

WorldGate Releases Second Quarter 2009 Results

Investor Conference Call Scheduled

TREVOSE, PA – August 14, 2009 (BUSINESS WIRE) - WorldGate Communications Inc. (OTCBB - **WGAT.OB**), a leading provider of next-generation video phone solutions, announced today its financial results for the second quarter ended June 30, 2009.

The Company also announced that it has scheduled a conference call on Wednesday, August 19, 2009 at 4:30PM Eastern Time. Management will discuss the financial results and will provide an overview of the business. The conference call telephone number is 719-325-4917 or 877-627-6544 and the conference confirmation code is 3191472. A replay of the conference call will be available for one week after the call on our web site at www.wgate.com.

Second Quarter Highlights:

- **New Business Model.** The Company announced in May that it was transforming from not only a manufacturer of high quality consumer video phones, but also into a service operating company that provides “turn-key” digital video phone services (meaning a complete, ready-to-use digital video phone services solution) directly to end using customers. Inherent in this strategy is a monthly recurring revenue stream that would be based on the particular services provided by us to each company we partner with. This strategy enables many non-traditional companies and organizations that have broad distribution reach, but do not have an infrastructure to provide telephone and video services, to provide their distribution networks with a video phone service solution.
- **New Management.** The Company made several senior management changes and introduced a new Senior Vice President of Sales, Marketing and Business Development, a new Senior Vice President, General Counsel and Secretary, a new Senior Vice President of Customer Operations and recently announced the appointment of Dr. George E. Daddis Jr. to the position of Chief Executive Officer. Mr. Daddis is an experienced chief executive officer and entrepreneur, having founded two successful technology companies and has extensive experience in building technology companies and establishing markets for next-generation digital technologies.
- **New Board of Directors.** The Company has brought together a group of leading telecommunications executives that have extensive relationships with many of the world’s top communication companies, along with a broad spectrum of industry experience and proven track records growing start-ups and small companies into large, highly profitable companies.
- **WGI/ACN Transactions.** On April 6, 2009, the Company closed the transactions contemplated by the Securities Purchase Agreement, dated December 12, 2008, between WGI Investor LLC and the Company and the Commercial Relationship with ACN Digital Phone Service, LLC. The Company received \$2.65 million of aggregate funds as

a result of these agreements.

- Warrant Exercises. Through the exercise of certain warrants, the Company received additional funds of \$2.3 million, of which \$881,000 was received prior to June 30, 2009 and the balance thereafter.

Financial Summary

As more fully explained in our Form 10-Q for the quarter ending June 30, 2009 filed today:

- Revenues. Revenues for the three months ended June 30, 2009 were \$143,000, a decrease of \$1.1 million, versus the three months ended June 30, 2008. Revenue for the six months ended June 30, 2009 was \$1.4 million, comparable to the revenues for the six months ended June 30, 2008. Current quarter revenues do not include any revenue from the Company's planned new service provider business model. Revenue from the new business model is not expected until late in 2009 or early next year.
- Operating Expenses. Operating expenses for the three months ended June 30, 2009 were \$2.5 million, excluding a non-cash charge of \$14.5 million related to the recording of the WGI/ACN transactions (as detailed below). The \$2.5 million in operating expenses included an accrual of \$626,000 in compensation and severance expenses related to officers that were terminated during the quarter. Operating expenses for the three months ended June 30, 2008 were \$1.7 million. Excluding the non-cash charge of \$14.5 million related to the recording of the WGI/ACN transactions, the operating expenses for the six months ended June 30, 2009 were \$4.1 million, an increase of \$0.6 million compared to \$3.5 million for the six months ended June 30, 2008, reflecting the accrual of \$626,000 in compensation and severance expenses related to officers that were terminated.
- Net Loss. The net loss for the three months ended June 30, 2009, excluding the non-cash charge of \$14.5 million related to the recording of the WGI/ACN transactions, was \$4.3 million compared to \$3.0 million for the three months ended June 30, 2008. Excluding the non-cash charge of \$14.5 million related to the recording of the WGI/ACN transactions, the net loss for the six months ended June 30, 2009 was \$2.1 million, an improvement of \$3.1 million versus the six months ended June 30, 2008.

Accounting of the WGI/ACN Transactions

On April 6, 2009, the Company completed a private placement of securities to WGI pursuant to the terms of the Securities Purchase Agreement. In connection with the transaction the Company recorded a non-cash charge in the current quarter of \$14.5 million, the details of which can be found in the Company's June 30, 2009 Form 10-Q.

The Company believes that the accounting of the WGI and ACN transactions as noted above does not provide indicative period to period trends in revenues, expenses and profitability. To appropriately review these measures and provide management more relevant indications of our operating performance over time, management excludes the impact of the excess fair value and offsets in revenue recognition from its internal financial statements in evaluating its

operating results. Accordingly the Company has excluded these impacts in the non GAAP reporting of these financial elements as noted above.

Reconciliation of Total Operating Expenses and Net loss (\$ 000)

For the Three Months Ended June 30, 2009

Total Operating Expenses

As Reported	\$16,949
Non GAAP Adjustment- Excess fair value transferred to WGI	(14,463)
Adjusted Non-GAAP Operating Expense	<u>\$2,486</u>

Net Loss

As Reported	(\$18,802)
Non GAAP Adjustment- Excess fair value transferred to WGI	14,463
Adjusted Non-GAAP Net Loss	<u>(\$4,339)</u>

For the Six Months Ended June 30, 2009

Total Operating Expenses

As Reported	\$18,533
Non GAAP Adjustment - Excess fair value transferred to WGI	(14,463)
Adjusted Non-GAAP Operating Expense	<u>\$4,070</u>

Net Loss

As Reported	(\$16,538)
Non GAAP Adjustment- Excess fair value transferred to WGI	14,463
Adjusted Non-GAAP Net Loss	<u>(\$2,075)</u>

This press release may contain forward-looking statements that are made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Expressions of future goals and similar expressions including, without limitation, expressions using the terminology “may,” “plans,” “expects,” “anticipates,” “forecasts,” and expressions which otherwise reflect something other than historical fact are intended to identify forward-looking statements. These forward-looking statements involve a number of risks and uncertainties, including the factors described in the Company’s filings with the Securities and Exchange Commission. The actual results may differ materially from any forward-looking statements due to such risks and uncertainties. No obligation is undertaken to revise or update any forward-looking statements in order to reflect events or circumstances that may arise after the date of this release.

Contact
WorldGate
Joel Boyarski
215-354-5312
jboyarski@wgate.com

WORLDGATE COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars In Thousands, Except Share Amounts)

	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008 *</u>
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,209	\$ 429
Trade accounts receivables, less allowance for doubtful accounts of \$157 at June 30, 2009 and \$0 at December 31, 2008	918	1,019
Other receivables	1	1
Inventory, net	1,048	1,176
Prepaid and other current assets	282	160
Revenue incentive asset,- current portion	4,200	0
Total current assets	7,658	2,785
Property and equipment, net	869	234
Deposits and other assets	0	66
Revenue incentive asset – long term portion	55,800	0
Total assets	\$ 64,327	\$ 3,085
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities :		
Accounts payable.....	\$ 2,311	\$ 1,750
Accrued expenses	657	1,420
Accrued compensation and benefits.....	91	173
Accrued severance.....	690	0
Detachable warrants.....	413	4,360
Warranty reserve	18	17
Deferred revenues and income	2,201	1,762
Notes Payable.....	96	0
Convertible debentures payable (net of unamortized discount of \$0 at June 30, 2009 and \$2,287 at December 31, 2008	0	1,793
Total current liabilities	6,477	11,275
Commitments and contingencies		
Stockholders' equity (deficiency):		
Preferred Stock, \$.01 par value, 13,492,450 shares authorized; 0 shares issued at June 30, 2009 and December 31, 2008.....	0	0
Common Stock, \$.01 par value; 700,000,000 and 200,000,000 shares authorized at June 30, 2009 and December 31, 2008, respectively; and 325,048,500 shares issued and outstanding at June 30,2009 and 118,906,345 at December 31, 2008.....	3,251	1,189
Additional paid-in capital.....	340,545	261,478
Accumulated deficit	(285,946)	(270,857)
Total stockholders' equity (deficiency)	57,850	(8,190)
Total liabilities and stockholders' equity (deficiency)	\$ 64,327	\$ 3,085

* Condensed from audited financial statement

WORLDGATE COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars In Thousands, Except Share And Per Share Amounts)

	Three Months ended June 30,		Six Months ended June 30,	
	2009	2008	2009	2008
Net revenues:				
Product revenues.....	\$ 16	\$ 812	\$ 365	\$ 831
Service revenues.....	89	164	182	259
Other revenues.....	38	279	833	279
Total net revenues.....	143	1,255	1,380	1,369
Cost of revenues.....	5	837	919	875
Gross margin	138	418	461	494
Engineering and development.....	763	498	1,405	1,075
Sales and marketing	67	140	105	359
General and administrative	1,576	978	2,441	1,877
Excess fair value transferred to WGI	14,463	0	14,463	0
Depreciation and amortization	80	81	119	180
Total expenses from operations	16,949	1,697	18,533	3,491
Loss from operations.....	(16,811)	(1,279)	(18,072)	(2,997)
Other Income (expense)				
Interest and other income.....	0	4	8	10
Change in fair value of derivative warrants and conversion options.....	284	(1,674)	4,209	(1,807)
Income from service fee contract termination.....	0	1,056	348	1,056
Amortization of debt discount.....	(2,235)	(707)	(2,918)	(926)
Loss on equipment disposal	0	(295)	0	(295)
Interest and other expense	(40)	(99)	(113)	(186)
Total other (expense) income, net	(1,991)	(1,715)	1,534	(2,148)
Net loss	\$ (18,802)	\$ (2,994)	\$ (16,538)	\$ (5,145)
Net loss per common share:				
Basic and Fully Diluted.....	\$ (0.06)	\$ (0.05)	\$ (0.08)	\$ (0.09)
Weighted average common shares outstanding:				
Basic and Fully Diluted.....	308,302,424	58,740,660	214,127,578	57,844,501

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

	Six Months ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net loss.....	\$ (16,538)	\$ (5,145)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	119	180
Amortization of debt discount.....	2,918	926
Excess fair value transferred to WGI	14,463	0
Bad debt expense.....	157	0
Change in fair value of derivative warrants and conversion options.....	(4,209)	1,807
Loss on disposal of fixed assets.....	1	295
Inventory reserve.....	600	0
Non-cash stock based compensation.....	290	251
Changes in operating assets and liabilities:		
Trade accounts receivable.....	(56)	75
Other receivables	1	603
Inventory.....	(472)	351
Prepaid and other current assets	(122)	(108)
Deposits and other assets.....	66	55
Accounts payable.....	60	529
Accrued expenses and other current liabilities	283	(732)
Accrued severance.....	690	0
Accrued compensation and benefits.....	(82)	67
Warranty reserve.....	1	(21)
Deferred revenues and other income.....	439	213
Net cash used in operating activities.....	<u>(1,391)</u>	<u>(654)</u>
Cash flows used in investing activities:		
Capital expenditures	(256)	0
Proceeds from the sale of fixed assets.....	0	4
Net cash (used in) provided by investing activities.....	<u>(256)</u>	<u>4</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,581	1
Proceeds from the issuance of notes.....	846	0
Net cash provided by financing activities.....	<u>2,427</u>	<u>1</u>
Net increase (decrease) in cash and cash equivalents	780	(649)
Cash and cash equivalents, beginning of period	429	1,081
Cash and cash equivalents, end of period.....	<u>\$ 1,209</u>	<u>\$ 432</u>
Non-cash investing and financing activities:		
Cumulative effect on a change in accounting principle on (See Note 6):		
Detachable warrants	\$ 885	\$ 0
Additional Paid in Capital	(1,751)	0
Accumulated deficit	1,449	0
Conversion of convertible debenture to common stock	0	648
Common stock issued in payment of convertible debentures	4,080	0
Common stock issued in payment of accrued interest	1,046	0
Common stock issued in payment of warrant derivative	623	0
Common stock issued in payment of notes	750	0
Revenue incentive asset	60,000	0