VIEWPOINT CORP
Form 10-Q
November 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer x Non-accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of November 2, 2007, 99,051,000 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, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,531	$ 4,154
Marketable securities	1,725	113
Accounts receivable, net of reserve of $291 and $230, respectively	4,345	3,037
Prepaid expenses and other current assets	679	543
Total current assets	8,280	7,847
Restricted cash	591	190
Property and equipment, net	802	1,023
Goodwill	15,103	14,882
Intangible assets, net	3,779	3,689
Other assets	60	56
Total assets	$ 28,615	$ 27,687
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,527	$ 1,660
Accrued expenses	426	401
Deferred revenues	177	70
Current portion of notes payable	488	389
Accrued incentive compensation	545	545
Current liabilities related to discontinued operations	231	231
Total current liabilities	4,394	3,296
Deferred rent	160	232
Warrants to purchase common stock	1,877	467
Subordinated notes	2,529	2,456
Unicast notes	1,420	1,541
Total liabilities	10,380	7,992
Commitments and Contingencies (notes 5 and 7)		
Stockholders equity:		
Preferred stock, $.001 par value; 5,000 shares authorized - no shares issued and outstanding on September 30, 2007 and December 31, 2006		
Common stock, $.001 par value; 150,000 shares authorized - 82,783 shares issued and 82,623 shares outstanding at September 30, 2007, and 67,830 shares issued and 67,670 shares outstanding at December 31, 2006	83	68
Paid-in capital	312,157	306,214
Treasury stock at cost; 160 at September 30, 2007 and December 31, 2006	(1,015)	(1,015)

Accumulated other comprehensive loss	4	14
Accumulated deficit	(292,994)	(285,586)
Total stockholders equity	18,235	19,695
Total liabilities and stockholders equity	$ 28,615	$ 27,687

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

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenues:				
Advertising systems	$ 2,004	$ 961	$ 4,540	$ 5,569
Search	1,533	1,460	4,744	4,822
Services	954	786	2,353	2,430
Licenses	19	4	30	82
Total revenues	4,510	3,211	11,667	12,903
Cost of revenues:				
Advertising systems	1,350	399	2,715	3,638
Search	29	39	100	113
Services	747	455	1,737	1,766
Licenses	3		3	8
Total cost of revenues	2,129	893	4,555	5,525
Gross profit	2,381	2,318	7,112	7,378
Operating expenses:				
Sales and marketing	1,118	1,454	3,635	4,481
Research and development	892	982	2,506	3,138
General and administrative	2,301	2,102	6,886	6,687
Depreciation	147	113	375	337
Amortization of intangible assets	282	222	640	443
Restructuring charges				92
Impairment of goodwill		10,655		10,655
Total operating expenses	4,740	15,528	14,042	25,833
Loss from operations	(2,359)	(13,210)	(6,930)	(18,455)
Other income (expense), net:				
Interest and other income; net	68	95	180	264
Interest expense	(202)	(213)	(606)	(709)
Changes in fair values of warrants to purchase common stock	2,254	1,021	(7)	(151)
Total other income (expense)	2,120	903	(433)	(596)
Loss before provision for income taxes	(239)	(12,307)	(7,363)	(19,051)
Provision for income taxes	17	30	45	56
Net loss	$ (256)	$ (12,337)	$ (7,408)	$ (19,107)

Basic and diluted net loss per common share:	$	(0.00)	$	(0.18)	$	(0.10)	$	(0.29)
Weighted average number of shares outstanding basic and diluted		82,619		67,361		75,677		66,253

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, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities:		
Net loss	$ (7,408)	$ (19,107)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation charges	1,333	1,616
Depreciation and amortization	1,174	942
Impairment of goodwill and intangibles		10,655
Provision for bad debt	81	27
Changes in fair values of warrants to purchase common stock	7	151
Amortization of debt discount and issuance costs	421	533
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(1,265)	1,764
Prepaid expenses	(143)	6
Accounts payable	668	(693)
Accrued expenses	(43)	(99)
Deferred revenues	107	(58)
Other		34
Net cash used in operating activities	(5,068)	(4,229)
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	1,170	7,943
Purchases of marketable securities	(2,792)	(9,645)
Net increase in restricted cash	(401)	(6)
Purchases of property and equipment	(207)	(226)
Acquisition of Makos, net of cash acquired	(384)	
Purchases of patents and trademarks	(64)	(77)
Net cash used in investing activities	(2,678)	(2,011)
Cash flows from financing activities:		
Payment of Makos debt	(142)	
Repayment of Subordinated Notes	(165)	(450)
Repayment of Unicast Debt	(291)	(227)
Proceeds from issuance of common stock and warrants	4,974	
Proceeds from exercise of stock options	747	2,407
Net cash provided by financing activities	5,123	1,730
Net decrease in cash and cash equivalents	(2,623)	(4,510)
Cash and cash equivalents at beginning of period	4,154	6,437
Cash and cash equivalents at end of period	$ 1,531	$ 1,927

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,	
	2007	**2006**
Supplemental disclosure of cash flow activities:		
Cash paid during the period for income taxes	45	56
Cash paid during the period for interest	183	178
Net Assets acquired in Makos acquisitions:		
Accounts receivable, net	170	
Other assets	10	
Fixed assets	22	
Goodwill and Intangible Assets	971	
Accounts payable and accrued expenses	(200)	
Makos - note payable	(99)	
Deferred revenue	(47)	
Supplemental disclosure of non-cash investing and financing activities:		
Non-cash cost of Makos acquisition		
Common stock	(1)	
Paid-in capital	(306)	
Unrealized losses on marketable securities	(10)	6
Purchase of property and equipment accrued and not yet paid		117

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

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

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

These unaudited consolidated financial statements have been prepared in accordance with the instructions to Rule 10-01 of Regulation S-X and, therefore, do not include all of the information and footnotes normally provided in annual financial statements. As a result, these unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management s discussion and analysis of financial condition and results of operations, contained in Viewpoint s Annual Report on Form 10-K for the year ended December 31, 2006. The results of operations for the three and nine month periods ended September 30, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007 or other future periods.

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

Liquidity

The Company had cash, cash equivalents and marketable securities of $3.3 million at September 30, 2007. During the nine months ended September 30, 2007, net cash used in operations amounted to $5.1 million. As of September 30, 2007, the Company had an accumulated deficit of $293.0 million. The Company has incurred negative cash flows and net losses since inception. There can be no assurance that Viewpoint will achieve or sustain positive cash flows from operations or profitability.

On October 18, 2007 the Company entered into a Securities Purchase Agreement with certain accredited investors pursuant to which it issued 15.7 million shares of its common stock in a private placement to such accredited investors at a purchase price of $0.70 per share (resulting in aggregate gross proceeds of $11 million). The investors in the transaction also received warrants to purchase an additional 4.7 million shares of common stock at an exercise price of $0.84 per share (subject to certain adjustments). Such warrants are not exercisable for six months following issuance and have an aggregate term of five and one-half years. $5 million of the proceeds of the private placement were used by the Company to acquire Springbox, an Austin, Texas based interactive advertising agency and the balance of the private placement proceeds, after expenses (approximately $5.3 million) is available for expansion of UK operations, developing business partnerships, construction costs for facilities, and other general corporate purposes. The acquisition of Springbox closed on October 31, 2007.

As of the last quarterly filing, management estimated that the Company did not have adequate liquidity to fund operations beyond one year and that there was substantial doubt about the Company s ability to continue as a going concern. As the result of the October 2007 private placement, the Company now estimates that there is sufficient liquidity to fund estimated losses beyond September 30 2008; however should the Company experience unforeseen increases in expenditures or should estimated revenues not materialize, it could significantly impair the ability of the Company to fund future operations which would require management to scale back operations, raise additional debt or equity capital or discontinue operations before September 30, 2008. 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. 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.

The Nasdaq Stock Market (Nasdaq) notified Viewpoint Corporation (the Company) on November 27, 2006 that the Company s common stock could be delisted from Nasdaq for failure to maintain a minimum bid price of $1.00 and that the Company had until May 29, 2007 to regain compliance with the listing standards of The Nasdaq Global Market. On May 24, 2007, the Company received written notification from Nasdaq that the Staff had approved the Company s application to transfer the listing of the Company s common stock from The Nasdaq Global Market to The Nasdaq Capital Market. The Company s securities commenced trading on The Nasdaq Capital Market effective May 29, 2007. On June 6, 2007, the Company received notification from Nasdaq that the Company has regained compliance with Nasdaq s continued listing requirements under Marketplace Rule 4310(c)(4). The notification provided that the closing bid price of the Company s common stock has been at $1.00 per share or greater for at least 10 consecutive business days and, accordingly, Nasdaq advised the Company that this matter is now closed.

VIEWPOINT CORPORATION
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On September 17, 2007 the Company received a second written notification from the NASDAQ Listing Qualifications Department notifying management that, for the last 30 consecutive business days, the bid price of the Company s common stock has closed below the minimum $1.00 per share requirement for continued inclusion under NASDAQ Marketplace Rule 4310(c)(4). The Company, in accordance with NASDAQ Marketplace Rule 4310(c)(8)(D), has been provided 180 calendar days, or until March 17, 2008, to regain compliance. To regain compliance, the bid price of the Company s common stock must close at $1.00 per share or more for a minimum of ten consecutive business days at any time before March 17, 2008.

If the Company does not regain compliance with the NASDAQ Marketplace Rule 4310(c)(4) by March 17, 2008, the Staff will determine whether the Company meets The Nasdaq Capital Market initial listing criteria as set forth in Marketplace Rule 4310(c), except for the bid price requirement. If the Company meets the initial listing criteria, the Staff will notify the Company that it has been granted an additional 180 calendar day compliance period. If the Company is not eligible for an additional compliance period, the Staff will provide written notification that the Company s securities will be delisted. At that time, the Company may appeal NASDAQ s determination to delist its securities to a Listing Qualifications Panel.

The Company has certain debt covenants with the Clark Estates that require the Company s common stock remain listed on a national stock exchange, as defined. If the Company s common stock is delisted, the face value of the note, $3.4 million, becomes due immediately. In March 2007, the Clark Estates waived the requirement that the Company s common stock remain listed on a national stock exchange, until December 31, 2008. See footnote 5 for further details.

Use of Estimates

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

Net Loss Per Common Share

Basic net loss per common share is computed using the weighted average number of shares of common stock outstanding, and diluted net loss per common share is computed using the weighted average number of shares of common stock and common equivalent shares outstanding. Because they do not have a dilutive effect, approximately 14.0 million and 12.3 million of common share equivalents for the three and nine months ended September 30, 2007, respectively, and approximately 11.6 million and 12.8 million for the three and nine months ended September 30, 2006, respectively, were excluded from the calculation of diluted loss per common share.

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements. The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of an uncertain tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48 on January 1, 2007. Since the Company does not have any uncertain tax positions, the implementation of FIN 48 did not have a material impact on its consolidated financial statements. At January 1, 2007 and September 30, 2007 there were no accrued liabilities for tax-related interest and penalties, which the Company recognizes as interest expense and general and administrative expense, respectively, as incurred. Since the Company has incurred net losses for tax purposes since inception, all tax years remain open to examination by major taxing jurisdictions, which are the federal government and states of New York and California.

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

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115

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VIEWPOINT CORPORATION
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(Unaudited)

which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We are currently evaluating the potential impact of this statement.

2. Acquisition of Makos Advertising, L.P.

On March 12, 2007, the Company entered into a Purchase Agreement to acquire all of the outstanding partnership interests of Makos Advertising, L.P. (Makos). On April 30, 2007, the Company completed the acquisition. In exchange for all of the outstanding partnership interests of Makos, the Company issued an aggregate of 0.7 million shares of Company common stock to the partners of Makos and paid $0.6 million in cash.

The Company also paid off outstanding debt in the form of a line of credit owed by Makos in the amount of approximately $0.1 million and also assumed outstanding debt relating to another line of credit in the amount of approximately $0.1 million (Makos note).

As of September 30, 2007, the Company is accumulating needed information in order to calculate the fair value of acquired assets and assumed liabilities and accordingly the purchase price allocation has not been finalized. The preliminary purchase price allocation appears below and is subject to change, which could be material.

Goodwill was determined based upon the excess of the fair value of common stock issued, cash paid and liabilities assumed less identifiable assets acquired. Goodwill recorded is subject to adjustment based upon the final amount of working capital acquired. Consideration paid for the acquisition amounted to $0.9 million comprised of cash consideration of $0.6 million plus the issuance of 0.7 million shares of common stock valued at $0.3 million. The following table, which is based on preliminary estimates and subject to change, summarizes amounts recorded in connection with the Makos acquisition,

		(in thousands)
Current assets	$	348
Property and equipment		22
Intangible assets		750
Goodwill		221
Other assets		10
Total assets acquired		1,351
Less: liabilities assumed		488
Total purchase price	$	863

The intangible assets acquired will be amortized over periods ranging from one to three years.

Unaudited pro forma results of operations for the three and nine months ended September 30, 2007 and 2006, assuming the Makos acquisition had occurred at the beginning of the respective years, have been intentionally omitted as the effects on the Company s operating results for the corresponding periods was immaterial.

3. Private Placements of Common Stock and Warrants

May 2007 Private Placement of Common Stock and Warrants:

The Company entered into a Securities Purchase Agreement with certain accredited investors, dated as of May 4, 2007, under which the Company issued 13.3 million shares of the Company s common stock in a private placement to such accredited investors at a purchase price of $0.40 per share (resulting in aggregate gross proceeds of $5.3 million). The investors in the transaction also received warrants to purchase an additional 3.3 million shares of common stock at an exercise price of $0.45 per share (subject to certain adjustments). Such warrants are not exercisable for six months following issuance and have an aggregate term of three and one-half years. For financial reporting purposes, the terms and provisions of the warrants require that the Company record the fair value of the warrants as a liability at the time of issuance 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. Initial fair value assigned to the warrants at issuance was $1.4 million. At each balance sheet date subsequent to issuance, the carrying amount of warrants are adjusted to the current fair value using the Black-Scholes Method and any changes of the warrants are included within operating results. On May 7, 2007 the Company announced the closing of the transaction and the receipt of $5.3 million.

VIEWPOINT CORPORATION
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On May 7, 2007, in connection with the investment by DG FastChannel, Inc. of $4.3 million of the $5.3 million raised in the private placement referenced above, the Company announced that it had entered into a strategic partnership with DG FastChannel, Inc., the leading provider of digital media services to the advertising and broadcast industries. DG FastChannel will integrate its media services platform with the Company s Unicast advertising solutions technology to launch its latest advertising industry innovation by deploying a next-generation platform for managing and delivering both traditional and interactive advertising. Revenues generated from the strategic partnership will be related party revenue. For the three and nine months ended September 30, 2007, revenues generated from this agreement were immaterial.

October 2007 Private Placement of Common Stock and Warrants:

On October 18, 2007, the Company sold common stock and warrants to purchase common stock in a private placement to accredited investors. See Note 9.

4. Goodwill and Intangible Assets

As required by SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is subject to impairment tests annually, or earlier if indicators of potential impairment exist, using a fair-value-based approach. All other intangible assets are amortized over their estimated useful lives and are assessed for impairment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

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

A summary of changes in the Company s goodwill by reporting unit and intangible assets during each three-month period from December 31, 2006 through September 30, 2007 by aggregated segment are as follows (in thousands):

	Goodwill				
	Technology	Advertising Systems	Services	Total	Intangible Assets
Balance as of December 31, 2006	10,206	2,039	2,637	14,882	3,689
Additions during period					1
Amortization					(156)
Balance as of March 31, 2007	10,206	2,039	2,637	14,882	3,534
Additions during period			221	221	810
Amortization					(258)
Balance as of June 30, 2007	10,206	2,039	2,858	15,103	4,086
Additions during period					3
Amortization					(310)
Balance as of September 30, 2007	10,206	2,039	2,858	15,103	3,779

As of September 30, 2007 and December 31, 2006, the Company s intangible assets and related accumulated amortization consisted of the following (in thousands):

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	September 30, 2007			December 31, 2006		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Website Partner Relationships - Unicast	$ 3,772	$ (1,058)	$ 2,714	$ 3,772	$ (778)	$ 2,994
Acquired Technology - Unicast	410	(382)	28	410	(299)	111
Patents and Trademarks - Unicast	326	(188)	138	326	(141)	185
Fotomat Trademark	134	(41)	93	134	(8)	126
Patents and Other Trademarks	502	(189)	313	438	(165)	273
Customer relationships - Makos	200	(42)	158			
Tradenames & URL s - Makos	50	(7)	43			
Non-complete agreements - Makos	500	(208)	292			
Total Intangible Assets	$ 5,894	$ (2,115)	$ 3,779	$ 5,080	$ (1,391)	$ 3,689

Amortization of intangible assets is estimated to be $0.8 million a year for the next five years.

5. Long-Term Debt

Subordinated Notes

In March 2007, the Company and Clark Estates, a subordinated note holder, who holds ownership interest in the Company s stock of approximately 8.1% as of November 2, 2007 (pursuant to a Form 13-G filed on May 9, 2007), amended the 4.95% subordinated note in the principal amount of $3.1 million to extend the maturity date from March 31, 2008 to September 30, 2009. In addition, Clark Estates waived the requirement that the Company s common stock remain listed on a national stock exchange, as defined, until December 31, 2008, in exchange for the payment by Viewpoint of $0.2 million to the holder of the subordinated note, and the addition of $0.3 million to the principle amount of the note, payable at maturity, but not subject to interest.

Following the guidance in EITF 02-4 Determining Whether a Debtor s Modification or Exchange of Debt Instruments is within the Scope of FASB Statement No 15, the Company accounted for the March 2007 amendment to the subordinated note, which was issued in March 2003, as a troubled debt transaction in accordance with Statement of Financial Accounting Standards No. 15 Accounting by Debtors and Creditors for Troubled Debt Restructurings. Pursuant to SFAS 15 and EITF 02-4, if the Company is deemed to be experiencing financial difficulty and the Company s effective borrowing rate in the restructuring is decreased, the Holder is deemed to have granted a concession. Since at that time the Company announced there was substantial risk to continue as a going concern, the Company was deemed to be experiencing financial difficulties. The Company s effective borrowing rate is determined by the carrying value of the debt and the timing and amount of future cash payments. The Company determined that the effective borrowing rate was lowered. Accordingly, the Company accounted for the amendment as a troubled debt restructuring, and therefore, no change was made to the carrying value of the debt. In addition the interest expense over the remaining life of the note will be determined by an effective borrowing rate of 21%.

Makos Note

As part of the aquisition of Makos Advertising, L.P., which was completed on April 30, 2007, the company assumed a line of credit debt of $0.1 million with a commercial bank. The line of credit bears interest at the prime rate plus one and one-half percent annually and expires in June 2008.

The Company s total carrying value of long-term debt at September 30, 2007 and December 31, 2006 is as follows (amounts in thousands):

	September 30	December 31
	2007	2006

Subordinated notes	$ 2,529	$ 2,456
Unicast notes	1,809	1,930
Makos note	99	
Total debt	4,437	4,386
Less current portion	488	389
Long-term debt, net of current portion	$ 3,949	$ 3,997

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The reconciliation of the carrying value to the face value of each note as of September 30, 2007, is as follows (amounts in thousands):

	Subordinated Notes	Unicast Notes	Makos Note	Total
Book value of debt	$ 2,529	$ 1,809	$ 99	$ 4,437
Discount on debt	821	325		1,146
Face value of debt	$ 3,350	$ 2,134	$ 99	$ 5,583

The maturity schedule for the Company s debt subsequent to September 30, 2007 is as follows (amounts in thousands):

Maturity	
Three months ending December 31, 2007	$ 26
2008	449
2009	3,700
2010	350
2011	1,058
	$ 5,583

6. Stock-based Compensation

The assumptions used to value option grants for the nine months ended September 30, 2007 and September 30, 2006 are as follows:

	Nine Months Ended September 30,	
	2007	2006
Risk-free interest rate	4.51-5.00%	4.72-5.07%
Dividend yield		
Volatility factor	1.36-1.39	1.34-1.35
Weighted average expected life in years	3.9-.4.1	4.52-4.58

As of September 30, 2007, there was $3.1 million of unrecognized compensation cost related to non-vested stock-based payments granted to Viewpoint employees. Subject to forfeitures, the unrecognized compensation cost at September 30, 2007 will be completely expensed as shown in the following table,

Period	Amount (in thousands)
Three months ended Dec. 31, 2007	$ 434
2008	1,558
2009	999
2010	97

	$	3,088

7. Commitments & Contingencies

Legal Proceedings

The Company is from time to time engaged in certain legal actions arising in the ordinary course of business. Although it is impossible to predict the outcome of any legal proceeding and there can be no assurances, the Company believes it has adequate legal defenses in legal actions in which it is the defendant and believes that the ultimate outcome of such actions will not have a material adverse effect on the Company s consolidated financial position, results of operations, or cash flows.

8. Segment Information and Enterprise-Wide Disclosures

The Company operates in three separate segments: technology, advertising systems and services. The following tables present selected operating results and financial position information by segment,

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in thousands)			
Revenues:				
Advertising systems	2,004	961	4,540	5,569
Technology:				
Licenses	19	4	30	82
Search	1,533	1,460	4,744	4,822
Total Technology Revenue	1,552	1,464	4,774	4,904
Services	954	786	2,353	2,430
Total revenues	4,510	3,211	11,667	12,903
Cost of Revenues:				
Advertising systems	1,350	399	2,715	3,638
Technology:				
Licenses	3		3	8
Search	29	39	100	113
Total Technology Cost of Revenue	32	39	103	121
Services	747	455	1,737	1,766
Total cost of revenues	2,129	893	4,555	5,525
Gross profit	2,381	2,318	7,112	7,378
Advertising systems	654	562	1,825	1,931
Technology:				
Licenses	16	4	27	74
Search	1,504	1,421	4,644	4,709
Total Technology Gross Profit	1,520	1,425	4,671	4,783
Services	207	331	616	664
Total gross profit	$ 2,381	$ 2,318	$ 7,112	$ 7,378
Gross profit margin				
Advertising systems	33%	58%	40%	35%
Technology:				
Licenses	84	100	90	90
Search advertising	98	97	98	98
Total Technology Gross Profit	98	97	98	98
Services	22	42	26	27
Total gross profit margin	53%	72%	61%	57%

	September 30, 2007	December 31, 2006
	(In thousands)	
Total assets:		
Technology	$ 12,679	$ 12,512
Advertising Systems	7,786	3,925
Services	4,303	6,793
Corporate (*)	3,847	4,457
Total assets:	28,615	27,687

* Corporate assets consists solely of cash, cash equivalents, marketable securities and restricted cash as the Company does not allocate such amounts to the individual reporting units.

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

9. Subsequent Events

Purchase of Springbox

On October 18, 2007, the Company entered into a Purchase Agreement to acquire all of the outstanding partnership interests of Springbox, Ltd. (Springbox), an interactive marketing firm located in Austin, TX, with digital web marketing and creative solutions. The agreement contains customary representations, warranties and covenants of the sellers and the Company. The transaction closed on October 31, 2007.

Under the terms of the agreement, the Company paid at closing approximately $5.0 million in cash and issued 714,286 shares of its common stock. The amount of cash payable by the Company is subject to adjustment based on the net book value of Springbox as of the closing date of the transaction and (ii) the subsequent receipt by the Company of accounts receivable outstanding on the closing date of the transaction. In addition, the sellers of Springbox are entitled to an EBITDA based earnout. The Company has the option to pay cash or shares of its common stock in order to satisfy any obligation pursuant to the earnout.

October 2007 Private Placement of Common Stock and Warrants

In addition, the Company entered into a Securities Purchase Agreement with certain accredited investors, dated as of October 18, 2007, pursuant to which the Company issued 15.7 million shares of its common stock in a private placement to such accredited investors at a purchase price of $0.70 per share (resulting in aggregate gross proceeds of $11 million). The investors in the transaction also received warrants to purchase an additional 4.7 million shares of common stock at an exercise price of $0.84 per share (subject to certain adjustments). Such warrants are not exercisable for six months following issuance and have an aggregate term of five and one-half years. Of the gross proceeds of $11 million received from investors, approximately $5.0 million was used to purchase Springbox.

Item 2. Management s Discussion and Analysis of Financial Conditions 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 2007 and our Annual Report on Form 10-K and amendments for 2006. 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

Overview. The Company had cash, cash equivalents and marketable securities of $3.3 million at September 30, 2007. During the nine months ended September 30, 2007, net cash used in operations amounted to $5.1 million. As of September 30, 2007, the Company had an accumulated deficit of $293.0 million. The Company has incurred negative cash flows and net losses since inception. There can be no assurance that Viewpoint will achieve or sustain positive cash flows from operations or profitability.

On October 18, 2007 the Company entered into a Securities Purchase Agreement with certain accredited investors pursuant to which it issued 15.7 million shares of its common stock in a private placement to such accredited investors at a purchase price of $0.70 per share (resulting in aggregate gross proceeds of $11 million). The investors in the transaction also received warrants to purchase an additional 4.7 million shares of common stock at an exercise price of $0.84 per share (subject to certain adjustments). Such warrants are not exercisable for six months following issuance and have an aggregate term of five and one-half years. $5 million of the proceeds of the private placement were used by the Company to acquire Springbox, an Austin, Texas based interactive advertising agency and the balance of the private placement proceeds, after expenses (approximately $5.3 million) is available for expansion of UK operations, developing business partnerships, construction costs for facilities, and other general corporate purposes. The acquisition of Springbox closed on October 31, 2007.

As of the last quarterly filing, management estimated that the Company did not have adequate liquidity to fund operations beyond one year and that there was substantial doubt about the Company s ability to continue as a going concern. As the result of the October 2007 private placement, the Company now estimates that there is sufficient liquidity to fund estimated losses beyond September 30 2008; however should the Company experience unforeseen increases in expenditures or should estimated revenues not materialize, it could significantly impair the ability of the Company to fund future operations which would require management to scale back operations, raise additional debt or equity capital or discontinue operations before September 30, 2008. 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. 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.

Viewpoint Corporation (Viewpoint or the Company) is an internet marketing technology company that focuses on using its technical capabilities to help marketers effectively promote their products online. Viewpoint provides a full suite of digital products, services and consulting for internet marketers. Viewpoint employs its visualization technology to drive powerful customer-facing marketing tools that enable marketers to showcase complex products in a simple way, and allows for user interaction. 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 and 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 previously licensed its Viewpoint Media Player platform to internet publishers enabling them to deploy graphical sophisticated content at their websites; however in June 2005, the Company began to enable free use of its Viewpoint Media Player platform to facilitate growth in its search and advertising systems segments.

Viewpoint offers an online advertising campaign management and deployment product known as the Unicast Advertising Platform or UAP . 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.

In March 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

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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.

The Company executed a search advertising agreement with Yahoo! in 2004, which was amended in 2006 and in 2007. The agreement provides that Yahoo! is the exclusive provider of search results for the Viewpoint Toolbar through March 2008. Yahoo! pays a variable fee per month for access to the Company s distribution and exclusive rights to display search results through the Viewpoint Toolbar. 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 October 2005, we launched version 3.5 of the Viewpoint Toolbar which includes the capability to manage digital photograph files on the user s computer and provides the ability to share the photographs at a website or purchase printed copies of the photographs. We had licensed the trademark and internet url Fotomat.com for our exclusive use in connection with the internet website for photograph and printing services and computer software for organization, editing, managing, sharing, and processing images and related data through the end of December 2006, with the ability to renew such license. In November 2006, Viewpoint purchased the trademark and URL to Fotomat outright. The Fotomat Toolbar provides enhanced photograph editing capabilities and an efficient method of creating albums of photographs, which we believe will enhance the utility of the toolbars for users, while simultaneously allowing users to use the Toolbar to search the internet.

Prior to launching our Search product we principally leveraged our distributed base of Viewpoint Media Players (VMP) by licensing access to use the Viewpoint Platform for display of content on a website. Viewpoint initiated internet activities with the release of a beta version of the VMP in 1999. Simultaneously, Viewpoint released a suite of 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, we have licensing customers who 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. Our licensees helped facilitate the growth of our distributed base of VMP s that we used to launch our Search Toolbar business.

We provide fee-based professional services for creating content and implementing visualization systems. 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. With the addition of Makos Advertising, a full service creative agency, in April 2007 the Company began offering broadcast and video advertising content, branding and graphic design. Clients supported during 2007 include America Online, Toyota Motor Services, General Electric and Honda.

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, 2007, had an accumulated deficit of $ 293.0 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, 2007 and 2006, the Company s consolidated statements of operations expressed as a percentage of total revenues for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Statements of Operations Data				
Revenues:				
Advertising Systems	44%	30%	39%	43%
Search	34	46	41	37
Services	21	24	20	19
Licenses	1			1
Total revenues	100	100	100	100
Cost of revenues:				
Advertising Systems	30	13	23	28
Search	1	1	1	1
Services	17	14	15	14
Licenses				
Total cost of revenues	48	28	39	43
Gross profit	52	72	61	57
Operating expenses:				
Sales and marketing	25	45	31	34
Research and development	20	31	21	24
General and administrative	51	65	59	52
Depreciation	3	4	3	3
Amortization of intangible assets	6	7	5	3
Restructuring charges				1
Impairment of goodwill and other intangible assets		332		83
Total operating expenses	105	484	119	200
Gain/Loss from operations	(53)	(412)	(58)	(143)
Other income (expense):				
Interest and other income, net	2	3	2	2
Interest expense	(4)	(7)	(5)	(5)
Changes in fair values of warrants to purchase common stock and conversion feature of convertible notes	50	32		(1)
Total Other income (expense)	48	28	(3)	(4)
Loss before provision for income taxes	(5)	(384)	(61)	(147)
Provision for income taxes		1		

Net loss	(5)%	(385)%	(61)%	(147)%

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. The Company bases its estimates on historical experience and on various other assumptions that the Company believes 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 critical accounting policies and estimates refer to the Company s 2006 Form 10-K and amendments.

Financial Performance Summary

Viewpoint reported total revenue of $4.5 million for the third quarter of 2007 compared to $3.2 million for the third quarter of 2006. The increase was primarily driven by strong performance from the marketer direct sales area in both Ad Systems and Services. Gross profit increased by $0.1 million to $2.4 million for the third quarter of 2007 compared to $2.3 million in the third quarter of 2006. Operating loss for the third quarter of 2007 was $2.4 million compared to $13.2 million in the third quarter of 2006. Net loss for the third quarter 2007 was $0.3 million, or a loss of $0.00 per share, compared to a net loss of $ 12.3 million, or a loss of $0.18 per share, in the third quarter of 2006.

Viewpoint reported total revenue of $11.7 million for the nine months ended September 30, 2007, compared to $12.9 million for the nine months ended September 30, 2006. This variance was driven primarily by softer Ad Systems media services revenue in the first half of 2007. Gross profit decreased to $7.1 million for the nine months ended September 30, 2007 compared to $7.4 million for the prior period. Operating loss for the nine months ended September 30, 2007, was $6.9 million compared to $18.5 million in the nine months ended September 30, 2006. Net loss for the nine months ended September 30, 2007, was $7.4 million, or a loss of $0.10 per share, compared to a net loss of $19.1 million, or a loss of $0.29 per share, in the nine months ended September 30, 2006.

Viewpoint s cash, cash equivalents, and marketable securities as of September 30, 2007 were $3.3 million. This can be compared to cash, cash equivalents, and marketable securities of $4.3 million at December 31, 2006. The decrease in cash, cash equivalents, and marketable securities is primarily due to increased accounts receivable, driven by a sharp increase in Ad Systems media revenue, as well as cash used to fund our loss from operations, offset by proceeds from the sale of common stock and warrants.

Revenues

	Months Ended September 30, 2007	Months Ended September 30, 2006	% Change
	(dollars in thousands)		
Three months ended:			
Advertising Systems	$ 2,004	961	109
Search	1,533	1,460	5
Services	954	786	21
Licenses	19	4	375
Total revenues	$ 4,510	$ 3,211	40%
Nine months ended:			
Advertising Systems	$ 4,540	$ 5,569	(18)
Search	4,744	4,822	(2)%
Services	2,353	2,430	(3)
Licenses	30	82	(63)
Total revenues	$ 11,667	$ 12,903	(10)%

Viewpoint offers an online advertising campaign management and deployment product. In July 2005, the Company deployed a new product, incorporating the Viewpoint Creative Innovator product and 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 resells that space to advertisers. The Company is the primary obligor in the transaction, has latitude in establishing the price charged to the customer, performs part of the service (in delivering the ad), has discretion in publisher selection, is involved with the determination of the media purchased, and assumes the risks of collection and therefore recognizes the entire amount billed to the customer as revenue and the cost of the media space as cost of sales.

Additionally in March 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!, which 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 has a creative services group that builds content for customers. Viewpoint charges customers fees for these services based on the estimated time and materials to complete a creative project, including an acceptable profit margin. Revenue is recognized on a proportional performance basis if all other revenue recognition criteria are satisfied.

The Company also generated revenues by selling licenses to the Viewpoint graphical platform principally to internet content publishers. In June 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 a free license 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 stronger distribution for the search business.

The Company recognized $2.0 million in advertising systems revenue during the three months ended September 30, 2007 compared to $1.0 million for the same period in 2006. This revenue was generated by delivering advertising impressions to websites in several different formats, including video. The increase in Ad Systems revenue is attributable to growth in the business from customers who receive end-to-end full service interactive campaign management, and revenue reflects a combination of media, media management and ad delivery (marketer direct customers). Business associated with these marketer direct customers may have lower margins as the cost of media is included in these products.

The Company recognized $4.5 million in advertising systems revenue during the nine months ended September 30, 2007 compared to $5.6 million for the same period in 2006. The decline in advertising systems revenue for the nine month period ended September 30, 2007, is primarily attributable to a weaker media revenue in the first half of 2007.

Search revenues are generated when users of the Viewpoint Toolbar click on provided search results that are provided by advertisers. These advertisers then pay a fee to Yahoo!, which remits a percentage of the fee to Viewpoint. The Company had installed 8.7 million Viewpoint Toolbars through December 2004, 21.4 million through December 2005, 26.6 million through December 2006 and 29.7 million through September 2007. Internet users can uninstall the Viewpoint Toolbar, and through December 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 9.9 million by December 2005, 13.5 million by December 2006, and 15.6 million by September 2007. Search revenues were $1.5 million and $4.7 million for the three and nine month period ended September 30, 2007, respectively, compared to $1.5 million and $4.8 million for the three and nine months ended September 30, 2006, respectively. The Company is continuing to evaluate methods of enhancing the toolbar user s experience on the web through new features (including 3-D widget applications). If the Company is unable to identify new enhancements to toolbar users, the Company expects to see a decrease in revenue in this segment.

Services revenues amounted to $1.0 million and $2.4 million for the three and nine months ended September 30, 2007, respectively, as compared to $0.8 million and $2.4 million for the same periods in 2006, respectively. The Company continued to see a decline in customer s use of traditional site-side content development. The Company is addressing this decline by developing the segment to support marketer direct customers as part of Viewpoint s portfolio of full-service advertising capabilities. In this capacity, the Company expects see a higher volume of smaller deals that drive additional revenue to the Ad Systems segment. Further growing those capabilities, the Company acquired Makos Advertising in April 2007 and is incorporating that business into its services segment. The Company will support the Makos Advertising business with the services segment in the future.

The Company essentially eliminated the sale of all but special-purposes licenses in June 2005 and believes that revenues in this segment will be insignificant in 2007.

Cost of revenues

	September 30,		%
	2007	2006	Change
	(dollars in thousands)		
Three months ended:			
Advertising Systems	$ 1,350	$ 399	238%
Percentage of Advertising Systems Revenues	67%	42%	
Nine months ended:			
Advertising Systems	$ 2,715	$ 3,638	(25)%
Percentage of Advertising Systems Revenues	60%	65%	
Three months ended:			
Search	$ 29	$ 39	(26)%
Percentage of Search Revenues	2%	3%	
Nine months ended:			
Search	$ 100	$ 113	(12)%
Percentage of Search Revenues	2%	2%	
Three months ended:			
Services	$ 747	$ 455	64%
Percentage of Services Revenues	78%	58%	
Nine months ended:			
Services	$ 1,737	$ 1,766	(2)%
Percentage of Services Revenues	74%	73%	
Three months ended:			
Licenses	$ 3	$	N/A%
Percentage of Licenses Revenues	16%	%	
Nine months ended:			
Licenses	$ 3	$ 8	(63)%
Percentage of Licenses Revenues	10%	10%	

Cost of revenues for advertising systems was $1.4 million and $2.7 million for the three and nine month periods, respectively, ended September 30, 2007 compared to $0.4 million and $3.6 million for the same period last year. These costs consist of the web-hosting and employee costs 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 three month variance reflects the increase in costs associated with serving marketer direct customers, specifically the media fees associated with that business. Advertising systems costs as a percentage of the associated revenue increased to 67% in the three months ended September 30, 2007 from 42% in the same period in the prior year due to an increase in marketer direct business. The decrease over the nine month period is attributable to weaker marketer direct business during the first half of 2007.

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, and the Company believes that these costs will stay consistent.

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 was $0.7 million and $1.7 million for the three and nine month periods ended September 30, 2007, respectively, compared to $0.5 million and $1.8 million for the same periods last year. The increased costs during the three month period reflect the expenses associated with adding Makos resources into the Services segment.

Sales and marketing

	September 30, 2007	September 30, 2006	% Change
	(dollars in thousands)		
Three months ended:	$ 1,118	$ 1,454	(23)%
Sales and Marketing	25%	45%	
Percentage of total revenues			
Nine months ended:	$ 3,635	$ 4,481	(19)%
Sales and Marketing	31%	35%	
Percentage of total revenues			

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 $1.1 million for the three month period ended September 30, 2007 decreased by $0.3 million compared to the same period last year. The decrease was principally due to the discontinuance of licensing fees paid in association with use of the Fotomat brand.

Sales and marketing expenses of $ 3.6 million for the nine months ended September 30, 2007 decreased by $0.8 million compared to the same period last year. The decrease was principally due to the discontinuance of licensing fees paid in association with use of the Fotomat brand.

Research and development

	September 30, 2007	September 30, 2006	% Change
	(dollars in thousands)		
Three months ended:			
Research and development	$ 892	$ 982	(9)%
Percentage of total revenues	20%	31%	
Nine months ended:			
Research and development	$ 2,506	$ 3,138	(20)%
Percentage of total revenues	21%	24%	

Research and development expenses consist primarily of salaries and benefits for software developers, and contracted development 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. Additionally, the Company capitalizes costs of software, consulting services, hardware and payroll-related costs incurred to purchase or develop internal-use software during the application development stage. The Company expenses costs incurred during preliminary project assessment.

The Company s research and development efforts are primarily directed at creating new technology in an effort to improve the overall quality of Viewpoint s products: the Viewpoint Media Player and Enliven, its proprietary software tools for creating digital content; advertising systems products; and the Viewpoint Toolbar.

Research and development expenses of $0.9 million for the three months ended September 30, 2007 decreased by $0.1 million from compared to the same period last year. The decrease is primarily attributable to a reduction in the number of research and development employees.

Research and development expenses of $2.5 million for the nine months ended September 30, 2007 decreased by $0.6 million from compared to the same period last year. The decrease is primarily attributable to a reduction in the number of research and development employees.

General and administrative

	September 30, 2007	September 30, 2006	% Change
	(dollars in thousands)		
Three months ended:			
General and Administrative	$ 2,301	$ 2,102	9%
Percentage of total revenues	51%	65%	
Nine months ended:			
General and Administsrative	$ 6,886	$ 6,687	3%
Percentage of total revenues	59%	52%	

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, and insurance expense.

General and administrative expenses of $2.3 million for the three months ended September 30, 2007 increased by $0.2 million compared to the same period last year. The increase is primarily attributable to an increase in the use of consultants and an increase in bad debt expense.

General and administrative expenses of $6.9 million for the nine months ended September 30, 2007 increased by $0.2 million compared to the same period last year primarily due an increase in the use of consultants.

Depreciation expense

	September 30, 2007	September 30, 2006	% Change
	(dollars in thousands)		
Three months ended:			
Depreciation	$ 147	$ 113	30%
Percentage of total revenues	3%	4%	
Nine months ended:			
Depreciation	$ 375	$ 337	11%
Percentage of total revenues	3%	3%	

Depreciation expense for the three and nine months ended September 30, 2007 increased by approximately $35 thousand over the same periods in the prior year because the useful life of leasehold improvements at the Company s present New York, NY, offices was shortened when the Company decided to move these operations to a new location within the same city.

Amortization of intangible assets

	September 30, 2007	September 30, 2006	% Change
	(dollars in thousands)		
Three months ended:			
Amortization of intangible assets	$ 282	$ 222	27%
Percentage of total revenues	6%	7%	
Nine months ended:			
Amortization of intangible assets	$ 640	$ 443	44%
Percentage of total revenues	5%	3%	

Amortization of intangible assets relates to the amortization of patents, trademarks and other intangible assets acquired in the Unicast acquisition and to the amortization of customer relationships, tradenames and URL s and non-compete agreements acquired in the Makos acquisition. The increases in amortization expense for the three and nine month periods ended September 30, 2007 compared to the same periods in the prior year are attributable to the acquisition of Makos Advertising in April 2007.

Restructuring charges

	September 30, 2007	2006	% Change
	(dollars in thousands)		
Three months ended:			
Restructuring charges	$	$	N/A%
Percentage of total revenues	%	%	
Nine months ended:			
Restructuring charges	$	$ 92	(100)%
Percentage of total revenues	%	1%	

The Company implemented a restructuring plan in March 2006 designed to streamline the services business. Under this plan the Company eliminated 10 positions in the services group and relocated the management of the group from its New York office to its existing Los Angeles office. This restructuring plan was completed by March 31, 2006 and the severance was paid in the second quarter of 2006. No restructuring costs have been incurred in the current period.

Interest and other income, net

	September 30, 2007	2006	% Change
	(dollars in thousands)		
Three months ended:			
Interest and other income, net	$ 68	$ 95	(28)%
Percentage of total revenues	2%	3%	
Nine months ended:			
Interest and other income, net	$ 180	$ 264	(32)%
Percentage of total revenues	2%	2%	

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, 2007	2006	% Change
	(dollars in thousands)		
Three months ended:			
Interest expense	$ (202)	$ (213)	(5)%
Percentage of total revenues	(4)%	(7)%	
Nine months ended:			
Interest expense	$ (606)	$ (709)	(15)%
Percentage of total revenues	(5)%	(5)%	

Interest expense consists of interest paid and accrued, and amortization of debt discount and debt issue costs on the Company s outstanding subordinated notes and the debt assumed based upon the Unicast acquisition on January 3, 2005. The decrease is primarily the result of a lowering of the effective borrowing rate on the subordinated notes and a principal payment of $0.2 million resulting from a restructuring that occurred in March 2007. The notes were executed and funded during the first quarter of 2003. During March and June 2004, all of the convertible notes were converted into shares of the Company s common stock.

Changes in fair value of warrants to purchase common stock

	September 30, 2007	2006	% Change
	(dollars in thousands)		
Three months ended:			
Changes in fair value of warrants to purchase common stock and conversion options of convertible notes	$ 2,254	$ 1,021	121%
Percentage of total revenues	50%	32%	
Nine months ended:			
Changes in fair value of warrants to purchase common stock and conversion options of convertible notes	$ (7)	$ (151)	(95)%
Percentage of total revenues	(0)%	(1)%	

Based on the provisions of 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, the Company records gains and losses based upon changes in the Company s common stock value and the number of common stock equivalents that the associated financial instruments may be settled in.

For the three month periods ended September 30, 2007 and 2006, the Company recorded a gain based on the change in the fair value of the warrants of $2.3 million and $1.0 million, respectively, related to an decrease in the Company s stock price. For the nine month periods ended September 30, 2007 and 2006, the Company recorded expense of less than $0.1 million and $0.2 million, respectively, based on the change in the fair values of the warrants related to an increase in the Company s stock price. In addition, the Company issued 3.3 million warrants in the May 2007 private placement.

Provision for income taxes

	September 30, 2007	2006	% Change
	(dollars in thousands)		
Three months ended:			
Provision for income taxes	$ 17	$ 30	(43)%
Percentage of total revenues	%	1%	
Nine months ended:			
Provision for income taxes	$ 45	$ 56	(20)%
Percentage of total revenues	%	%	

Provision for income taxes consists primarily of certain minimum state income taxes as well as foreign tax withholdings.

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 the following. For a complete listing of risk factors you should read the Company s Form 10K/A for the year ended December 31, 2006:

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 stock may be de-listed from NASDAQ, which may adversely affect our ability to raise capital and stockholders ability to sell their shares.

If our common stock were to be de-listed from NASDAQ after December 31, 2008 we would be in default of certain loan covenants which could require the accelerated payment of our $3.4 million subordinated loan that is scheduled to mature in September 2009.

Our efforts to distribute our graphically enhanced 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!.

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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 changes 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 management team has only recently started working together.

Our stock 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 visualizations 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 on the intellectual property rights or others.

Regulatory and legal uncertainties could harm our business.

Changes in regulations or user concerns regarding privacy and protection of user data could adversely affect our business.

Internet security poses a risk to our business.

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements. The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of an uncertain tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48 on January 1, 2007. Since the Company does not have any uncertain tax positions, the implementation of FIN 48 did not have a material impact on its consolidated financial statements. At January 1, 2007 and September 30, 2007 there were no accrued liabilities for tax-related interest and penalties, which the Company recognizes as interest expense and general and administrative expense, respectively, as incurred. Since the Company has incurred net losses for tax purposes since inception, all tax years remain open to examination by major taxing jurisdictions, which are the federal government and states of New York and California.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

Cash, cash equivalents, and marketable securities totaled $3.3 million at September 30, 2007, down from $4.3 million at December 31, 2006.

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(dollars in millions)	
Cash used in operating activities	$ (5.1)	$ (4.2)
Cash used in investing activities	(2.7)	(2.0)
Cash provided by financing activities	5.1	1.7

Operating activities

In the nine months ended September 30, 2007, cash used in operating activities was $5.1 million compared to $4.2 million in the nine months ended September 30, 2006. The use of cash in operating activities during the nine months ended September 30, 2007 was attributable primarily to a net loss of $7.4 million and an increase in accounts receivable of $1.3 million offset by stock-based compensation expense of $1.3 million and depreciation and amortization of $1.2 million.

The use of cash in operating activities during the nine months ended September 30, 2006 was attributable primarily to a net loss of $19.1 million offset by impairment of goodwill and intangibles of $10.7 million, a decrease in accounts receivable of $1.8 million and stock-based compensation charges of $1.6 million.

Investing activities

In the nine months ended September 30, 2007, cash used in investing activities of $2.7 million was primarily attributable to net purchases of marketable securities of $1.6 million, an increase in restricted cash of $0.4 million in connection with entering into a lease agreement for new office space in New York, NY, and to cash used in the acquisition of Makos of $0.4 million net of cash acquired.

In the nine months ended September 30, 2006, cash used in investing activities of $2.0 million was primarily attributable to net purchases of marketable securities of $1.7 million and purchase of property and equipment of $0.2 million

Financing activities

In the nine months ended September 30, 2007, net cash provided by financing activities of $5.1 million was primarily attributable of the issuance of common stock and warrants for net proceeds of $5.0 million.

In the nine months ended September 30, 2006, net cash provided by financing activities of $1.7 million was primarily attributable to the exercise of stock options of $2.4 million which was offset by cash used for the repayment of debt totaling $0.7 million.

As of September 30, 2007, the Company had cash commitments totaling approximately $12.5 million through 2017, related mainly to long-term notes and future minimum lease payments for office space, and equipment.

	Payments Due By Period (in thousands)					
	Total	1-Oct-2007 to 31-Dec-2007	1-Jan-2008 to 31-Dec-2008	1-Jan-2009 to 31-Dec-2010	1-Jan-2011 to 31-Dec-2012	Thereafter
Long-Term Debt Obligations	$ 3,350	$	$	$ 3,350	$	$
Operating Lease Obligations	6,123	277	894	1,543	1,097	2,312
Short-Term Debt Obligations	99		99			
Interest Payments on Long-Term Debt Obligations	485	54	204	160	67	
Unicast Debt Obligations	2,134	26	350	700	1,058	
Purchase Obligations	298	298				
Total	$ 12,489	$ 655	$ 1,547	$ 5,753	$ 2,222	$ 2,312

Long-Term Debt

In March 2007, 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, 2008 to September 30, 2009 in exchange for the payment by Viewpoint of $0.2 million to the holder of the subordinated note, and adding $0.3 million to the principle of the note. In addition, the amendment waived the requirement that the Company s common stock remain listed on a national stock exchange until December 31, 2008. Also see Note 5 to the accompanying financial statements.

Other Transactions

On March 12, 2007, the Company entered into a Purchase Agreement to acquire all of the outstanding partnership interests of Makos Advertising, L.P. On April 30, 2007, the Company completed the acquisition. In exchange for the all of the outstanding partnership interests of Makos Advertising, L.P., the Company issued an aggregate of 0.7 million shares of Company common stock to the partners of Makos Advertising, L.P. and paid $0.6 million in cash.

The Company also paid off outstanding debt in the form of a line of credit owed by Makos Advertising, L.P. in the amount of approximately $0.1 million and assumed outstanding debt relating to another line of credit in the amount of approximately $0.1 million.

The Company entered into a Securities Purchase Agreement with certain accredited investors, dated as of May 4, 2007, under which the Company issued 13.3 million shares of the its common stock in a private placement to such accredited investors at a purchase price of $0.40 per share (resulting in aggregate gross proceeds of $5.3 million). The investors in the transaction also received warrants to purchase an additional 3.3 million shares of common stock at an exercise price of $0.45 per share (subject to certain adjustments). Such warrants are not exercisable for six months following issuance and have an aggregate term of three and one-half years. On May 7, 2007 the Company announced the closing of the transaction and the receipt of $5.3 million.

On October 18, 2007, Viewpoint Corporation (Viewpoint) entered into a Purchase Agreement to acquire all of the outstanding partnership interests of Springbox, Ltd. (Springbox), interactive marketing firm located in Austin, TX, with digital web marketing and creative solutions. The agreement contains customary representations, warranties and covenants of the sellers and Viewpoint. The transaction closed on November 1, 2007.

Under the terms of the agreement, Viewpoint paid, at the closing, approximately $5.0 million in cash and issued 714,286 shares of its common stock. The amount of cash payable by Viewpoint was subject to adjustment based on the net book value of Springbox as of the closing date of the transaction and (ii) the subsequent receipt by Viewpoint of accounts receivable outstanding on the closing date of the transaction. In addition, the sellers of Springbox are entitled to an EBITDA based earnout. Viewpoint has the option to pay cash or shares of its common stock in order to satisfy any obligation pursuant to the earnout.

In addition, Viewpoint entered into a Securities Purchase Agreement with certain accredited investors, dated as of October 18, 2007, pursuant to which Viewpoint issued 15,714,286 shares of Viewpoint common stock in a private placement to such accredited investors at a purchase price of $0.70 per share (resulting in aggregate gross proceeds of $11,000,000). The investors in the transaction also received warrants to purchase an additional 4,714,286 shares of common stock at an exercise price of $0.84 per share (subject to certain adjustments). The Company also paid a placement fee of approximately $0.7 million and issued warrants to purchase 314,286 shares of its common stock (on the same terms as those issued to investors) to Merriman, Curhan Ford & Co., as placement agent. Such warrants are not exercisable for six months following issuance and have an aggregate term of five and one-half years. Of the gross proceeds of $11 million received from investors, approximately $5.0 million was used to purchase Springbox.

The securities offered and sold in the private placement have not been registered under the Securities Act of 1933, as amended, and were sold in reliance upon the exemption from securities registration afforded by Regulation D. Each investor represented to Viewpoint that it is an Accredited Investor , as defined in Rule 501 of Regulation D under the Securities Act. In connection with the private placement, Viewpoint entered into a Registration Rights Agreement with the investors pursuant to which Viewpoint is required to file a registration statement with the SEC covering the shares within 45 days of the closing of the private placement.

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. Disclosure Controls and Procedures

Based on our management s evaluation, with the participation of our chief executive officer and our chief financial officer, as of September 30, 2007, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, (the Exchange Act)) were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding disclosure.

There have been no changes in our internal control over financial reporting identified in the evaluation that occurred during the third quarter of our fiscal year 2007 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Exhibit Title
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, 2007	By: /s/ PATRICK VOGT
	Patrick Vogt President and Chief Executive Officer
Dated: November 9, 2007	By: /s/ CHRISTOPHER C. DUIGNAN
	Christopher C. Duignan Chief Financial Officer