
Website Partner Relationships - Unicast	$ 4,100	$ (304)	$ (328)	$ 3,468	$	$	$
Acquired Technology - Unicast	630	(146)	(220)	264			
Patents and Trademarks - Unicast	440	(62)	(114)	264			
Patents and Trademarks	294	(21)		273	247	(17)	230
Total Intangible Assets	$ 5,464	$ (533)	$ (662)	$ 4,269	$ 247	$ (17)	$ 230

Amortization of intangible assets is estimated to be $0.6 million a year for the next five years.

4. Long Term Debt

Convertible Notes

On December 31, 2002, the Company completed a private placement of convertible notes and warrants in which it issued to three institutional investors, 4.95% convertible notes having an aggregate principal amount of $7.0 million, and warrants to purchase 0.7 million shares of Company common stock. The warrants expire on December 31, 2006, and are exercisable at a price of $2.26 per share. As of September 30, 2005, 0.7 million warrants were outstanding.

On March 25, 2003, the Company entered into Redemption, Amendment and Exchange Agreements with the three institutional investors with whom it had completed the private placement of convertible notes and warrants on December 31, 2002, extinguishing the original convertible notes. In conjunction with the extinguishment, the Company paid $3.3 million, issued new convertible notes in the principal amount of $2.7 million and issued 1.4 million shares of its common stock with a market value of $0.7 million.

Pursuant to SFAS No. 133, the Company bi-furcated the fair value of the conversion options from the new convertible notes since the conversion options were determined to not be clearly and closely related to the debt host. In addition, since the effective registration of the securities underlying the conversion options is an event outside of the control of the Company, pursuant to EITF Issue No. 00-19, the Company recorded the fair value of the conversion options as long-term liabilities, as it was assumed that the Company would be required to net-cash settle the underlying securities.

The Company recorded income or loss based on the decrease or increase, respectively, in the fair values of the new conversion options and original warrants in the Company s consolidated statements of operations. The amortization of discount on the new convertible notes and debt issue costs were accounted for using the effective interest method.

On March 17, 2004, one of the institutional investors holding the convertible notes converted $0.9 million of outstanding notes for shares of the Company s common stock. In addition, on the same day as the conversion, the Company sold 1.5 million shares of common stock in a private placement to the institutional investor, for $3.7 million or $2.45 per share. The Company recorded a loss on conversion of debt in the amount of $0.6 million, which represented the write-off of unamortized loan discount and debt issuance costs of $0.1 million and the difference between the proceeds received from the private placement and the fair value of the common stock issued based upon the closing price of the Company s stock on the day of the sale of $0.5 million.

On June 18, 2004, the Company completed the conversion of the remaining outstanding convertible notes of $1.8 million and the related outstanding interest into 1.7 million shares of Viewpoint common stock.

For the three and nine month period ended September 30, 2005, the Company recognized a gain from the change in the fair value of the outstanding warrants of $0.2 million and $1.0 million, respectively, resulting from a decrease in the fair market value of the Company s common stock. For the three and nine month period ended September 30, 2004, the Company recognized a loss related to the change in valuation for the converted notes and outstanding warrants of $0.2 million and $3.7 million, respectively, resulting from the increase in the fair market value of the Company s common stock.

Subordinated Notes

On March 26, 2003, Viewpoint Corporation entered into a Securities Purchase Agreement with three accredited investors, pursuant to which it received $3.5 million in exchange for an aggregate of $3.5 million principal amount of 4.95% subordinated notes and 3.6 million shares of Viewpoint common stock. Prior to the amendment discussed below, the subordinated notes were scheduled to mature on March 31, 2006. Interest on these notes is payable quarterly in arrears in cash. The Company has the right at any time to redeem up to all of the outstanding notes at par plus accrued and unpaid interest.

The $3.5 million of proceeds was allocated to subordinated notes, common stock, and additional paid in capital based on the market value of the Company s common stock on March 26, 2003. Debt issuance costs, which amounted to $0.2 million, were recorded as other assets in the Company s consolidated balance sheet. The amortization of the discount on the subordinated notes and debt issue costs totaled $0.3 million and $0.2 million for

the three month periods ended September 30, 2005 and 2004, respectively, and $0.9 million and $0.4 million for the nine month periods ended September 30, 2005 and 2004, respectively, using the effective interest method.

Amended Notes

On July 27, 2005, the Company and a holder of the subordinated debt amended the 4.95% subordinated note in the principal amount of $3.1 million (referred to herein as the Holder) to extend the maturity date from March 31, 2006 to March 31, 2008 in exchange for the payment by Viewpoint of $0.1 million to the Holder of the subordinated note.

The Company accounted for the amended and restated note as a nontroubled debt transaction in accordance with EITF Issue No. 96-19 Debtor s Accounting for a Modification or Exchange of Debt Instruments. Pursuant to EITF 96-19, the Company is required to account for the modification as a debt extinguishment if it is determined that the terms have changed substantially. Per EITF 96-19, an indication of the existence of substantially different terms is whether the cash flows have changed by more than 10%. In calculating the present value of the cash flows, the company used its current effective interest rate of 23% (incremental borrowing rate) and determined that the cash flows changed by more than 10% as a result of the extension of the maturity date on the note. Since the terms of the old and new notes were determined to be substantially different, the new debt instrument was recorded at fair value.

In addition to the amendment of the note, the Company and the Holder entered into a Stock Purchase Agreement, dated as of July 27, 2005, under which the Company issued 1.3 million shares of Company common stock in a private placement to the Holder at a purchase price of $1.55 per share resulting in aggregate gross proceeds of $2.0 million. The closing price of the Company s common stock on the date of the share purchase was $1.59.

Since the Holder of the subordinated note owned 13% of Viewpoint s outstanding common stock and also had a position on the Company s Board of Directors, the Holder of the note is considered a related party, therefore, the underlying amendment of the note was accounted for as a capital transaction. The Company recognized the difference between the carrying value of the subordinated note and the fair value of the amended and restated substituted note as an increase to the stockholders equity offset by: i) the modification fee paid of $0.1 million, ii) the difference between the issuance price and the closing price related to the simultaneous issuance of common stock, amounting to $0.1 million, and iii) the write off of the pro-rata portion of the restructured debt s original issuance costs of $0.1 million, resulting in a net increase in additional paid in capital of $0.3 million.

Unicast Notes

On January 3, 2005, as disclosed in Note 2, Viewpoint purchased Unicast and, as a result, assumed debt which included an unsecured note with a principal amount of $1.0 million due in December 2011 and a secured note with a principal balance of $1.8 million which matures in March 2011. This note is collateralized by the assets of Unicast. The debt was discounted to its fair value based upon the prevailing interest rates at the date of the acquisition, the term of the debt, the interest provisions of the debt and the credit risk associated with repayment. Viewpoint will accrete the notes based upon the interest-method, including interest payment requirements through maturity.

As of January 3, 2005, the date of acquisition, the fair value of the secured and unsecured notes amounted to $1.4 million and $0.3 million, respectively. The Company recorded interest expense on these notes of $0.1 million, and $0.3 million during the three and nine months ended September 30, 2005 which increased the aggregate carrying value of these notes to $1.9 million as of September 30, 2005, of which $1.6 million is long-term.

5. Related Party Transactions

During the three and nine month periods ended September 30, 2005, the Company recorded revenues totaling $1.0 million and $3.5 million respectively, primarily related to agreements with AOL that were entered into prior to December 31, 2003. Comparative revenues of $1.4 million and $4.7 million were recorded for the three and nine month periods ended September 30, 2004 respectively. AOL had a representative on the Company s Board of Directors until December 2003. As of September 30, 2005, the Company has less then $0.1 million in related party accounts receivable, and has $1.1 million in deferred revenues relating to transactions with AOL. At September 30,

2004, the Company had less then $0.1 million in accounts receivable and $5.8 million in deferred revenue relating to transactions with both AOL and Computer Associates, Inc. (CA), who had a representative on the Company s Board of Directors until September 2004.

In 2003, the Company entered into an amended license agreement with AOL which provides for payments by AOL of $10.0 million which were all received during the fourth quarter of 2003. The agreement contains multiple elements consisting of a perpetual broadcast license, a perpetual source code license, quarterly updates to the source code through December 2005, and maintenance and consulting services. The Company will recognize $9.0 million of revenue from this agreement ratably as license and services revenue, through December 31, 2005, which represents the duration of the Company s obligation for post-contract customer support of the source code element including quarterly upgrades and maintenance requirements. The Company recognized $0.9 million and $2.6 million in related party license revenue for the three and nine months ended September 30, 2005, respectively, and $0.2 million and $0.9 million in related party service revenue for the three and nine months ended September 30, 2005, respectively, relating to this agreement. The Company recognized $0.9 million and $2.6 million in related party license revenue for the three and nine months ended September 30, 2004, respectively, and $0.4 million and $0.7 million in related party service revenue for the three and nine months ended September 30, 2004, respectively, relating to this agreement.

In July 2005, the Company and a related party debt holder amended a note in the principal amount of $3.1 million (see Note 4).

6. Comprehensive Loss

Total comprehensive income (loss) for the three and nine months ended September 30, 2005 and 2004 consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net loss	$ (1,451)	$ (1,295)	$ (2,642)	$ (9,157)
Foreign currency translation adjustment			3	(3)
Unrealized loss on marketable securities	2	(1)	(7)	(10)
Comprehensive net income (loss)	$ (1,449)	$ (1,296)	$ (2,646)	$ (9,170)

7. Segment Reporting

In 2003, sales and production employees became dedicated to the License or Service business and each business was managed separately. In 2004, the Company added Search and Advertising systems as businesses that it managed separately. The Company presently manages and analyzes the business in four reportable segments, and discloses these segments in accordance with SFAS 131. 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. Advertising systems revenue, including Unicast, is generated by charging customers to host advertising campaigns based on a cost per thousand (CPM) impressions. The Service segment provides creative and support services to customers who generally have purchased or received licenses to use the Viewpoint software platform. Services are sold directly by the Company s sales team. Services revenues are earned by the delivery of product created or provided by Company employees or third parties that the Company has contracted to perform services under the guidance of the Company. In June 2005, Viewpoint announced that it was discontinuing the practice of charging customers a license fee for the use of the Viewpoint Media Player and related technologies. 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.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company does not currently evaluate the performance of its segments beyond gross profit. The Company does not allocate research and development, sales and marketing or general and administrative costs,

specifically, to any segment as it does not use that information to make key operating decisions and does not believe that allocating these expenses is necessary in evaluating performance.

	Three Months Ended September 30, 2005	2004	Nine Months Ended September 30, 2005	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
Search advertising	2,459	895	6,937	903
Advertising systems	208	3	738	34
Services	991	649	2,711	3,295
Licenses	989	1,031	3,113	3,190
Total gross profit	$ 4,647	$ 2,578	$ 13,499	$ 7,422
Gross profit margin				
Search advertising	98 %	99 %	98 %	99
Advertising systems	37	7	30	41
Services	52	47	50	59
Licenses	99	100	100	100
Total gross profit	78 %	77 %	75 %	76 %

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from the results implied by the forward looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled Factors That May Affect Future Results of Operations. You should carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including any future reports to be filed in 2005 and our Annual Report on Form 10-K for 2004. When used in this report, the words will , expects, anticipates, intends, plans, believes, seeks, targets, estimates, and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward looking statements or reflect events or circumstances after the date of this document.

Overview

Viewpoint Corporation (Viewpoint or the Company), a leading internet marketing technology company, develops technology and content that enable marketers to effectively advertise on the internet. Viewpoint principally focuses on using its graphical platform s capabilities to provide consumers, advertisers, and website publishers an enhanced internet experience. Since 2003 we have extended the historical imaging capabilities of our proprietary graphics technology to develop a search business that provides internet consumers a flexible graphical searching experience. We have added features to this business that promote its continual use by consumers. Additionally we have developed an advertising delivery system that specializes in deploying video and rich media advertising. The Company supplements its revenues in these product segments by using its in-house services team to build sophisticated content that is used by customers in each product segment. Finally, the Company licenses its platform to internet publishers enabling them to deploy graphical sophisticated content at their websites.

On March 17, 2004, Viewpoint entered the internet search business by launching a toolbar search product which the Company calls the Viewpoint Toolbar. The Viewpoint Toolbar attaches to the Internet Explorer browser, enabling web surfers to conduct internet searches without leaving the web page they are viewing. When a user enters a term or phrase in the search field of the Viewpoint Toolbar, search results appear not only as text links listed on a search results page but also as thumbnail icons of the web pages themselves in a tray that descends from the Viewpoint Toolbar. Additionally, if a user visits certain internet search engine sites the Viewpoint Toolbar will simultaneously receive a user s search request and provide the user comparative thumbnail search results in the Viewpoint Toolbar search results tray. Search results delivered to users of the Viewpoint Toolbar are supplied by Yahoo! Inc. and its wholly-owned subsidiary, Overture Services, Inc. (Yahoo!). Under its Agreement with Yahoo!, Viewpoint receives a share of the fees advertisers pay to Yahoo! to be listed in the search results as a sponsored link .

On June 29, 2005, Viewpoint delivered Version 3.0 of the Viewpoint Toolbar to the market. Version 3.0 includes a digital photo management application built into the Toolbar s features. Capabilities of the application include a system to manage folders of photographs, edit photographs, send photographs via email or store them online. Additionally, users may order prints or other related merchandise and goods through an online service provider. Viewpoint manages the prices charged for photographic orders and the online service provider remits to Viewpoint net proceeds charged for the products after deducting for their standard costs for the products as provided to Viewpoint. We began recognizing revenues for such orders in the third quarter of 2005.

Beginning in 2004 Viewpoint began offering an online advertising campaign management and deployment product. In July 2005, the Company redesigned this product, combining the Viewpoint Creative Innovator product with the Unicast s UCP ad delivery product into one system. This system, known as the Unicast Ad Platform (UAP), permits publishers, advertisers, and their agencies to manage the process of deploying online advertising campaigns. This process includes creating the advertising assets, selecting the sites on which the advertisements will be deployed, setting the metrics (ad rotation, the frequency with which an ad may be deployed, and others) associated with the campaign, ad deployment, and tracking of campaign results. UAP enables users to manage advertising campaigns across many sites.

On January 3, 2005, Viewpoint purchased all the outstanding stock of Unicast Corporation (Unicast), a leader in the delivery of interstitial and superstitial video internet advertisements. Unicast delivered video advertisements for its customers using a format that complements Viewpoint s in-page and in-stream video advertising provided by AirTime. Additionally, Unicast generated monthly revenues from dozens of advertisers who purchased advertising on some of the internet s most active websites including Microsoft s MSN, Yahoo! and America Online. Viewpoint believes that the addition of Unicast will significantly accelerate the Company s growth in its advertising systems segment.

Viewpoint provides fee-based professional services for creating content and implementing visualization solutions. Clients include both content-related licensees and advertisers who use UAP as well as internal services provided to our marketing team. Our professional services group uses the Viewpoint platform, as well as a spectrum of tools and other technologies to create enhanced rich media solutions for a client s particular purpose, whether over the web, intranet systems or offline media and applications. We provide the support our clients need to implement the rich media content, to fully utilize the enhanced software, or to maximize the branding potential of the advertising opportunity. Clients supported during the first nine months of 2005 include America Online, Toyota Motor Services, General Electric and Sony Electronics.

Viewpoint began business in 1987 as a software maker focused primarily on products that enabled content authors to create images in three dimensions and to paint artistic images digitally. Viewpoint initiated internet activities with the release of a beta version of the Viewpoint Media Player (VMP) in 1999. Simultaneously, Viewpoint released a suite of free content authoring tools specifically designed to enable customers who published digital content on their websites to create material that can be read or played back by the VMP. With the VMP residing on the web consumer s computer and interpreting instructions delivered by our customers web sites, web sites can transmit relatively small files that can yield rich media on the end user s computer. In this way, website owners can deploy digital content representing three-dimensional views of their products, include pre-set animations, and provide high-resolution two-dimensional views, video, audio, text, and other media types. For example, several of our licensing and creative services customers are auto manufacturers that deploy from their websites 3D representations of their vehicles which viewers can interact with by opening doors, zooming in on features, configuring accessories, or swapping colors.

Viewpoint has a limited operating history upon which an evaluation of the Company and its prospects can be based. Viewpoint has had significant quarterly and annual operating losses since its inception, and, as of September 30, 2005, had an accumulated deficit of $257.9 million. Viewpoint s prospects must be considered in light of the risks and difficulties frequently encountered by early stage technology companies. There can be no assurance that Viewpoint will achieve or sustain profitability.

RESULTS OF OPERATIONS

The following table sets forth for the three and nine months ended September 30, 2005 and 2004, the Company s consolidated statements of operations expressed as a percentage of total revenues for the periods indicated:

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Statements of Operations Data				
Revenues:				
Search	42 %	27 %	39 %	9 %
Advertising Systems	9	1	14	1
Services	29	26	25	36
Related party services	3	15	5	21
Licenses	2	5	3	6
Related party licenses	15	26	14	27
Total revenues	100	100	100	100
Cost of revenues:				
Search	1		1	0
Advertising Systems	6	1	10	1
Services	15	22	15	23
Licenses	0		0	0
Total cost of revenues	22	23	26	24
Gross profit	78	77	74	76
Operating expenses:				
Sales and marketing	22	28	21	30
Research and development	19	23	19	26
General and administrative	54	48	44	55
Depreciation	4	6	4	6
Amortization of intangible assets	3		3	0
Restructuring charges related to office closure				(0)
Total operating expenses	102	105	91	117
Loss from operations	(24)	(29)	(17)	(41)
Other income (expense):				
Interest and other income, net	1	1	0	1
Interest expense	(5)	(7)	(5)	(7)
Changes in fair values of warrants to purchase common stock and conversion options of convertible notes	3	(5)	6	(38)
Loss on conversion				(9)
Other income (expense)	(1)	(11)	1	(53)
Loss before provision for income taxes	(25)	(40)	(16)	(94)
Provision for income taxes		1	0	1
Net loss from continuing operations	(25)	(40)	(16)	(95)
Adjustment to net loss on disposal of discontinued operations		3	1	1
Net loss	(25)%	(38)%	(15)%	(94)%

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Critical Accounting Policies and Estimates

Viewpoint s discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances though actual results may differ from these estimates under different assumptions or conditions. For a complete description of the Company s accounting policies, see Note 2 to the consolidated financial statements included in the Company s 2004 annual report on Form 10-K.

Described below are the areas where we believe that the estimates, judgments or assumptions that we have made, if different, would have yielded the most significant differences in our financial statements:

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 generates revenues through four sources: (a) search advertising, (b) advertising systems, (c) services, and (d) software licenses. Search revenue, as explained in more detail below, is derived from a share of the fees charged by 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 and/or deliver advertising campaigns based on a cost per thousand (CPM) impressions. 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. License revenues are generated from licensing the rights to use products directly to customers.

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.

In addition, Viewpoint also offers an online advertising campaign management and deployment product. In July 2005, the Company redesigned this product, incorporating the Viewpoint Creative Innovator product with the Unicast s UCP ad delivery system into one system. This system, known as the Unicast Ad Platform (UAP), permits publishers, advertisers, and their agencies to manage the process of deploying online advertising campaigns. The Company charges customers 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 a 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.

On June 14, 2005, Viewpoint announced that for all non-special purpose licenses, it was discontinuing the practice of charging customers a license fee for the use of the Viewpoint Media Player and related technologies. 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. However, Viewpoint will still charge for certain licenses requiring customization. By providing the standard license for free, the Company plans to extend the Viewpoint Media Player s reach into new channels of distribution beyond the estimated 120 million computers it currently resides within. Viewpoint believes that this strategy supports the advertising business - by potentially making the

player more pervasive as well as providing strong backing to the search and photo management distribution strategies.

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.

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 were used for those arrangements in which reasonably dependable estimates were available. If reasonably dependable estimates were not available due to the complexity of the services to be performed, the Company deferred recognition of any revenues for the project until the project was completed, delivered and accepted by the customer, provided all other revenue recognition criteria were met and no further significant obligations exist.

For arrangements involving multiple elements, the Company defers revenue for the undelivered elements based on their relative fair value and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of each undelivered element in multiple element arrangements is based on the price charged when the same element is sold separately. For maintenance and technical support elements, the Company uses renewal rates to determine the price when sold separately. For licenses sold that include updates over a period of time the Company recognizes the license revenue over the period in which updates are provided.

Standard terms for service arrangements, which are typically billed and collected on an installment basis, require final payment within 90 days of completion of the services. Standard terms for license arrangements required payment within 90 days of the contract date, which typically coincided with delivery. Probability of collection is based upon the assessment of the customer s financial condition through the review of their current financial statements and/or credit reports. For follow-on sales to existing customers, prior payment history is also used to evaluate probability of collection. The Company s arrangements with customers do not contain product return rights. If the fee is not fixed or determinable, revenue is recognized as payments become due or as cash is received from the customer. If a nonstandard acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

Percentage of Completion

The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended, Staff Accounting Bulletin (SAB) No. 101 Revenue Recognition in Financial Statements and SAB No. 104 Revenue Recognition. Per SOP 97-2 and SAB No. 101, 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.

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. 101. 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. If actual results differ from estimates made, revenue recognized may be incorrect.

Reserve for Bad Debt

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer s current credit worthiness, as determined by a review of their current credit information. The Company regularly monitors collections and payments from our customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. If actual results differ from estimates made, expense recognized may be incorrect.

Valuation of Goodwill and Intangible Assets

We assess goodwill for impairment annually unless events occur that require more frequent reviews. Long-lived assets, including amortizable intangibles, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Discounted cash flow analyses are used to assess non-amortizable intangible impairment while undiscounted cash flow analyses are used to assess long-lived asset impairment. If an assessment indicates impairment, the impaired asset is written down to its fair market value based on the best information available. Estimated fair market value is generally measured with discounted estimated future cash flows. Considerable management judgment is necessary to estimate undiscounted and discounted future cash flows. Assumptions used for these cash flows are consistent with internal forecasts.

On an on-going basis, management reviews the value and period of amortization or depreciation of long-lived assets, including goodwill and other intangible assets. During this review, we re-evaluate the significant assumptions used in determining the original cost of long-lived assets. Although the assumptions may vary from transaction to transaction, they generally include revenue growth, operating results, cash flows and other indicators of value. Management then determines whether there has been an impairment of the value of long-lived assets based upon events or circumstances that have occurred since acquisition. The impairment policy is consistently applied in evaluating impairment for each of our wholly owned subsidiaries and investments.

Investments

We record an impairment charge when we believe an investment asset has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment s current carrying value, thereby possibly requiring an impairment charge in the future.

Derivatives

In 2002 and 2003, the Company issued convertible notes and warrants which would require Viewpoint to issue shares of common stock upon conversion of these securities. The Company accounts for the fair values of these outstanding warrants to purchase common stock and conversion options of its convertible notes in accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, and EITF Issue No. 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock, which requires the Company to bifurcate and separately account for the conversion option and warrants as embedded derivatives contained in the Company s convertible notes. The Company is required to carry these embedded derivatives on its balance sheet at fair value and the unrealized changes in the value of these embedded derivatives are reflected in net income as changes in fair values of warrants to purchase common stock and conversion options of convertible notes. Such changes in fair value are recorded as an adjustment to reconcile net loss to net cash used in operating activities in the consolidated statement of cash flows. In 2004, the convertible notes were converted into common stock.

Contingencies and Litigation

We evaluate contingent liabilities including threatened or pending litigation in accordance with SFAS No. 5, Accounting for Contingencies and record accruals when the outcome of these matters is deemed probable and the liability is reasonably estimable. We make these assessments based on the facts and circumstances and in some instances based in part on the advice of outside legal counsel. If actual results differ from estimates made, expense recognized may be incorrect.

Restructuring Activities

Restructuring activities include the recognition of severance expenses upon management approval of the restructuring plan, the determination of the employees to be terminated, communication of benefit arrangements to employees and, with respect to costs associated with lease terminations, an estimation of sublease payments.

Financial Results

Viewpoint reported total revenue of $6.0 million for the three months ended September 30, 2005, compared to $3.4 million for the same period last year. The increase was principally due to additional revenues in our search and ad systems segments. Operating loss for the third quarter of 2005 was $1.4 million compared to $1.0 million in the third quarter of 2004. The increase in operating loss compared to the third quarter 2004 resulted principally from a non-recurring expense of $1.1 million for non-cash stock-based compensation associated with the termination of an officer. Net loss for the third quarter 2005 was $1.5 million, or a loss of $0.02 per share, compared to a net loss of $1.3 million, or $0.02 per share, in the third quarter of 2004. In addition to the $1.1 million non-cash stock compensation charge described above, the net loss in the third quarter of 2005 included a $0.2 million non-cash gain associated with the impact of the decreased stock price on the outstanding warrants. Net loss in the third quarter of 2004 included a non-cash loss of $0.2 million to recognize the impact of the Company s increased stock price on its outstanding warrants.

Viewpoint reported total revenues of $18.1 million for the nine months ended September 30, 2005, compared to $9.8 million for the same period last year. Operating loss for the nine months ended September 30, 2005 was $3.0 million compared to $4.0 million for the nine months ended September 30, 2004. The improvement in operating loss compared to the nine months ended September 30, 2004 resulted principally from the increase in revenue from the Company s search and ad systems segments offset by additional operating expenses incurred following the acquisition of Unicast on January 3, 2005. Additionally the company has recorded $1.7 million in non-cash stock-based compensation in 2005 compared to $0.3 million for the same period in 2004. Net loss for the nine months ended September 30, 2005 was $2.6 million, or a loss of $0.05 per share, compared to a net loss of $9.2 million, or a loss of $0.17 per share, in the nine months ended September 30, 2004. The net loss in the nine months ended September 30, 2005 included a non-cash gain of $1.0 million to recognize the impact of the Company s decreased stock price on its outstanding warrants. Net loss in the nine months ended September 30, 2004 included non-cash loss of $3.7 million to recognize the impact of the Company s increased stock price on its outstanding conversion options related to the Company s convertible debt and warrant financing, and the loss on the conversion of the Company s convertible debt in 2004, amounting to a loss of $0.8 million.

Viewpoint s cash, cash equivalents, and marketable securities as of September 30, 2005 were $5.4 million. This can be compared to cash, cash equivalents, and marketable securities of $8.7 million at December 31, 2004. The decrease in cash, cash equivalents, and marketable securities can be attributed to the completion of the Unicast acquisition which reduced the Company s cash position by $1.3 million related to amounts paid to the sellers and negative net working capital assumed and subsequently paid as well as losses from operations and increases in accounts receivable associated with our growing search and ad systems businesses. These uses of cash were offset by the sale of $2.0 million of common stock in a private placement in July 2005.

Revenues

	Months Ended September 30, 2005	2004	% Change
Three months ended:			
Search	$ 2,498	$ 905	176
Advertising Systems	566	46	1,130
Services	1,744	888	96
Related party services	154	497	(69)
Licenses	124	158	(22)
Related party licenses	873	873	
Total revenues	$ 5,959	$ 3,367	77 %
Nine months ended:			
Search	$ 7,071	$ 913	674 %
Advertising Systems	2,461	83	2,865
Services	4,551	3,477	31
Related party services	903	2,097	(57)
Licenses	506	542	(7)
Related party licenses	2,618	2,652	(1)
Total revenues	$ 18,110	$ 9,764	85 %

On March 17, 2004 Viewpoint entered the internet search business, by launching the Viewpoint Toolbar on a test basis. In April 2004, the Company ended the test phase, and began delivering the Viewpoint Toolbar Version 1.0. 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.

In addition, Viewpoint also offers an online advertising campaign management and deployment product. In July 2005, the Company redesigned this product, incorporating the Viewpoint Creative Innovator product with the Unicast s UCP ad delivery system into one system. This system, known as the Unicast Ad Platform (UAP), permits publishers, advertisers, and their agencies to manage the process of deploying online advertising campaigns. The Company charges customers 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 expects revenues from advertising systems to grow in future quarters.

Viewpoint has a creative services group that builds content in the Viewpoint format for customers. Viewpoint charges customers fees for these services based on the estimated time and materials to complete a creative project for the customer including an acceptable profit margin. Revenue is recognized on a percentage-of-completion basis if all other revenue recognition criteria are satisfied. During 2005, the Company continued its strategy of concentrating on executing larger creative projects which improved overall financial performance of the segment.

The Company also generated revenues by selling licenses to the Viewpoint graphical platform principally to internet content publishers. On June 14, 2005, Viewpoint announced that for all non-special purpose licenses, it was discontinuing the practice of charging customers a license fee for the use of the Viewpoint Media Player and related technologies. 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. However, Viewpoint will still charge for certain licenses requiring customization. By providing the standard license for free, the Company plans to extend the Viewpoint Media Player s reach into new channels of distribution beyond the estimated 120 million computers it currently resides within. Viewpoint believes that this strategy supports the advertising business - by potentially making the player more pervasive as well as providing strong backing to the search and photo management distribution strategies.

Prior to 2004, licenses were generally 15 months in duration. Revenues were recognized upon the completion of the sales and delivery process so long as all other revenue recognition criteria were satisfied. The Company supplemented its license revenue by providing content development services to licensees. The service revenues were recognized on a percentage of completion basis as computed by comparing the incurred costs of the project to the total estimated project cost and applying this percentage against the total contracted revenue.

During the first five months of 2005, prior to the discontinuation of standard broadcast license fees, the Company recognized license sales upon delivery so long as all other revenue recognition criteria were satisfied. Since January 2004, licenses had generally been sold for a 12 month term. The Company also adopted a new licensing price structure in 2004 whereby larger license sales, that are made less frequently, contain product upgrades when and if available for a period of 12 months. These license sales are amortized over the license periods, due to the significance of the post contract customer support which include when and if available upgrades.

During October 2003, the Company entered into an amended license agreement with America Online, Inc. (AOL) which provided for payments by AOL of $10.0 million which were received in the fourth quarter of 2003. The agreement contains multiple elements consisting of a perpetual broadcast license, a perpetual source code license, quarterly updates to the source code through December 2005, and maintenance and consulting services. The Company will recognize revenue from this agreement ratably as license and services revenue through December 2005 which represents the duration of the Company s obligation for post-contract support of the source code element, including quarterly upgrades and maintenance requirements. Approximately $0.9 million is recognized each quarter as related party license revenue and $0.2 million as related party services revenue.

During 2004, the Company began to focus more resources on its Search and Advertising systems segments. License revenue will stay relatively constant through the end of 2005, as twelve month licenses that contained upgrades when and if available that were entered into prior to the change in license fee structure in June 2005 are recognized. The Company believes that, consistent with the new business model, license revenue will be minimal in 2006.

Search revenues of $2.5 million for the three months ended September 30, 2005 compared to $0.9 million for the three months ended September 30, 2004. Search revenues are generated when users of the Viewpoint Toolbar are provided search results from advertisers that they click to view. These advertisers then pay a fee to Yahoo!, who remits a percentage of the fee to Viewpoint. The Company had installed 1.5 million Viewpoint Toolbars through September 30, 2004, 8.7 million through December 31, 2004, 12.5 million through March 31, 2005, 16.1 through June 30, 2005 and 19.0 million through September 30, 2005. Internet users can uninstall the Viewpoint Toolbar, and through December 31, 2004, 3.3 million users who had accepted the installation of the Toolbar had later uninstalled it during 2004. The total of uninstalled toolbars had increased to 8.4 million by September 30, 2005.

Search revenues of $7.1 million for the nine months ended September 30, 2005 compared to revenues of $0.9 million for the nine months ended September 30, 2004. The increase in revenues is associated with the acceleration of our search business which began after September 30, 2004. The Company believes that search revenues will continue to increase in 2005 if it is able to continue to increase the number of Viewpoint Toolbars that are distributed and remain installed.

Advertising systems revenue of $0.6 million during the three months ended September 30, 2005 compared to revenues of less than $0.1 million for the three months ended September 30, 2004. This revenue was generated by delivering advertising impressions to websites in several different formats including video and by selling website advertising inventory on behalf of website publishers. Advertising systems revenue was principally derived from clients who had used Unicast to deliver video advertising prior to the January 3, 2005 merger with Viewpoint.

Advertising systems revenues of $2.5 million for the nine months ended September 30, 2005 compared to revenues of less than $0.1 million for the nine months ended September 30, 2004. The growth compared to the prior period is the result of the Company s entry into the ad systems business late in the third quarter of 2004 and the purchase of Unicast in January of 2005. Growth in this segment decreased during the third quarter as compared to the first two quarters of 2005 due to reduced advertising associated with seasonality, as well as the launch of UAP, which required the Company to be recertified on virtually all publisher websites, a process that took time and delayed the launch of some campaigns. Growth in this segment will increase during the fourth quarter of 2005 if the Company is able to attract more clients and websites to its various ad serving formats.

Services revenues of $1.7 million for the three months ended September 30, 2005 compare to $0.9 million for the same period in 2004. The increase in revenues is due to increases in the number of clients with projects in excess of $50,000 who were not related parties.

Services revenues of $ 4.6 million for the nine months ended September 30, 2005 compared to revenues of $3.5 million for the nine months ended September 30, 2004. The Company s revenues during 2004 included $0.5 million from a services project that was completed in the third quarter of 2003 for which the Company received a final payment and recognized revenue in February 2004. Excluding this item, the adjusted increase in revenues is due to increases in the number of clients with projects in excess of $50,000 who were not related parties. The Company believes that it will be able to increase revenues in this segment if licensees continue to ask the Company for assistance in building more content using the Viewpoint Platform to be used at their websites. The Company believes the elimination of the license fee will further increase revenues in this area as companies will have even more of an inclination to use the Viewpoint platform.

Related party services revenues of $0.2 million for the three months ended September 30, 2005 decreased from $0.5 million or 69% compared to the same period last year. Revenues included as related party services revenues relate to contracts that were entered into with AOL prior to December 2003. Revenue from AOL in 2005 for contracts entered into after 2003 is included in services revenue.

Related party services revenues of $0.9 million for the nine months ended September 30, 2005 decreased by $1.2 million or 57% from the same period last year. We believe that revenue in this segment will be significantly lower in 2005 since there is only one remaining agreement for the Company to provide services to AOL that was executed in 2003.

License revenues of $0.1 million for the three months ended September 30, 2005 decreased by less than $0.1 million as compared to the same period last year. License revenues for the third quarter of 2005 primarily represent four licenses the Company sold during 2004, which provided upgrade rights, and are therefore being recognized ratably over 12 months. License revenues for the third quarter of 2004 were essentially generated from the sale of licenses without upgrade rights where the Company recognized the total value of the contract in the third quarter.

License revenues of $0.5 million for the nine months ended September 30, 2005, compared to $0.5 million for the same period last year. Revenues in this segment will remain relatively constant in 2005, and will be minimal in 2006 as the Company is offering the license for free beginning in June 2005.

Related party license revenues of $0.9 million and $2.6 million for the three and nine month periods ended September 30, 2005 respectively were generally consistent with the amount in the same period in 2004, as the Company was working under the same contract. Revenues in this segment will remain relatively constant in 2005 and be eliminated in 2006.

Cost of revenues

	September 30, 2005			2004			% Change	
	(dollars in thousands)							
Three months ended:								
Search	$	39		$	10		290	%
Percentage of Search Revenues		2	%		1	%		
Nine months ended:								
Search	$	134		$	10		1,240	%
Percentage of Search Revenues		2	%		1	%		
Three months ended:								
Advertising Systems	$	358		$	43		733	%
Percentage of Advertising Systems Revenues		63	%		93	%		
Nine months ended:								
Advertising Systems	$	1,723		$	49		3,416	%
Percentage of Advertising Systems Revenues		70	%		59	%		
Three months ended:								
Services	$	907		$	736		23	%
Percentage of Services Revenues		48	%		53	%		
Nine months ended:								
Services	$	2,743		$	2,279		20	%
Percentage of Services Revenues		50	%		41	%		
Three months ended:								
Licenses	$	8		$			NA	%
Percentage of Licenses Revenues		1	%			%		
Nine months ended:								
Licenses	$	11		$	4		175	%
Percentage of Licenses Revenues		0	%		0	%		

The Company incurs cost of revenues related to search revenue for the hosting services associated with providing search results. Bandwidth costs utilized in providing results has been minimal. The Company believes that as search revenue increases, the hosting services associated with this revenue will increase although we do not anticipate an increase in the costs as a percentage of revenues.

Cost of revenues from advertising systems was $0.4 million and $1.7 million for the three and nine month periods ended September 30, 2005 respectively. These costs consist of the web-hosting and employee fees associated with serving advertising content, costs for media space at websites when we package the media space with delivery, and costs of developing certain advertisements in contracts that include a combined price for developing creative material and delivering that material. The Company is continually evaluating pricing for hosting services in order to reduce the delivery expenses to the greatest extent practicable. During the third quarter of 2004, the Company separated creative development from delivery contracts which will separate the creative development revenues and costs into services revenues and costs. As advertising system revenue increases, expenses for bandwidth will also increase, however, the Company believes that costs as a percentage of revenue will decrease since it expects to receive improved pricing efficiencies for hosting and delivery services. It does not anticipate bundling the costs of media frequency or developing creative advertising with contracts for delivery of such advertising impressions.

Cost of revenues for services consists primarily of salaries, consulting fees and overhead for those who provide fee-based content creation and engineering professional services. Cost of revenues for services of $0.9 and $2.7 million for the three and nine months ended September 30, 2005, respectively, increased by $0.2 million or 23% for the three month period and $0.5 million or 20% for the nine month period compared to the same periods

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last year. The increase in cost of revenues for services is attributable to the increase in service revenues adjusted for the payment of $0.5 million in the third quarter of 2004 that related to work performed, for which costs were recognized, in 2003. The Company believes that the costs for services as a percentage of revenue will remain fairly constant in 2005.

Sales and marketing

	September 30, 2005		2004		% Change
	(dollars in thousands)				
Three months ended:					
Sales and Marketing	$ 1,325		$ 929		43 %
Percentage of total revenues	22	%	28	%	
Nine months ended:					
Sales and Marketing	$ 3,828		$ 2,925		31 %
Percentage of total revenues	21	%	30	%	

Sales and marketing expenses include salaries and benefits, sales commissions, non-cash stock-based compensation charges, consulting fees, and travel and entertainment expenses for our sales and marketing personnel. Sales and marketing expenses also include the cost of programs aimed at increasing revenue, such as advertising, trade shows, and public relations.

Sales and marketing expenses of $1.3 million for the three months ended September 30, 2005 increased by $0.4 million or 43% compared to the same period last year. The increase was principally due to an increase in personnel costs in sales and marketing associated with the Unicast acquisition. Personnel costs including commissions increased by $0.3 million, in addition to ad systems marketing costs which increased by $0.1 million. This was offset by a decrease in search marketing costs of $0.1 million caused by a decrease in the number of toolbars installed during the third quarter of 2005 compared to the same period in the prior year and the cost per bar offered for installation.

Sales and marketing expenses of $3.8 million for the nine months ended September 30, 2005 increased by $0.9 million or 31% compared to the same period last year. The increase was principally due to an increase in personnel costs in sales and marketing associated with the Unicast acquisition. Personnel costs including commissions increased by $0.9 million, in addition to ad systems marketing costs which increased by $0.2 million. This was offset by a decrease in search marketing costs of $0.3 million related to the launch of the search business in the first quarter of 2004.

Research and development

	September 30, 2005		2004		% Change
	(dollars in thousands)				
Three months ended:					
Research and development	$ 1,126		$ 783		44 %
Percentage of total revenues	19	%	23	%	
Nine months ended:					
Research and development	$ 3,479		$ 2,556		36 %
Percentage of total revenues	19	%	26	%	

Research and development expenses consist primarily of salaries and benefits for software developers, contracted development efforts, and non-cash stock-based compensation charges related to the Company s product development efforts. The Company expenses as incurred research and development costs necessary to establish the technological feasibility of its internally developed software products and technologies. To date, the establishment of technological feasibility of the Company s products and general release has substantially coincided. As a result, the Company has not capitalized any software development costs since costs qualifying for such capitalization have not been significant. If technological feasibility has been established, it is probable that the project will be completed and the software will be used as intended, the Company capitalizes costs of software, consulting services, hardware and payroll-related costs incurred to purchase or develop internal-use software. The Company expenses

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costs incurred during preliminary project assessment, research and development, re-engineering, training and application maintenance.

Beginning in 2004, the Company expanded its research and development efforts beyond changes in the overall quality of the Viewpoint Media Player to efforts to build the Viewpoint Toolbar for searching. During 2005, efforts in this area have focused on the development of a more flexible frame for the Toolbar which would facilitate adding different software tools to its capabilities and the development of a photosharing capability which was released on June 29, 2005. In addition, during 2005 efforts were focused on building an ad delivery system that combined the capabilities of Unicast s and Viewpoint s products which resulted in the development of the Unicast Ad Platform, which has the capability to insert advertising onto a publishers website prior to their delivery of streaming video content.

Research and development expenses increased by $0.3 million, or 44%, for the three months ended September 30, 2005 compared to the same period last year. The most significant change resulted from salaries which increased by $0.3 million associated with employees added as a result of the Unicast acquisition. Salaries and fringe benefits represent 93% of the costs in this department.

Research and development expenses increased by $1.0 million, or 36%, for the nine months ended September 30, 2005 compared to the same period last year. The most significant change resulted from salaries which increased by $0.9 million associated with employees added as a result of the Unicast acquisition.

General and administrative

	September 30, 2005	2004	% Change
	(dollars in thousands)		
Three months ended:			
General and Administsrative	$ 3,224	$ 1,631	98 %
Percentage of total revenues	54 %	48 %	
Nine months ended:			
General and Administsrative	$ 7,965	$ 5,358	49 %
Percentage of total revenues	44 %	55 %	

General and administrative expenses primarily consist of corporate overhead of the Company, which includes salaries and benefits related to finance, human resources, MIS, legal, and executive personnel along with other administrative costs such as facilities costs, legal, accounting and investor relations fees, insurance expense, and bad debt expense.

General and administrative expenses increased by $1.6 million, or 98%, for the three months ended September 30, 2005 compared to the same period last year. Salary, bonus and fringe benefit costs increased by $0.3 million due primarily to accruals for a severance payment and reclassifications of certain employees to this department. Non-cash stock based compensation increased by $1.1 million related to a charge taken on extending the options for an officer who ended his employment by Viewpoint in September 2005.

General and administrative expenses increased by $2.6 million, or 49%, for the nine months ended September 30, 2005 compared to the same period last year. Non-cash stock based compensation increased by $1.5 million related to charges taken on extending the options for former officers who departed during 2005. Salary, bonus and fringe benefit costs increased by $0.7 million due primarily to new employees associated with the Unicast acquisition and reclassifications of certain employees to this department. Bad debt expense increased $0.2 million principally due to receipt of a payment in 2004 from customers who had an account that was written off by the company in 2003, in addition to increased receivable balances related to the ad systems business increasing the company s overall reserve balance.

Depreciation expense

	September 30, 2005	2004	% Change
	(dollars in thousands)		
Three months ended:			
Depreciation	$ 213	$ 205	4 %
Percentage of total revenues	4 %	6 %	
Nine months ended:			
Depreciation	$ 666	$ 629	6 %
Percentage of total revenues	4 %	6 %	

Depreciation expense increased by less than $0.1 million for the three and nine month periods ended September 30, 2005.

Amortization of intangible assets

	September 30, 2005	2004	% Change
	(dollars in thousands)		
Three months ended:			
Amortization of intangible assets	$ 159	$ 12	1,225 %
Percentage of total revenues	3 %	%	
Nine months ended:			
Amortization of intangible assets	$ 516	$ 16	3,125 %
Percentage of total revenues	3 %	0 %	

Amortization of intangible assets relates to the amortization of patents, trademarks and other intangible assets acquired in the Unicast acquisition. Intangible assets, excluding Goodwill, included trademarks, acquired technology and website partner relationships. Viewpoint will be amortizing these values over the useful lives which range from 3 to 10 years.

Interest and other income, net

	September 30, 2005	2004	% Change
	(dollars in thousands)		
Three months ended:			
Interest and other income, net	$ 30	$ 23	30 %
Percentage of total revenues	1 %	1 %	
Nine months ended:			
Interest and other income, net	$ 86	$ 69	25 %
Percentage of total revenues	0 %	1 %	

Interest and other income, net, primarily consists of interest and investment income on cash, cash equivalents and marketable securities. As a result, interest and other income, net, fluctuates with changes in the Company s cash, cash equivalents and marketable securities balances and market interest rates.

Interest expense

	September 30, 2005	2004	% Change
	(dollars in thousands)		
Three months ended:			
Interest expense	$ (288)	$ (231)	25 %
Percentage of total revenues	(5) %	(7) %	
Nine months ended:			
Interest expense	$ (943)	$ (717)	32 %
Percentage of total revenues	(5) %	(7) %	

Interest expense consists of interest paid and accrued, and amortization of debt discount and debt issue costs on the Company s convertible notes, subordinated notes and the debt assumed from Unicast following the acquisition on January 3, 2005. The increase is the result of interest expense recorded in 2005 related to debt assumed upon the acquisition of Unicast on January 3, 2005.

Loss on conversion of debt

	September 30, 2005	2004	% Change
	(dollars in thousands)		
Three months ended:			
Loss on conversion of debt	$	$	N/A %
Percentage of total revenues	%	%	
Nine months ended:			
Loss on conversion of debt	$	$ (810)	(100) %
Percentage of total revenues	%	(9) %	

On March 17, 2004, one of the institutional investors holding the convertible notes converted $0.9 million of outstanding notes for shares of the Company s common stock. In addition, on the same day as the conversion, the Company sold 1.5 million shares of common stock in a private placement to the institutional investor, for $3.7 million or $2.45 per share. The Company recorded a loss on conversion of debt in the amount of $0.6 million, which represented the write-off of unamortized debt issuance costs of $0.1 million and the difference between the carrying value of the convertible notes and the fair value of the common stock issued based upon the closing price of the Company s stock on the day of the sale in the amount of $0.5 million.

During the period beginning on April 15, 2004 and May 20, 2004 a period which covered 25 consecutive trading days the dollar volume-weighted average price of the Company s common stock exceeded 150% of the conversion price applicable to the outstanding convertible notes and the Company determined to exercise its right to convert the outstanding notes into shares of Company common stock. Accordingly, on May 20, 2004, the Company informed the institutional investors holding the outstanding convertible notes that it would exercise its right to convert that debt. On June 18, 2004, the Company completed the conversion of the remaining outstanding convertible notes of $1.8 million and the related outstanding interest into 1.7 million shares of Viewpoint common stock. In addition, the Company recorded a loss on conversion in the amount of $0.2 million, which represented the difference between the fair value of the common stock issued in exchange for the notes and the carrying value of the convertible notes on the date of conversion. This change was primarily comprised of the write-off of unamortized loan discount and debt issuance costs.

Changes in fair value of warrants to purchase common stock and conversion options of convertible notes

	September 30, 2005	2004	% Change
	(dollars in thousands)		
Three months ended:			
Changes in fair value of warrants to purchase common stock and conversion options of convertible notes	$ 207	$ (162)	(228)%
Percentage of total revenues	3 %	(5)%	
Nine months ended:			
Changes in fair value of warrants to purchase common stock and conversion options of convertible notes	$ 1,037	$ (3,715)	(128)%
Percentage of total revenues	6 %	(38)%	

On March 25, 2003, the Company entered into Redemption, Amendment and Exchange Agreements with the three institutional investors with whom it had completed the private placement of convertible notes and warrants on December 31, 2002, extinguishing the original convertible notes. In conjunction with the extinguishment, the Company paid $3.3 million, issued new convertible notes in the principal amount of $2.7 million and issued $1.4 million shares of its common stock with a market value of $0.7 million.

The Company bi-furcated the fair value of the conversion options from the new convertible notes since the conversion options were determined to not be clearly and closely related to the debt host. In addition, since the effective registration of the securities underlying the conversion options is an event outside of the control of the Company, the Company recorded the fair value of the conversion options as long-term liabilities, as it was assumed that the Company would be required to net-cash settle the underlying securities.

The Company recorded income or loss based on the decrease or increase, respectively, in the fair values of the new conversion options and original warrants in the Company s consolidated statements of operations. The amortization of discount on the new convertible notes and debt issue costs were accounted for using the effective interest method.

In March 2004, one of the institutional investors holding the convertible notes converted $0.9 million of outstanding notes with Company common stock.

For the three months ended September 30, 2005, the Company recorded income based on the change in the fair value of the original warrants of $0.2 million. The Company recorded a loss for the three months ended September 30, 2004 based on the increase in fair values of the warrants of $0.2 million.

For the nine months ended September 30, 2005, the Company recorded income based on the change in the fair value of the original warrants of $1.0 million. For the nine months ended September 30, 2004, the Company recorded a loss based on the increase in fair values of the conversion options of its convertible notes of $3.0 million and warrants of $0.7 million.

Provision for taxes

	September 30, 2005	2004	% Change
	(dollars in thousands)		
Three months ended:			
Provision for taxes	$	$ 33	(100)%
Percentage of total revenues	%	1 %	
Nine months ended:			
Provision for taxes	$ 12	$ 68	(82)%
Percentage of total revenues	0 %	1 %	

Provision for income taxes consists primarily of certain minimum state and local income taxes.

Adjustment to net loss on disposal of discontinued operations

	September 30, 2005		2004		% Change	
	(dollars in thousands)					
Three months ended:						
Adjustment to net loss on disposal of discontinued operations, net of tax	$		$ 90		(100	)%
Percentage of total revenues		%	3	%		
Nine months ended:						
Adjustment to net loss on disposal of discontinued operations, net of tax	$ 145		$ 129		12	%
Percentage of total revenues	1	%	1	%		

In December 1999, the Board of Directors of the Company approved a plan to focus exclusively on its interactive media technologies and digital content creation services and to correspondingly divest itself of its prepackaged software graphics business. Accordingly, these operations are reflected as discontinued operations for all periods presented in the accompanying consolidated statements of operations.

The decrease in the adjustment to net loss on disposal of discontinued operations for the three months ended September 30, 2005 was less then $0.1 million. The increase in the adjustment to net loss on disposal of discontinued operations for the nine months ended September 30, 2005, represents a settlement of a lawsuit in the Company s favor related to the discontinued operations. There were no other operations or adjustments to discontinued operations during the three and nine month period ended September 30, 2005.

The adjustment to net loss on disposal of discontinued operations for the three and nine months ended September 30, 2004 represents royalty payments received for certain prepackaged software.

Factors That May Affect Future Results of Operations

We believe that in the future our results of operations could be affected by various factors including:

- We have a history of losses and expect to incur losses in the future, which may cause our share price to decline.
- We may have to obtain financing on less favorable terms, which could dilute current stockholders ownership interests in the Company.
- Our business is difficult to evaluate because we have a limited operating history and have only relatively recently launched our search toolbar and ad serving businesses.
- Our competitors in the search business include much larger companies such as Google, Microsoft, Yahoo! and others that have significantly greater resources than we do to build a business.
- Our efforts to distribute our graphically enhanced search toolbar may experience setbacks limiting or reducing our search revenue.
- The success of our graphically enhanced search operations depends on users satisfaction with search results supplied by Yahoo!.
- We may be unable to successfully replace our search results vendor when our distribution contract with Yahoo! expires in March 2008.
- Our software products may be wrongly labeled as spyware or adware which might lead to its uninstallation causing a decrease in our revenues.
- Our business may not grow if the internet advertising market does not continue to develop or if we are unable to successfully implement our business model.
- Our failure to successfully compete may hinder our growth.
- Our revenues will be subject to seasonal fluctuations.

We may enter into business combinations and strategic alliances which could be difficult to integrate and may disrupt our business.

We may need to develop new products or other untested methods of increasing sales with our existing products or distribution network to generate sales and if we are unsuccessful the growth of our business may cease or decline.

We will need to keep pace with rapid technological change in the internet search and advertising industries.

Our ad campaign management and deployment solution may not be successful and may cause business disruption.

We might experience significant defects in our products.

Our technical systems are vulnerable to interruption and damage.

Our stock price is volatile, which could subject us to class action litigation.

Our charter documents could make it more difficult for an unsolicited third party to acquire us.

The market for digital visualization solutions is characterized by rapidly changing technology, and if we do not respond in a timely manner, our products and technologies may not succeed in the marketplace.

We may be unable to protect our intellectual property rights.

We may be liable for infringing the intellectual property rights of others.

Regulatory and legal uncertainties could harm our business.

Internet security poses risks to our entire business.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (SFAS 123R), Share-Based Payment, which requires companies to expense the fair value of employee stock options and other forms of stock-based compensation for interim periods that begin after June 15, 2005. This requirement represents a significant change because stock option awards have not been recognized as compensation expense in the Company s historical consolidated financial statements under Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees. SFAS 123R requires the cost of an award, based upon fair value on the date of grant, to be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). The fair value of the award on the date of grant will be estimated using option pricing models. In April 2005, the Securities and Exchange Commission (the SEC) delayed the effective date of SFAS 123R for public companies until the first annual period, rather than the first interim period, that begins after June 15, 2005. The Company will adopt SFAS 123R on January 1, 2006 and recognize compensation expense prospectively for non-vested stock options outstanding at December 31, 2005 and for all future stock option grants. The effect of the adoption of SFAS No. 123(R) is expected to be comparable to the effect disclosed on a pro forma basis resulting from the application of the current fair-value recognition provisions of SFAS No. 123, as shown in Note 1.

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47), which clarifies that the term conditional asset retirement , as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 requires that a liability be recognized for the fair value of a conditional asset retirement obligation when incurred, if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and method of settlement of a conditional asset retirement obligation would be factored into the measurement of the liability when sufficient information exists. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Management believes that the future adoption of FIN 47 will not have a material impact on the Company s financial statements. In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and SFAS No. 3. This statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It requires, unless impracticable, retrospective application for reporting a change in accounting principle, unless the newly adopted accounting principle specifies otherwise, and reporting of a correction of an error. The provisions of this statement are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to materially impact the Company s consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and SFAS No. 3. This statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It requires, unless impracticable, retrospective application for reporting a change in accounting principle, unless the newly adopted accounting principle specifies otherwise, and reporting of a correction of an error. The provisions of this statement are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to materially impact the Company s consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

Cash, cash equivalents, and marketable securities totaled $5.4 million at September 30, 2005, down from $8.7 million at December 31, 2004.

	September 30,	
	2005	**2004**
	(dollars in millions)	
Cash used in operating activities	$ (4.9)	$ (7.5)
Cash provided by (used in) investing activities	0.1	(3.8)
Cash provided by financing activities	2.4	3.9

Operating activities

In the nine months ended September 30, 2005, cash used in operating activities was $4.9 million, a decrease of $2.6 million compared to the nine months ended September 30, 2004. The decrease is primarily due to the Company s improved operating performance. The decrease in cash used in operating activities was offset by the net payment of Unicast liabilities in the amount of $0.7 million. This net amount was the result of Unicast payables and receivables, both resulting from balances that existed prior to the Unicast acquisition.

Investing activities

In the nine months ended September 30, 2005, cash provided by investing activities was less than $0.1 million, primarily due to the net proceeds from sales and maturities of marketable securities which amounted to $0.8 million offset by the cash paid in connection with the Unicast acquisition of $0.5 million and capital expenditures of $0.3 million.

In the nine months ended September 30, 2004, cash used in investing activities was $3.8 million, primarily due to net purchases of marketable securities of $3.6 million. Capital expenditures were $ 0.2 million.

Financing activities

In the nine months ended September 30, 2005, net cash provided by financing activities was $2.4 million, resulting from the issuance of common stock in connection with the Company extending the maturity of a subordinated note payable. In addition, stock option exercises amounted to $0.5 million.

In the nine months ended September 30, 2004, net cash provided by financing activities was $3.9 million. This primarily resulted from the issuance of 1.5 million shares of common stock to an institutional investor on March 16, 2004 for $3.7 million. Stock options exercised amounted to $0.2 million.

As of September 30, 2005, the Company had cash commitments totaling approximately $12.8 million through 2011, related mainly to long-term convertible notes, and future minimum lease payments for office space, and equipment.

	Payments Due By Period (dollars in thousands) Total	1 Year or Less	2-3 Years	4-5 Years	More than 5 Years
Long-Term Debt Obligations	3,500	$450	$3,050	$	$
Operating Lease Obligations	4,412	939	1,965	1,508	
Interest Payments on Long-Term Debt Obligations	420	152	247	21	
Employee Agreement	210	210			
Unicast Debt Obligations	3,155	389	778	648	1,340
Konica Minolta Photo Imaging U.S.A. Inc.	300	300			
Purchase Obligations	849	849			
Total	12,846	$ 3,289	$ 6,040	$ 2,177	$ 1,340

Unicast Acquisition

On December 1, 2004, Viewpoint Corporation entered into an agreement to acquire all of the outstanding capital stock of Unicast Communications Corp. (Unicast). The transaction closed on January 3, 2005, and Viewpoint assumed ownership of Unicast as a wholly owned subsidiary at that date. The aggregate purchase price for the acquisition was $3.5 million.

Under the terms of the agreement, Viewpoint issued an aggregate of 1.1 million shares of Viewpoint common stock, with a fair value of $3.0 million to the selling stockholders of Unicast and paid $0.4 million in cash and acquisition costs of $0.1 million. Viewpoint also assumed negative net working capital from Unicast of $1.2 million. Based upon the working capital calculation during the period following the acquisition Viewpoint has no additional obligation to issue shares or pay cash to the selling stockholders of Unicast.

Additionally, long-term debt issued by Unicast (Unicast notes) remains outstanding at the Unicast subsidiary level following the closing. This debt is comprised primarily of two notes. Unicast issued an unsecured promissory note dated February 27, 2004 in the principal amount of $1.0 million. This promissory note bears interest at 5% per annum, compounding annually, and matures in February 2011. No payments of principal or interest are due until the maturity date. In addition, Unicast issued an amended and restated secured promissory note dated February 27, 2004 in the principal amount of $2.0 million. This promissory note bears interest of 5% per annum and is collateralized by substantially all of the Unicast subsidiary s assets. Concurrently with the closing of the Unicast acquisition, Viewpoint made a payment of $0.3 million to the secured note holder which was applied towards reducing the amount outstanding under the promissory note. Viewpoint will become an additional obligor under the promissory note and Viewpoint s assets will become additional collateral to secure the obligations if certain contingencies occur, such as Viewpoint s failure to operate the Unicast ad-serving business through the Unicast subsidiary or the ad-serving business fails to achieve certain revenue targets. No payments under the secured promissory note are due until March 2006. All unpaid principal and interest is payable in 60 equal monthly installments from March 2006 through March 2011 amounting to $2.2 million.

Viewpoint recorded all working capital assets and liabilities at their fair market value on the date of the acquisition. Liabilities assumed included an obligation to an employee to make certain payments on behalf of the selling stockholders in the maximum amount of $0.4 million, payable in equal bi-monthly installments over the one-year period following the closing. The Company has already paid $0.2 million of this liability.

Viewpoint assessed the values of assets other than working capital assets purchased in the acquisition. Tangible equipment value was determined based on fair market value at the date of acquisition. The remaining useful life of this equipment was predominantly determined to be one year. Intangible values acquired included trademarks, acquired technology, website partner relationships and goodwill. Acquired technology was determined to have a life of three years while the other intangible values were determined to have a life of 5-10 years. Unicast had no in-process research and development.

Goodwill was determined based upon the residual value based upon fair value of the common stock issued, the cash paid less the liabilities assumed less the identifiable asset values. Values assigned to goodwill and other acquired assets and liabilities are preliminary and are subject to adjustment based upon finalizing the fair values of acquired assets and liabilities. During the quarter ended September 30, 2005, the Company changed its initial estimate of the fair value of the acquired website relationships and certain liabilities the affect of which increased goodwill by less then $0.1 million from the amounts recorded at March 31, 2005. Consideration paid for the acquisition amounted to $3.5 million, made up of cash consideration of $0.4 million, acquisition costs of $0.1 million and the issuance of 1.1 million shares of common stock valued at $3.0 million.

Convertible Notes

On December 31, 2002, the Company completed a private placement of convertible notes and warrants in which it issued to three institutional investors, 4.95% convertible notes having an aggregate principal amount of $7.0 million, and warrants to purchase 0.7 million shares of Company common stock. The warrants expire on December 31, 2006, and are exercisable at a price of $2.26 per share.

On March 25, 2003, the Company entered into Redemption, Amendment and Exchange Agreements with the three institutional investors with whom it had completed the private placement of convertible notes and warrants on December 31, 2002. The Company recorded a loss for the quarter ended June 30, 2003, on the early extinguishment of the original convertible notes in the amount of $1.7 million of which $0.7 related to the write-off of deferred loan costs. In conjunction with the extinguishment, the Company paid $3.3 million, issued new convertible notes in the principal amount of $2.7 million and issued $1.4 million shares of its common stock with a market value of $0.7 million. The difference between (i) the carrying value of the outstanding convertible notes exchanged and (ii) cash paid and the fair value of the common stock and new convertible notes issued, amounted to $1.0 million and was included in the loss on early extinguishment of debt.

During 2004 all of the outstanding convertible notes were converted to common stock. As of September 30, 2005, warrants to purchase 0.7 million shares remain outstanding.

Subordinated Notes

On March 26, 2003, Viewpoint Corporation entered into a Securities Purchase Agreement with three other accredited investors, pursuant to which it received $3.5 million in exchange for an aggregate of $3.5 million principal amount of 4.95% subordinated notes and 3.6 million shares of Viewpoint common stock. The subordinated notes are scheduled to mature on March 31, 2006. Interest on these notes is payable quarterly in arrears in cash. The Company has the right at any time to redeem up to all of the outstanding notes at par plus accrued and unpaid interest.

On July 23, 2005, a holder of subordinated notes in the principal amount of $3.0 million agreed to extend the maturity date of those notes to March 31, 2008. The Company paid a fee of $0.1 million to secure this agreement. Simultaneously the Company sold this holder approximately 1.3 million shares of common stock for $2.0 million.

Amended Notes

On July 27, 2005, the Company and a holder of the subordinated debt amended the 4.95% subordinated note in the principal amount of $3.1 million to extend the maturity date from March 31, 2006 to March 31, 2008 in exchange for the payment by Viewpoint of $0.1 million to the holder of the subordinated note. In addition, the Company and the holder entered into a Stock Purchase Agreement, dated as of July 27, 2005, under which the Company issued 1.3 million shares of Company common stock in a private placement to the holder at a purchase price of $1.55 per share, resulting in aggregate gross proceeds of $2.0 million.

Other Transactions

In October 2003, the Company entered into an amended license agreement with AOL which provided for payments by AOL of $10.0 million. The agreement contains multiple elements consisting of a perpetual broadcast license, a perpetual source code license, quarterly updates to the source code through December 2005, and maintenance and consulting services. The Company will recognize revenue from this agreement ratably, through December 31, 2005, which represents the duration of the Company s obligation for post-contract customer support including quarterly upgrades and maintenance requirements.

The Company implemented a restructuring plan in September 2003, which was designed to streamline the business. Under the plan the Company eliminated 24 sales and marketing, research and development, and general and administrative positions. The Company incurred a restructuring charge of $0.5 million related to severance arrangements. The charge was recorded on the income statement as a restructuring and impairment charge. This restructuring plan was completed by September 30, 2003. In November 2003, however, the Company increased the restructuring charge by $0.1 million in settlement of an action brought by one of the terminated employees. In January 2004 the Company recorded a non-cash adjustment of less then $0.1 million to the restructuring accrual to reflect payments that were less than originally contemplated under the plan. This restructuring plan was completed by September 30, 2004.

The Company had cash, cash equivalents and marketable securities of $5.4 million at September 30, 2005. During the quarter 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 $256.5 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. This includes the payment of $0.5 million in subordinated notes due in March 2006.

The Company has contingency plans for 2005 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.

The Company 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 Company s current shareholders ownership interest in Viewpoint. 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is subject to concentration of credit risk and interest rate risk related to cash, cash equivalents and marketable securities. Credit risk is managed by limiting the amount of securities placed with any one issuer, investing in high-quality marketable securities and securities of the U.S. government and limiting the average maturity of the overall portfolio. The majority of the Company s portfolio, which is classified as available-for-sale, is comprised of fixed income securities that are subject to the risk of market interest rate fluctuations, and all of the Company s securities are subject to risks associated with the ability of the issuers to perform their obligations under the instruments. The Company may suffer losses in principal if forced to sell securities, which have declined in market value due to changes in interest rates.

Item 4. Controls and Procedures

As required by Rule 13a-15(b), Viewpoint management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of the Company s disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Rule 13a-15(d), Viewpoint management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company s internal control over financial reporting to determine whether any changes occurred during the quarter covered by this report, including changes created by the Unicast Acquisition, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

PART II - OTHER INFORMATION

Item 4.

(a) Exhibits

Exhibit Number	Exhibit Title
10.1	Separation Agreement with Jerry S. Amato
10.2	Employment Agreement with Patrick Vogt
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

VIEWPOINT CORPORATION

Dated: November 9, 2005	By: /s/ PATRICK VOGT Patrick Vogt President and Chief Executive Officer
Dated: November 9, 2005	By: /s/ WILLIAM H. MITCHELL William H. Mitchell Chief Financial Officer
Dated: November 9, 2005	By: /s/ CHRISTOPHER C. DUIGNAN Christopher C. Duignan Chief Accounting Officer