UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

AMENDMENT NO. 2
FORM 10-Q

Mark One

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the Quarterly Period Ended March 31, 2005.

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the Transition Period From To .

Commission file number: 000-25755

WORLDGATE COMMUNICATIONS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**23-2866697**
(State of Incorporation)	(I.R.S. Employer Identification No.)
3190 Tremont Avenue **Trevose, Pennsylvania**	**19053**
(Address of Principal Executive Offices)	(Zip Code)

(215) 354-5100

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

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

As of May 9, 2005, there were 33,756,436 shares of common stock, par value $.01 per share, outstanding.

EXPLANATORY NOTE

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WorldGate Communications, Inc. (the “Company”) is filing this Amendment No. 2 on Form 10-Q/A to amend its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the Securities and Exchange Commission (the “SEC”) on May 16, 2005 (the “Original Filing”) and as first amended on August 30, 2005 (the “Amended Filing”). The purpose of this Amendment No. 2 is to amend and restate Part I, Item 1 and Item 2 which set forth the accounting for the warrants and additional investments rights issued in private placements of the Company’s common stock during the fourth quarter of 2003 and the first and fourth quarters of 2004. These security components were originally treated as non-cash expenses and with this amendment are being restated as equity transactions. Accordingly, changes have been made to the applicable line items associated with additional paid-in capital, accumulated deficit, general and administrative costs, net income (loss) and net income (loss) per common share. In addition, Part I, Item 1 and Item 2 has been amended and restated to reflect certain clarifications made in response to the SEC’s comments as raised in its review of the Company’s registration statement on Form SB-2/A, as filed with the SEC on August 30, 2005, and annual report on Form 10-K/A for the year ended December 31, 2004, as filed with the SEC on August 30, 2005. Finally the certifications attached as Exhibits 31.1, 31.2, 32.1 and 32.2 have been updated to reflect the filing date of this amendment and interim changes in the regulations applicable to these certifications. Except as described above, no additions or modifications have been made to this Amendment No. 2 to reflect facts or events occurring subsequent to the date of the Original Filing or the Amended Filing.

WORLDGATE COMMUNICATIONS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE THREE MONTHS ENDED MARCH 31, 2005

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ITEM 1. FINANCIAL STATEMENTS

WORLDGATE COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

	As of March 31, 2005 (Unaudited) As restated	As of December 31, 2004 (Audited) As restated
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,929	$ 11,840
Other receivables	12	28
Inventory, net	99	46
Prepaid and other assets	355	184
Total current assets	10,395	12,098
Property and equipment	3,609	3,530
Less: accumulated depreciation and amortization	(1,985)	(1,815)
Property and equipment, net	1,624	1,715
Deposits and other assets	9	9
Total assets	$ 12,028	$ 13,822
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	$ 258	$ 222
Accrued expenses	841	951
Accrued compensation and benefits	241	540
Dividend payable on Preferred Stock	82	85
Detachable Warrants	3,527	5,583
Notes payable	0	37
Conversion option on Preferred Stock	5,417	8,612
Deferred revenues	190	369
Total liabilities	10,556	16,399
Commitments	0	0
Redeemable Preferred Stock; 6,675 shares outstanding at March 31, 2005, and 6,775 outstanding at December 31, 2004	3,382	2,995
Stockholders' deficiency:		
Preferred Stock, $.01 par value, 13,500,000 shares authorized; shares issued 7,550 at March 31, 2005 and December 31, 2004	0	0
Common Stock, $.01 par value; 80,000,000 shares authorized, 31,716,189 shares issued and outstanding at March 31, 2005 and 30,865,777 shares issued and outstanding at December 31, 2004	317	308
Additional paid-in capital	213,994	212,439
Accumulated deficit	(216,221)	(218,319)
Total stockholders' deficiency	(1,910)	(5,572)
Total liabilities and stockholders' deficiency	$ 12,028	$ 13,822

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

WORLDGATE COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in Thousands, Except per Share Amounts)

	Three Months ended March 31, 2005	Three Months ended March 31, 2004 (As restated)
Revenues	$ 179	$ 0
Cost of revenues	125	0
Gross margins	54	0
Engineering and development (excluding depreciation and amortization amounts of $66, and $0, respectively).	1,305	800
Sales and marketing (excluding depreciation and amortization amounts of $8 and $0, respectively).	379	191
General and administrative (excluding depreciation and amortization amounts of $97 and $102, respectively).	847	1,044
Depreciation and amortization	171	102
Total expenses from continuing operations	2,702	2,137
Loss from operating activities of continuing operations	(2,648)	(2,137)
Interest and other income	66	7
Change in fair value of warrants and conversion options	5,176	0
Interest and other expense	0	(1)
Income (loss) from continuing operations	2,594	(2,131)
Income from discontinued operations	0	23
Net income (loss)	2,594	(2,108)
Accretion on preferred stock and dividends	(495)	0
Net income (loss) available to common stockholders	$ 2,099	$ (2,108)
Income (loss) from continuing operations per common share:		
Basic	$ 0.08	$ (0.08)
Fully Diluted	$ 0.07	$ (0.08)
Income from discontinued operations per common share:		
Basic	$ 0.00	$ 0.00
Fully Diluted	$ 0.00	$ 0.00
Net income (loss) per common share:		
Basic	$ 0.08	$ (0.08)
Fully Diluted	$ 0.07	$ (0.08)
Net income (loss) available to common shareholders per common share:		
Basic	$ 0.07	$ (0.08)
Fully Diluted	$ 0.05	$ (0.08)
Weighted average common shares outstanding:		
Basic	31,582,115	27,236,662
Fully Diluted	38,334,855	27,236,662

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

WORLDGATE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in Thousands)

	Three Months ended March 31, 2005	Three Months ended March 31, 2004 (As restated)
Cash flows from operating activities:		
Net income (loss)	$ 2,594	$ (2,108)
Income from discontinued operations	0	(23)
Adjustments to reconcile net income (loss) to net operating cash flow from operating activities from continuing operations:		
Depreciation and amortization	171	102
Change in fair value of warrants and conversion options	(5,176)	0
Non-cash stock based compensation	1	1
Changes in operating assets and liabilities:		
Other receivable	16	0
Inventory	(53)	0
Prepaid and other assets	(209)	261
Accounts payable	36	(95)
Accrued expenses	(110)	111
Accrued compensation and benefits	(299)	(39)
Other	(179)	(7)
Net operating cash flow from continuing operations	(3,208)	(1,797)
Net operating cash flow from discontinued operations	0	57
Net cash used in operating activities	(3,208)	(1,740)
Cash flows from investing activities of continuing operations:		
Capital expenditures	(80)	(8)
Net cash used in investing activities	(80)	(8)
Cash flows from financing activities of continuing operations:		
Proceeds from issuance of common stock	12	1,406
Proceeds from the exercise of stock options	204	105
Proceeds from the exercise of stock rights and warrants	1,161	320
Net cash provided by financing activities	1,377	1,831
Net (decrease) increase in cash and equivalents	(1,911)	83
Cash and cash equivalents, beginning of period	11,840	3,365
Cash and cash equivalents, end of period	$ 9,929	$ 3,448
Non-cash financing activities		
Conversion of preferred stock to common stock	$ 100	$ 0

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

(Dollar Amounts are in Thousands, Except for per Share and Share Amounts)

(Unaudited)

1. Basis of Presentation.

The unaudited financial statements of WorldGate Communications, Inc. (“WorldGate” or the “Company”) for the three months ended March 31, 2005 and March 31, 2004 presented herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the financial statements for the year ended December 31, 2004 and the notes thereto included in the Company’s Annual Report on Form 10-K.

The financial information in this Report reflects, in the opinion of management, all adjustments of a normal recurring nature necessary to present fairly the results for the interim period. Quarterly operating results are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

2. Restatement

The Company has restated its financial statements for the three months ended March 31, 2005 to amend and restate the accounting for the warrants and additional investments rights issued in a private placement of the Company’s common stock during the fourth quarter of 2003, and the first and fourth quarters of 2004. These security components were originally treated as non-cash expenses and with this restatement are being restated as equity transactions. There is no cash impact associated with these restatements. There were also related adjustments to the Company’s consolidated statement of cash flows and consolidated statement of stockholders’ equity.

The effect of the restatement on specific amounts provided in the consolidated financial statements is as follows:

	As of March 31, 2005	
Consolidated Balance Sheet	**As previously reported**	**As restated**
Accumulated deficit	$ (217,645)	$ (216,221)
Additional-paid-in capital	215,418	213,994
Total stockholders’ deficiency	(1,910)	(1,910)

Consolidated Statement of Operations	For the three months ended March 31, 2005	
	As previously reported	As restated
Net income per common share		
Basic	$ 0.07	$ 0.08
Diluted	0.07	0.07

In addition, the Company has included restatements to reflect certain clarifications made in response to the SEC's comments as raised in its review of the Company's registration statement on Form SB-2 as filed with the SEC on May 24, 2005, on Form SB-2/A as filed with the SEC on August 30, 2005 and on Form 10KA as filed with the SEC on August 30, 2005. These restatements include expanded clarifications on the preferred stock transaction the Company completed in June of 2004, liquidity and going concern considerations and changes to the Notes to Consolidated Financial Statements.

3. Liquidity and Going Concern Considerations Restated

As of March 31, 2005 the Company had cash and cash equivalents of $9,929. The operating cash usage from continuing operations for the three months ended March 31, 2005 was $3,208. The funds we received as a result of private placements of our securities on December 1, 2003, December 4, 2003, January 21, 2004, April 22, 2004, June 24, 2004 and December 15, 2004, have permitted us to fund the development of our new business.

In December 2003 and January 2004, WorldGate received proceeds from investments aggregating $3,100 by certain institutional investors. These investors purchased an aggregate of 3,000,000 shares of newly issued common stock. The investors also received a right, for a limited period of time, to purchase additional shares of up to 20% of the common stock purchased by the investors in their investment, at the same price as their investment, and five-year warrants to purchase up to 30% of the common stock purchased by the investors in their investment, at an exercise price equal to a twenty-five percent premium to their purchase price for the investment. The purchase price for the 2,000,000 shares purchased in the December 2003 transactions were $0.80 per share, with the warrants having a $1.00 per share exercise price. The purchase price for the 1,000,000 shares purchased in the January 2004 transaction was $1.50 per share, with the warrants having a $1.875 per share exercise price. All additional investment rights associated with the December 2003 transaction were exercised during January and February of 2004, resulting in an incremental investment of $320. All additional investment rights associated with the January 2004 transaction were exercised in May 2004, resulting in an incremental investment of $300. A portion of the warrants and additional investment right warrants associated with the December 2003 and January 2004 transactions were exercised in December 2004 and January 2005, resulting in an incremental investment of $925.

In December 2003, WorldGate announced that it reached agreement with Mototech, Inc. (not an affiliate of Motorola) for the purchase of 625,000 shares of newly issued common stock at $0.80 per share, in return for future design and engineering services by Mototech. WorldGate previously announced in November 2003, that it had contracted with Mototech to assist the Company with the design and volume manufacture of WorldGate's Ojo personal video phone. The purchase price for these shares will be paid by an equivalent reduction in the development and initial procurement payments that would otherwise be due to Mototech. The value of this transaction was $600 (based on the closing stock price of $0.96 on the date of the transaction) of which $200 was recorded as an expense for the year ended December 31, 2003 and $400 was expensed for the year ended December 31, 2004. Mototech is an affiliate of Accton Technology Group, a group of Taiwanese manufacturers that we believe are well-known in the electronics industry. They currently manufacture and distribute a full range of high performance high speed data and computer networking products, including cable set top boxes, home gateways, wireless LANs, hubs, switches, routers, and other related products. In addition, in April 2004, Mototech invested $1,000 to purchase 666,666 shares of newly issued common stock at $1.50 per share.

In June 2004, WorldGate completed a private placement of 7,550 shares of its Preferred Stock at a stated value of $1,000 per share, which preferred stock is convertible into the Company's common stock at a conversion price of $2.35 per share; five-year warrants to purchase up to 803,190 shares of our common stock at an exercise price of $2.69 per share; and five-year warrants to purchase up to 803,190 shares of our common stock at an exercise price of $3.14 per share. The investors also received an additional investment right, for a limited period of time, to purchase 1,606,383 additional shares of common stock at $3.14 a share. In November and December 2004 and January 2005, 875 preferred shares were converted to common stock. In April 2005, an additional 4,250 preferred shares were converted into common stock. In December 2004 and January 2005, 1,606,383 additional investment rights were exercised, resulting in an incremental investment of $5,044.

In December 2004, WorldGate completed a private placement of 208,333 shares of our common stock to K. Y. Chou, President and General Manager of Mototech, at a sales price of $2.40 per shares, which resulted in additional gross proceeds to the Company of $500. In connection with this placement the Company granted warrants to Mr. Chou to purchase up to 62,500 shares of our common stock at an exercise price of $2.88 per share.

The Company has $10,556 of liabilities and its assets are not pledged as collateral as of March 31, 2005. These liabilities include $9,026 related to the Company's private placement of Preferred Stock, and $190 of advanced funds received from Motorola for future shipments of video phones in accordance with the Agreement signed in April 2004.

Our Company has suffered recurring losses from operations and had a net accumulated deficiency of $218,000 as of December 31, 2004, and these issues raise substantial doubt about our Company's ability to continue as a going concern. Our short term cash requirements and obligations include inventory, accounts payable and capital expenditures from continuing operations, operating expenses, and the redemption of preferred stock, of which $2,225 is required to be redeemed in December 2005, although this redemption can be made in common stock if certain conditions are met. We expect, based on our internal forecasts and assumptions relating to our operations (including among others, assumptions regarding our short term cash requirements and our projected revenue growth) that we have sufficient cash on hand to meet our obligations for at least the next twelve months.

Our ability to generate cash is dependant upon the sale of our Ojo product and on obtaining cash through capital markets. We expect to begin generating revenue from commercial shipment of our Ojo product in the second quarter of 2005 and we expect revenues to increase as the product continues to roll out to the marketplace. This increased level of sales activity is projected to have a positive impact on our cash flows from operations, which will support our ability to meet our obligations beyond the next twelve months. Given that our video phone business involves the development of a new product line with no market penetration, in an undeveloped market sector, no assurances can be given that sufficient sales, if any, will materialize.

Additionally, as needed, we plan to generate cash by turning to the capital markets for funding. No assurances can be given that, if pursued, additional financing transactions can be consummated. We continue to evaluate possibilities to obtain additional financing through public or private equity or debt offerings, bank debt financing, asset securitizations, or from other sources, should we need to obtain such financing. Such additional financing would be subject to the risk of availability, may be dilutive to our shareholders, or could impose restrictions on operating activities. There can be no assurance that this additional financing will be available on terms acceptable to us, if at all.

We, however, remain hopeful that sufficient sales will materialize and/or that sufficient funding can be developed through ongoing operations or additional financings to continue our operations beyond the next twelve months.

Our long term cash requirement obligations are primarily comprised of the items noted above. We have no long term debt and our contractual cash requirements and obligations existing beyond the next twelve months are comprised solely of operating lease commitments and redemption of preferred stock, which are not considered material. We have limited capacity to further reduce our workforce and scale back on capital and operational expenditures to decrease our cash usage.

Accounting for Preferred Shares and Derivative Shares [Restated]

The following information has been restated to provide a more complete description of the accounting method and policy related to redeemable preferred shares and derivative shares.

In June 2004, WorldGate completed a private placement of Preferred Stock. The Preferred Stock has a dividend rate of 5% per annum, payable quarterly, either by cash or through the issuance of common stock at the Company's option. The Preferred Stock has a staged maturity over three years with one-third of the Preferred Stock to be redeemed after 18 months, one-third after 24 months and one-third after 36 months, and may be redeemed at maturity in cash or, at the Company's option, subject to certain conditions that may not be solely under the control of the Company, through the issuance of the number of shares of common stock determined by dividing the liquidation preference of the preferred shares by the then current market price. If the effectiveness of the registration statement lapses, the Company ceases to be listed on certain specified exchanges and trading in the Company's stock is suspended or a change in control occurs with respect to the Company, the Company may be required to settle redemption of the preferred stock with cash instead of its common shares. Furthermore, since the market price of the Company's common stock cannot be predicted, the actual number of shares of the Company's common stock that will be required if a redemption is made through the issuance of common stock, can also not be predicted.

The Preferred Stock has embedded conversion options. Specifically, the holders of the Preferred Stock may convert their shares into the Company's common stock at a conversion price of $2.35 per share. In addition the Company may force conversion of the Preferred Stock into common stock if the Company achieves certain price targets for its common stock and satisfaction of certain other conditions, such as the existence of an effective registration statement. In either event the conversion price is subject to adjustment if, at any time after the date the preferred shares were issued, the Company issues or sells, or is deemed to have issued or sold, any shares of the Company's common stock for per share consideration less than the conversion price of the preferred shares on the date of such issuance or sale. Accordingly, the number of common shares issuable upon the conversion of the preferred shares cannot be predicted. Furthermore, net-cash settlement may be required in the event of conversion default under certain circumstances that may not be solely under the control of the Company. If the effectiveness of the registration statement lapses, the Company ceases to be listed on certain specified exchanges and trading in the Company's stock is suspended or a change in control occurs with respect to the Company, the Company may be required to settle a conversion of the preferred stock with cash instead of its common shares.

Also as part of the private placement the Company issued five-year warrants to purchase up to 803,190 shares of our common stock at an exercise price of $2.69 per share and five-year warrants to purchase up to 803,190 shares of our common stock at an exercise price of $3.14 per share. The investors also received an additional investment right, for a limited period of time, to purchase 1,606,383 additional shares of common stock shares at $3.14 a share. This exercise price of the warrants is subject to adjustment if, at any time after the date the warrants were issued, the Company issues or sells, or is deemed to have issued or sold, any shares of the Company's common stock for per share consideration less than the exercise price of the warrants on the date of such issuance or sale. Accordingly, the number of common shares that will be issued upon the exercise of the warrants cannot be predicted. As of March 31, 2005, 31,915 warrants exercisable at $2.69 had been exercised and 31,915 warrants exercisable at $3.14 had been exercised, all in the quarter ending March 31, 2005. All of the additional investment rights had been exercised as of March 31, 2005 with 106,383 being exercised in the quarter.

In first quarter 2005, 100 preferred shares were converted to common stock. Of the 7,550 preferred shares issued under this private placement, 6,675 shares remain outstanding as of March 31, 2005.

With respect to the Company's accounting for the Preferred Stock, EITF Topic D-98, paragraph 4, states that Rule 5-02.28 of Regulation S-X requires securities with redemption features that are not solely within the control of the issuer to be recorded outside of permanent equity. As described above, the terms of the Preferred Stock include certain redemption features that may be triggered by events that are not solely within the control of the Company, such as a potential failure in the Company's ability to maintain an effective registration statement. Furthermore, the actual number of shares of common stock required to satisfy redemption is based upon the market value of the common stock at the time of the redemption, which cannot be predicted. Accordingly, the Company has classified the Preferred Stock as temporary equity and the value ascribed to the redeemable preferred stock upon initial issuance, i.e., at June 23, 2004, was the amount received in the transaction minus the fair value ascribed to the conversion options and warrants. The initial value of the redeemable preferred stock is accreted up to the redemption value (the amount received in the transaction) over the future relevant periods using the interest method. The value of the redeemable preferred stock at March 31, 2005 was $3,382.

The terms of the Preferred Stock include certain conversion options that represent derivative financial instruments under paragraph 12 of SFAS No. 133 and thus were separated from the Preferred Stock and valued using the Black-Scholes option pricing model. The conversion options include certain provisions that could result in a variable number of shares to be issued upon conversion, adjustment to the strike price at which conversion shares will be determined, or the requirement for the Company to settle the conversion options in cash. EITF 00-19, "Accounting for Derivative Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", state that if the conversion options require net cash settlement in the event of circumstances that are not solely within the Company's control they should be classified as a liability measured at fair value on the balance sheet.

The terms of the five-year warrants include cash penalty provisions in the event that the Company fails to meet its obligations to deliver registered shares to the warrant holder upon exercise and an anti-dilution provision that could result in a variable number of shares to be issued upon warrant exercise. Additionally, the terms and conditions of the warrants provide for net settlement via cashless exercise whereby the shares delivered to the warrant holder would be readily convertible to cash. In accordance with EITF 00-19 and given the terms and conditions of the warrants as outlined above, the Company has classified the warrants as a liability on its balance sheet measured at fair value using the Black-Scholes option pricing model.

The Company accounts for both the conversion options and warrants using the fair value method at the end of each quarter, with the resultant gain or loss recognition recorded against earnings. Both the warrants and conversion options are valued using the Black-Scholes valuation model. Actual period close common stock prices, applicable volatility rates, and the period close risk-free interest rate for the instrument's expected remaining life (continuously compounded), are the key assumptions used in the valuation calculation. The WorldGate share price changed from $4.99 per share as of December 31, 2004 to $3.90 per share at March 31, 2005 making the warrants and preferred stock conversion elements less valuable, and therefore less costly, relative to their strike price. The result was a $5,200 non cash gain for the quarter ended March 31, 2005.

4. Recent Accounting Pronouncement.

In November 2004, the FASB issued SFAS no. 151 "Inventory Costs" which amends the guidance in ARB No. 43, Chapter 4 "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that under some circumstances, items such as idle facility expense, excessive spoilage, double freight and rehandling costs may be so abnormal as to require treatment as current period charges." SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after the date SFAS No. 151 was issued. SFAS No. 151 shall be applied prospectively. The Company does not expect the adoption of SFAS No. 151 to have a material effect on its consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153 “Exchanges of Nonmonetary Assets” which amends APB Opinion No. 29, “Accounting for Nonmonetary Transactions.” APB No. 29 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date SFAS No. 153 was issued. SFAS No. 153 is to be applied prospectively. The Company does not expect the adoption of SFAS No. 153 to have a material effect on its consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (R), “Share-Based Payment” that focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement replaces SFAS No. 123, “Accounting for Stock-Based Compensation”, and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” Beginning with our annual periods that begin after June 15, 2005, we will be required to expense the fair value of employee stock options and similar awards. As a public company, we are allowed to select from two alternative transition methods, each having different reporting implications. The impact of SFAS No. 123 (R) has not been determined at this time.

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47 (FIN 47) to clarify the guidance included in SFAS No. 143, “Accounting for Asset Retirement Obligations”. FIN 47 requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. If amounts cannot be reasonably estimated, certain disclosures will be required about the unrecognized asset retirement obligations. The interpretation is required to be adopted in the first quarter of 2006. We are currently evaluating the interpretation to determine the effect on our financial statements and related disclosures.

5. Inventories.

Inventories as of March 31, 2005 and December 31, 2004 are summarized as follows:

	March 31, 2005	December 31, 2004
Raw material (from discontinued operations)	$ 1,622	$ 1,622
Finished goods (from continuing operations)	99	46
Total Inventory	1,721	1,668
Inventory Reserve	(1,622)	(1,622)
Inventory, net	$ 99	$ 46

6. Stock-Based Compensation (Restated).

The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” as amended by SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure”.

The Company applies Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations in accounting for its plans, and accordingly, no compensation cost has been recognized for the Company’s fixed stock based compensation. Had compensation cost been determined consistent with SFAS No. 123, as amended by SFAS No. 148, the Company’s net loss would have been increased to the following pro forma amounts:

	For the Three Month Period Ended March 31, 2005	
	2005	2004
		(As restated)
Net income (loss)	2,594	(2,108)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	0	0
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax of $0	(194)	(2,249)
Pro forma net income (loss)	$ 2,400	$ (4,357)
Net income (loss) per share:		
Net income (loss):		
Basic	$ 0.08	$ (0.08)
Fully Diluted	$ 0.07	$ (0.08)
Net income (loss)— pro forma:		
Basic	$ 0.08	$ (0.16)
Fully Diluted	$ 0.06	$ (0.16)

Such pro forma disclosures may not be representative of future compensation expense because options vest over several years and additional grants are made each year.

7. Commitments and Contingencies.

Leases

In 1998 the Company entered into a leasing arrangement for a building with an entity formed by non-employee investors. The Company stopped paying rent on this lease in May 2003, and in lieu of rent payments the Company's landlord, 3190 T General, Inc. (an entity formed by non-employee investors in the Company), began drawing down the security deposit for the facility. Prior to stopping rent payments, the Company had commenced negotiations with its landlord for an amendment of its lease to reduce the space commitment and the rent payable. These negotiations were not successful, and in September 2003, the Company's landlord filed an action in the Court of Common Pleas, Bucks County Pennsylvania to perfect its interest to take possession of the Company's facility, and to establish damages for past rent and expenses. Although a judgment was granted allowing the Company's landlord to regain possession of the facility, the Company remained in the facility and continued negotiations with its landlord. During 2004, the landlord deeded the facility to its mortgage holders and negotiations commenced with GMAC as representative for the mortgage holders. These negotiations were successful and in June 2004 the Company's lease was amended to reduce the lease obligation in line with the Company's current space requirements, and to bring the Company current with respect to all outstanding back rent. In November 2003, the Company entered into a 60 month lease for office equipment. As of March 31, 2005 there remains a total of $21 to be paid over the remaining period of the lease.

Significant Agreements and Transactions

In 1997, the Company entered into agreements with certain customers who are investors. Revenues from continuing operations recognized from such investors were approximately $179 and $0, respectively, for the three months ended March 31, 2005 and 2004. One of these investors accounted for 100% of the revenues for the three months ended March 31, 2005. Advances received from this investor were $190 as of March 31, 2005 and are included in deferred revenue in the accompanying balance sheet.

Revenues, included in discontinued operations, were recognized from such investors of approximately $0 and $1, respectively, for the three months ended March 31, 2005 and 2004. Accounts receivable from such investors were $0 as of March 31, 2005 and December 31, 2004.

The Company has a current two year agreement with an investor, and previously had agreements with certain other investors, to provide the Company with engineering and development support. As a result of those agreements, the Company has expensed approximately $102 (included in continuing operations) and $0 (included in discontinued operations), for the three months ended March 31, 2005 and March 31, 2004, respectively. Accounts payable to these investors amounted to $180 and $117 at March 31, 2005 and December 31, 2004, respectively. Some of these stockholders were suppliers of technology and components for the Company's discontinued ITV products and services. These agreements provided for licensing of technology, as well as contracted services, including hardware and software development, product testing and certification, and the creation and development of tools and systems to facilitate the Company's engineering efforts. These agreements did not provide for ongoing royalties, purchase provisions, or for any requirement to provide additional funding to the Company.

On April 28, 2004, we entered into a Development and Distribution Agreement with General Instrument Corporation d/b/a the Broadband Communication Sector of Motorola, Inc., or Motorola. In connection with the Development and Distribution Agreement with Motorola, we issued warrants to Motorola to purchase 600,000 shares of our common stock, 300,000 at an exercise price of $1.4375 per share and 300,000 at an exercise price of $1.75, and agreed to issue additional warrants to purchase up to an additional 1,650,000 shares of our common stock, upon the achievement of certain product and sales milestones, at an exercise price based upon the average closing sales price of our common stock during the 20 day period preceding the issuance of each warrant.

8. Net Income (Loss) per Share.

Basic and diluted net income (loss) per common share is computed by dividing the net income (loss) available to common stockholders for the period by the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net income (loss) per common share excludes potential common shares if the effect is antidilutive. Potential common shares comprise shares of common stock issuable upon the exercise of stock options and warrants. The number of potential common shares which would have been assumed to be converted in the periods ended March 31, 2005 and 2004 and have a dilutive effect if the Company had income from continuing operations, or if the options' exercise price was less than the average market price of the common shares, is 862,250 and 8,065,111, respectively.

9. Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, the collectibility is reasonably assured, and the delivery and acceptance of the equipment has occurred or services have been rendered. Management exercises judgment in evaluating these factors in light of the terms and conditions of its customer contracts and other existing facts and circumstances to determine appropriate revenue recognition. Due to our limited commercial sales history, our ability to evaluate the collectibility of customer accounts requires significant judgment. The Company evaluates its equipment customer, and service customers', accounts for collectibility at the date of sale and on an ongoing basis.

Presently the Company has only one customer for the purchase of its equipment and the agreement with this customer includes several elements relevant to revenue recognition including: (a) The customer has no general right to return the product. (b) The customer can earn warrants upon the purchase of significant video telephony units and the value of these warrants would result in a reduction of recognized revenue (the value of these warrants is routinely monitored by the Company and is currently deemed to be insignificant, however, should the value of these warrants become material an offset would be made against revenues). (c) Penalties are payable to the customer if certain excessive field failure rates are exceeded. (d) The Company and the customer share in the benefit achieved by product cost reductions. (e) Penalties are payable to the customer if the Company fails to deliver shipments on a timely basis. (f) The Company extends to the customer a limited product warranty for a term not to exceed three years (the Company maintains a warranty reserve based upon the percentage of product sales consistent with industry comparable failure rates and the warranty period provided by the agreement.)

Revenues are also offset with a reserve for any price refunds and consumer rebates consistent with the Emerging Task Force ("EITF") Issue 01-9, Accounting for Consideration Given by a vendor to a Customer.

10. Risks and uncertainties

Our primary line of business is the development of video phone products and technology. We are still in the process of launching our first product based on this technology and, although we have realized some revenues for the commercial sale of our product, the revenues to date have not been substantial. Given the early stage of our product and the lack of operating history in the video phone business, it is difficult to predict our future results.

We have entered into a six year distribution agreement with Motorola, Inc. for the marketing and distribution of our Ojo video phone. This agreement provides for Motorola to be WorldGate's exclusive distributor of its broadband video phone products and for WorldGate to be Motorola's exclusive supplier of its broadband video phone products. Although the agreement requires Motorola to provide for certain marketing and promotional activities for the Ojo video phone, there are no required sales quotas for the agreement to remain in effect, and Motorola controls the volume of the Company's products being distributed. Neither party can terminate the agreement except in cases of uncured breaches of the agreement or as a result of insolvency events suffered by the other party. After a period of 18 months following the commercial availability of the Ojo video phone the mutual exclusivity will terminate unless Motorola elects to continue the mutual exclusivity after having achieved certain minimum sales targets for the Ojo video phone. Motorola may, however, at its option, elect to terminate the exclusivity at any time.

In the event mutual exclusivity terminates or is terminated, then for a period of twelve months thereafter, WorldGate will continue to be Motorola's exclusive supplier of broadband video phones but will be free to sell video phones to customers other than certain defined Motorola accounts. During this twelve month period, Motorola has a right of first refusal to accept and fill any orders for video phone products that WorldGate obtains from non-Motorola accounts, and is obligated to use good faith efforts to solicit and accept product orders from Motorola accounts in a commercially reasonable manner. During any period of exclusivity under this agreement we are reliant upon Motorola and its distribution partners, including, for example, wholesalers, retailers and service providers, to provide the worldwide sales and distribution of the Ojo video phone. If Motorola and its partners are not successful, or if their activities do not lead to significant sales of our product, our operating results will be adversely affected, our revenue could be significantly reduced and we could lose potential customers.

We also depend on relationships with third parties such as contract manufacturing companies, chip design companies and others who may be sole source providers of key components and services critical for the product we are developing in our video phone business. A formal relationship with Mototech, Inc. (not an affiliate of Motorola) has been established for the volume manufacture of Ojo. Mototech is currently the sole volume manufacturer of Ojo. Our agreement with Mototech allows either party to terminate the agreement with 90 days prior notice. If Mototech, Inc. or other providers of components and/or manufacturing services do not produce these components or provide their services on a timely basis, if the components or services do not meet our specifications and quality control standards, or if the components or services are otherwise flawed, we may have to delay product delivery, or recall or replace unacceptable products. In addition, such failures could damage our reputation and could adversely affect our operating results. As a result, we could lose potential customers and any revenues that we may have at that time may decline dramatically.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

We may from time to time make written or oral forward-looking statements, including those contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations. The words "estimate," "project," "believe," "intend," "expect," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. In order to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we are hereby identifying certain important factors that could cause our actual results, performance or achievement to differ materially from those that may be contained in or implied by any forward-looking statement made by or on our behalf. The factors, individually or in the aggregate, that could cause such forward-looking statements not to be realized include, without limitation, the following: (1) difficulty in developing and implementing marketing and business plans, (2) industry competition factors and other uncertainty that a market for our products will develop, (3) challenges associated with HSD operators (including, uncertainty that they will offer our products, inability to predict the manner in which they will market and price our products and existence of potential conflicts of interests and contractual limitations impeding their ability to offer our products), (4) continued losses, (5) difficulty or inability to raise additional financing on terms acceptable to us, (6) departure of one or more key persons, (7) delisting of our Common Stock from the NASDAQ Small Cap Market, (8) changes in regulatory requirements, and (9) other risks identified in our filings with the Securities and Exchange Commission. We caution you that the foregoing list of important factors is not intended to be, and is not, exhaustive. We do not undertake to update any forward-looking statement that may be made from time to time by or on our behalf.

Results of Operations:

General

Our ITV business has historically accounted for substantially all of our revenue. In the third quarter of 2003, we completed a sale of significant assets, including our ITV intellectual property rights and our membership interest in TVGateway, LLC. This transaction marked a shift in our business away from the ITV business and toward a new video phone product and related business. Although we continued to support our remaining ITV business into the first quarter of 2004, the development of our video phone product became a primary business focus.

Our video phone business has not produced significant revenues to date. The extent and timing of future revenues for our business depends on several factors, including the rate of market acceptance of our products and the degree of competition from similar products. We cannot predict to what extent our video phone product will produce revenues, or when, or if, we will reach profitability.

Critical Accounting Policies and Estimates.

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements required 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 significant accounting policies of the Company are described in the notes to the consolidated financial statements included in the annual report on Form 10-K. Judgments and estimates of uncertainties are required in applying the Company’s accounting policies in many areas. Following are some of the areas requiring significant judgments and estimates: revenue recognition, accounts receivable, inventories, and cash flow and valuation assumptions in performing asset impairment tests of long-lived assets.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The information in our quarter-to-quarter comparisons below represents only our results from continuing operations.

Three Months Ended March 31, 2005 and March 31, 2004 (Restated)

Revenues.

Revenues. Revenues from continuing operations for the three months ended March 31, 2005 were $179. These revenues represent initial deliveries of video phones for pre-market testing. There were no revenues from continuing operations during the three months ended March 31, 2004.

Costs and Expenses.

Cost of Revenues. The cost of revenues from continuing operations consisted of product and delivery costs relating to the initial deliveries of video phones was $125 for the three months ended March 31, 2005. There were no costs of revenues from continuing operations during the three months ended March 31, 2004.

Engineering and Development. Engineering and development expenses primarily consist of compensation, and the cost of design, programming, testing, documentation and support of the Company's video phone product. Engineering and development costs were $1,305 for the three months ended March 31, 2005, compared with $800 for the three months ended March 31, 2004. This increase of $505, or 63%, reflects the Company's increased concentration of its engineering staff, and related costs, for the further and continuing development of its video phone product.

Sales and Marketing. Sales and marketing expenses consist primarily of compensation, attendance at conferences and trade shows, travel costs, promotions and other marketing programs related to the introduction of the Company's video phone product. Sales and marketing costs were $379 for the three months ended March 31, 2005, compared with $191 for the three months ended March 31, 2004. This increase of $188, or 98%, reflects the increased effort of staff, and related marketing and promotional expenditures associated with the launch of the Company's video phone product.

General and Administrative — as restated. General and administrative expenses consist primarily of expenditures for administration, office and facility operations, finance and general management activities, including legal, accounting and professional fees. General and administrative expenses were $847 for the three months ended March 31, 2005, compared with $1,044 for the three months ended March 31, 2004. This decrease of $197, or 19%, is primarily attributable to certain non-recurring expenses incurred during the three months ended March 31, 2004 that were not incurred during the three months ended March 31, 2005. These expenses consisted of an expense for sales taxes of $125, and a $242 reduction in rent expense from the $303 recorded during the three months ended March 31, 2004 to $61 recorded for the three months ended March 31, 2005. These decreases were offset by increases in professional fees of $125 and compensation costs of $50 for the three months ended March 31, 2005 when compared to the three months ended March 31, 2004.

Interest and Other Income and Interest Expense. Interest and other income and interest expense consist of interest earned on cash and cash equivalents, and interest expense on short-term debt. Interest and other income increased from $7 for the three months ended March 31, 2004 to $66 for the three months ended March 31, 2005, primarily due to additional interest income earned on a higher level of invested funds. During the three months ended March 31, 2005, the Company earned interest on average cash balances of approximately $11,026 and incurred interest expense related to its insurance financing. In comparison, during the three months ended March 31, 2004 the Company earned interest on average cash balances of approximately $3,878 and incurred interest expense related to its insurance financing.

Change in the Fair Value of Warrants and Conversion Options. The warrants and conversion options are considered embedded derivative instruments under SFAS No. 133, paragraph 11a, and are classified as liabilities. The company identifies and measures these derivatives under the fair value method at the end of each quarter, and their value is marked to market at the end of each reporting period with the gain or loss recognition recorded against earnings. We continue to revalue these instruments each quarter to reflect their current value in light of the current market price of our common stock. The warrants and conversion options are valued using the Black-Scholes valuation model. Actual period close common stock prices, applicable volatility rates, and the period close risk-free interest rate for the instrument's expected remaining life (continuously compounded), are the key assumptions used in the valuation calculation. The WorldGate share price changed from $4.99 per share at December 31, 2004 to $3.90 as of March 31, 2005, making the embedded warrants and preferred stock conversion elements less valuable, and therefore less costly, relative to their strike price. The result was the $5,176 non cash gain for the quarter ended March 31, 2005. Also, it is important to note that these periodic marked to market addition to or deduction from earnings has no cash effect over the life of the instruments, with the cumulative non-cash mark-to-market adjustments of gains and losses offsetting and netting to $0.

Income Taxes. The Company has incurred net operating losses since inception and accordingly had no income taxes and has not recorded any income tax benefit for those losses.

Liquidity and Capital Resources.

As of March 31, 2005, our primary source of liquidity consisted of cash and cash equivalents that are highly liquid, are of high quality investment grade and have maturities of less than 90 days.

At March 31, 2005, we had cash and cash equivalents of $9,929 (and no short-term investments) as compared to cash and equivalents of $11,840 (and no short-term investments) at December 31, 2004. Net cash used in continuing operations was $3,208 for the three months ended March 31, 2005, as compared to $1,797 used for the same period in 2004. This increase in net cash used for continuing operations was primarily attributable to the Company's increase in expenditures related to the video phone business. The Company recorded bad debt expense in the amount of $16 from discontinued operations during the three months ended March 31, 2004 to reflect its current assessment of the collectability of certain receivables.

Cash provided by financing activities from continuing operations during the three months ended March 31, 2005, totaled $1,377 compared to $1,831 provided during the same period in 2004. Capital expenditures were $80 and $8 for the three months ended March 31, 2005 and 2004, respectively. During the third quarter of 2003, we completed a sale of certain assets, including our ITV intellectual property rights and our membership interest in TVGateway, LLC, for $3,000 in cash to TVGateway, LLC, a company we were instrumental in forming.

Operations and Liquidity.

To date, the Company has funded operations primarily through private sales of equity securities and through an initial public offering of common stock in April 1999. As of March 31, 2005 the Company had cash, and cash equivalents of $9,929. The operating cash usage from continuing operations for the three months ended March 31, 2005 and 2004 was $3,208 and $1,797, respectively. As of March 31, 2005 we have no outstanding debt and our assets are not pledged as collateral. From time to time opportunities arise for us to obtain additional financing through public or private equity or debt offerings, bank debt financing, asset securitizations, or from other sources. Such additional financing, if obtained, could provide additional cash for working capital, accelerated engineering and development activities and potential acquisitions. While we continue to evaluate such opportunities, it should be noted that any additional financing may be dilutive to our shareholders, or could impose restrictions on operating activities. Furthermore, there can be no assurance that any additional financing will remain available to us on terms acceptable, if at all.

With the private placement of our common stock in January 2004, which provided proceeds of $1,500, the private placement of our common stock in April 2004 providing proceeds of $1,000, the June 2004 private placement of our redeemable preferred stock providing proceeds of $7,550, the December 2004 private placement of common stock of $500, the exercise of additional investment rights and warrants of $6,800 in January, February, May and December 2004 and January, February and April 2005, and the exercise by employees and former employees of options throughout 2004 and January and February 2005 providing aggregate proceeds of $900; we project we will have sufficient funding to continue operations through 2005, without additional financing, and assuming no impact from sales. We do however have an obligation to pay dividends on, as well as to redeem, our outstanding Preferred Stock upon maturity, or at the earlier option of a holder of these securities. Under certain limited circumstances we may be forced to make such payments and redemptions with cash instead of shares of our common stock. In such event our ability to fund continuing operations would be negatively impacted.

The report of the independent registered public accounting firm for the year ended December 31, 2004 included an explanatory paragraph stating that our Company had suffered recurring losses from operations and had a net accumulated deficiency of $218,000, and that these issues raised substantial doubt about our Company's ability to continue as a going concern. Our short term cash requirements and obligations include inventory, accounts payable and capital expenditures from continuing operations, operating expenses, and the redemption of preferred stock, of which $2,225 is required to be redeemed in December 2005, although this redemption can be made in common stock if certain conditions are met. We expect, based on our internal forecasts and assumptions relating to our operations (including among others, assumptions regarding our short term cash requirements and our projected revenue growth) that we have sufficient cash on hand to meet our obligations for at least the next twelve months.

Our ability to generate cash is dependant upon the sale of our Ojo product and on obtaining cash through capital markets. We expect to begin generating revenue from commercial shipment of our Ojo product in the second quarter of 2005 and we expect revenues to increase as the product continues to roll out to the marketplace. This increased level of sales activity is projected to have a positive impact on our cash flows from operations, which will support our ability to meet our obligations beyond the next twelve months. Given that our video phone business involves the development of a new product line with no market penetration, in an undeveloped market sector, no assurances can be given that sufficient sales, if any, will materialize.

Additionally, as needed, we plan to generate cash by turning to the capital markets for funding. No assurances can be given that, if pursued, additional financing transactions can be consummated. We continue to evaluate possibilities to obtain additional financing through public or private equity or debt offerings, bank debt financing, asset securitizations, or from other sources, should we need to obtain such financing. Such additional financing would be subject to the risk of availability, may be dilutive to our shareholders, or could impose restrictions on operating activities. There can be no assurance that this additional financing will be available on terms acceptable to us, if at all.

We, however, remain hopeful that sufficient sales will materialize and/or that sufficient funding can be developed through ongoing operations or additional financings to continue our operations beyond the next twelve months.

Our long term cash requirement obligations are primarily comprised of the items noted above. We have no long term debt and our contractual cash requirements and obligations existing beyond the next twelve months are comprised solely of operating lease commitments and redemption of preferred stock, which are not considered material. We have limited capacity to further reduce our workforce and scale back on capital and operational expenditures to decrease our cash usage.

In December 2003, WorldGate reached agreement with Mototech, Inc. (not an affiliate of Motorola) for the purchase of 625,000 shares of newly issued common stock at $0.80 per share, in return for future design and engineering services by Mototech. WorldGate had previously contracted with Mototech to assist the Company with the design and volume manufacture of WorldGate's Ojo personal video phone. The purchase price for these shares has been fully paid as of December 31, 2004 by an equivalent reduction in the development and initial procurement payments that would otherwise be due to Mototech. The value of this transaction was $600 (based on the closing stock price of $0.96 on the date of the transaction) of which $200 was recorded as an expense for the year ended December 31, 2003 and $400 was expensed for the year ended December 31, 2004. Mototech is an affiliate of Accton Technology Group, a group of Taiwanese manufacturers that we believe are well-known in the electronics industry. Mototech currently manufactures and distributes a full range of high performance high speed data and computer networking products, including cable set top boxes, home gateways, wireless LANs, hubs, switches, routers, and other related products. In addition, in April 2004, Mototech invested $1,000 to purchase 666,666 shares of newly issued common stock at $1.50 per share.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk. Our exposure to market risk related to changes in interest rates relates primarily to our investment portfolio. We invest in instruments that meet high credit quality standards, and we limit the amount of credit exposure with respect to any one issue, issuer and type of investment.

As of March 31, 2005, the Company's cash and cash equivalents were $9,929, having a maturity of less than 90 days, and it had no short-term investments. Due to the average maturity and conservative nature of our investment portfolio, management believes a sudden change in interest rates would not have a material effect on the value of the portfolio. Management estimates that had the average yield of our investments decreased by 100 basis points, our interest income for the three months ended March 31, 2005 would have decreased by approximately $24. This estimate assumes that the decrease occurred on the first day of 2005 and reduced the yield of each investment instrument by 100 basis points. The impact on our future interest income of future changes in investment yields will depend largely on our total investments.

Foreign Currency Exchange Risk. Although we transact business in various foreign countries, the principal portion of our business is in the United States and substantially all of our revenues and costs to date have been denominated in U.S. dollars. Although our agreement with Mototech (not an affiliate of Motorola), our contract manufacturer in Taiwan, is denominated in U.S. dollars, their material acquisition costs are subject to exchange rate changes that could impact our product costs.

ITEM 4. CONTROLS AND PROCEDURES.

As of the end of the period covered by this Form 10-Q/A, our management, with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d -15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")).

Based on that evaluation, our chief executive officer and chief financial officer determined that we have a material weakness (as defined under the standards established by the American Institute of Certified Public Accountants) that exists with respect to our reporting of complex transactions. As a result of this material weakness, on November 14, 2004 we restated our financial statements in our annual and quarterly reports from our Form 10-Q for the quarter ended March 31, 2004 through this report.

To address this material weakness, we have engaged outside experts to provide counsel and guidance in areas where we cannot economically maintain the required expertise internally (e.g., with the appropriate classifications and treatments of complex and non-routine transactions).

As a result of the material weakness identified with respect to our reporting of complex transactions, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures are not designed and effective in ensuring that the information required to be disclosed by our company in the reports that we file and submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Except as identified above, there have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

(Dollar Amounts are in Thousands, Except per Share Amounts)

ITEM 1. LEGAL PROCEEDINGS.

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On June 24, 2004, we completed a private placement that resulted in the issuance of 7,550 shares of preferred stock at a sale price of $1000 per share (which preferred stock is convertible into our common stock at a conversion price of $2.35 per share), five-year warrants to purchase up to 803,190 shares of our common stock at an exercise price of $2.69 per share, and five-year warrants to purchase up to 803,190 shares of our common stock at an exercise price of $3.14 per share. The investors also received an additional investment right, for a limited period of time, to purchase 1,606,383 additional shares of common stock shares at $3.14 a share. The June 2004 private placement resulted in gross proceeds to our Company of $7,550. From November 2004 through April 15, 2005, holders of the preferred stock from the June 24, 2004 private placement have converted 5,125 of their shares, resulting in the issuance of 2,180,851 shares of our common stock based upon the $2.35 conversion price. Furthermore, between January 2004 and April 18, 2005, the investors from the 2003 and 2004 private placements have exercised warrants and additional investment rights resulting in additional gross proceeds of approximately $7,089,000 and the issuance of 3,134,048 shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

The following is a list of exhibits filed as part of this report on Form 10-Q. Where so indicated by footnote, exhibits that were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated parenthetically except in those situations where the exhibit number was the same as set forth below.

Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation (3)
3.2	Amended and Restated Bylaws (1)
3.3	Certificate of Amendment to Certificate of Incorporation, dated October 18, 2004 (3)
3.4	Certificate of Designations, Preferences and Rights of the Series A Convertible Preferred Stock of the Company dated June 23, 2004 (2)
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)*
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002*

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002*

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* Filed herewith

(1) Incorporated by reference to the exhibits to our Form 10-Q Report for the quarter ended March 31, 1999.

(2) Incorporated by reference to the exhibits to the Company's Proxy Statement to shareholders filed September 30, 2004.

(3)Incorporated by reference to the exhibits to our Form 10-Q Report for the quarter ended September 30, 2004, as filed on November 17, 2004.

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.

WORLDGATE COMMUNICATIONS, INC.

Date: January 23, 2006	/s/ Hal M. Krisbergh
	Hal M. Krisbergh
	Chairman and Chief Executive Officer
	(Principal Executive Officer)
Date: January 23, 2006	/s/ Joel Boyarski
	Joel Boyarski
	Vice President and Chief Financial Officer
	(Principal Financial and Accounting Officer)