

VIEWPOINT CORP/NY/  
Form 10-Q  
November 14, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**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 September 30, 2002

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: 0-27168

**VIEWPOINT CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-4102687**  
(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 such 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  No

As of November 4, 2002, 40,998,913 shares of \$0.001 par value common stock were outstanding.

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**VIEWPOINT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except per share data)  
(Unaudited)

|   | <u>September</u> | <u>December</u> |
|---|------------------|-----------------|
|   | 30,              | 31,             |
|   | 2002             | 2001            |
| <b>ASSETS</b>                                     |                  |                 |
| Current assets:                                   |                  |                 |
| Cash and cash equivalents                         | \$9,240          | \$8,345         |
| Marketable securities                             | 1,823            | 7,068           |
| Accounts receivable, net                          | 3,297            | 4,096           |
| Notes receivable, net                             | 750              | 750             |
| Prepaid expenses and other current assets         | 541              | 836             |
| Current assets related to discontinued operations | 141              |                 |
| <hr/>   |                  |                 |
| <hr/>   |                  |                 |
| Total current assets                              | 15,651           | 21,236          |
| Property and equipment, net                       | 3,866            | 4,662           |
| Goodwill, net                                     | 31,276           | 33,042          |
| Intangible assets, net                            | 163              | 2,361           |
| Loans to officers                                 | 612              | 595             |
| Other assets                                      | 4                | 21              |
| <hr/>   |                  |                 |
| <hr/>   |                  |                 |

Total assets  
\$51,572 \$61,917

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**LIABILITIES AND  
STOCKHOLDERS EQUITY**

Current liabilities:

Accounts payable  
\$1,578 \$1,314  
Accrued expenses  
1,267 1,304  
Due to related parties, net  
2,867 4,764  
Deferred revenues  
660 907  
Accrued incentive compensation  
545 545  
Current liabilities related to  
discontinued operations  
231 346

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Total current liabilities  
7,148 9,180

Stockholders equity:

Preferred stock, \$.001 par value;  
5,000 shares authorized no shares  
issued and outstanding at  
September 30, 2002 and  
December 31, 2001

Common stock, \$.001 par value;  
75,000 shares authorized 41,159  
shares issued and 40,999 shares  
outstanding at September 30,  
2002, and 39,620 shares issued and  
39,460 shares outstanding at  
December 31, 2001

41 40

Paid-in capital  
268,059 263,157

Deferred compensation  
(5,886) (11,279)

Treasury stock at cost; 160 shares  
at September 30, 2002 and  
December 31, 2001  
(1,015) (1,015)

Accumulated other comprehensive  
income (loss)  
(15) 18  
Accumulated deficit  
(216,760) (198,184)

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Total stockholders' equity  
44,424 52,737

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Total liabilities and stockholders  
equity  
\$51,572 \$61,917

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



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

| Three Months<br>Ended<br>September 30, |      | Nine Months<br>Ended<br>September 30, |      |
|--|------|---------------------------------------|------|
| 2002                                   | 2001 | 2002                                  | 2001 |

Revenues:

|          |         |          |         |  |
|----------|---------|----------|---------|--|
| Licenses |         |          |         |  |
| \$3,657  | \$2,421 | \$11,058 | \$6,109 |  |
| Services |         |          |         |  |
| 1,669    | 1,546   | 4,430    | 3,400   |  |

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|                |       |        |       |  |
|----------------|-------|--------|-------|--|
| Total revenues |       |        |       |  |
| 5,326          | 3,967 | 15,488 | 9,509 |  |

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Cost of revenues:

|          |     |       |       |  |
|----------|-----|-------|-------|--|
| Licenses |     |       |       |  |
| 6        | 36  | 251   | 199   |  |
| Services |     |       |       |  |
| 1,125    | 933 | 2,947 | 2,311 |  |

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Total cost of revenues  
 1,131 969 3,198 2,510

Gross profit  
 4,195 2,998 12,290 6,999

Operating expenses:

Sales and marketing (including non-cash stock-based compensation charges totaling \$727 and \$654 for the three months ended September 30, 2002 and 2001, respectively and \$2,517 and \$1,931 for the nine months ended September 30, 2002 and 2001, respectively)

4,367 4,013 12,018 14,544

Research and development (including non-cash stock-based compensation charges totaling \$191 and \$715 for the three months ended September 30, 2002 and 2001, respectively and \$546 and \$2,200 for the nine months ended September 30, 2002 and 2001, respectively)

1,140 2,806 3,835 7,400

General and administrative (including non-cash stock-based compensation charges totaling \$282 and \$428 for the three months ended September 30, 2002 and 2001, respectively and \$1,110 and \$1,223 for the nine months ended September 30, 2002 and 2001, respectively)

2,247 2,974 6,846 7,873

Depreciation

493 466 1,463 1,321

Amortization of intangible assets

1 831 664 2,494

Amortization of goodwill

3,673 10,430

Impairment of goodwill and other intangible assets

6,275

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Total operating expenses  
8,248 14,763 31,101 44,062

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Loss from operations  
(4,053) (11,765) (18,811) (37,063)  
Other income  
44 226 133 943

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Net loss from continuing operations  
(4,009) (11,539) (18,678) (36,120)  
Adjustment to net loss on disposal of discontinued  
operations  
9 102 730

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Net loss  
\$(4,000) \$(11,539) \$(18,576) \$(35,390)

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Basic and diluted net loss per common share:

Net loss per common share from continuing operations

\$(0.10) \$(0.29) \$(0.46) \$(0.93)

Net income per common share from discontinued operations

0.02

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Net loss per common share

\$(0.10) \$(0.29) \$(0.46) \$(0.91)

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Weighted average number of shares outstanding basic and diluted

40,987 39,801 40,677 38,755

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

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**VIEWPOINT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)

|   | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2002</b>                                | <b>2001</b> |
| Cash flows from operating activities:                                       |  |             |
| Net loss  | \$(18,576)                                 | \$(35,390)  |
| Adjustments to reconcile net loss to net cash used in operating activities: |  |             |
| Adjustment to net loss on disposal of discontinued operations               | (102)                                      | (730)       |
| Non-cash stock-based compensation charges                                   | 4,173                                      | 5,354       |
| Depreciation and amortization   | 2,127                                      | 14,245      |
| Provision for bad debt  | 570  | 573         |
| Impairment of goodwill and other intangible assets                          | 6,275                                      |             |
| Recovery of notes receivable  | (665)                                      |             |
| Loss on sale and disposal of equipment                                      | 45   |             |
| Accrued interest income   | (17)                                       |             |
| Changes in operating assets and liabilities, net of acquisitions:           |  |             |
| Accounts receivable   | 229  | (2,180)     |
| Prepaid expenses and other assets   | 312  | 946         |
| Accounts payable  | 264  | (1,392)     |
| Accrued expenses  | (37)                                       | 335         |
| Due to/from related parties   | (72)                                       | 279         |
| Deferred revenues   | (247)                                      | 1,312       |
| Net cash provided by discontinued operations                                | 128  | 5,978       |

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Net cash used in operating activities

(4,928) (11,335)

Cash flows from investing activities:

Purchases of marketable securities

(3,507) (19,060)

Proceeds from sales and maturities of marketable securities

8,725 30,885

Repayment of notes receivable from related parties

520

Purchases of property and equipment

(712) (800)

Purchases of patents and trademarks

(47) (99)

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Net cash provided by investing activities

4,459 11,446

Cash flows from financing activities:

Issuance of loans to officers

(575)

Proceeds from exercise of stock options

1,370 1,925

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Net cash provided by financing activities

1,370 1,350

Effect of exchange rate changes on cash and cash equivalents

(6) (16)

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Net increase in cash and cash  
equivalents  
895 1,445  
Cash and cash equivalents at  
beginning of period  
8,345 13,320

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Cash and cash equivalents at  
end of period  
\$9,240 \$14,765

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

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**VIEWPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 31, 2001. The interim financial information is unaudited, but reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of Viewpoint Corporation's (Viewpoint or the Company) financial position and operating results for the interim periods.

These unaudited consolidated financial statements have been prepared in accordance with the instructions to Rule 10-01 of Regulations 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, 2001. The results of operations for the three and nine months ended September 30, 2002 are not necessarily indicative of the results to be expected for the year ending December 31, 2002.

Certain reclassifications have been made to the 2001 consolidated financial statements to conform to the 2002 presentation.

**Revenue Recognition**

Revenue recognition rules for software companies are very complex. We follow very specific and detailed guidelines in measuring revenue; however, certain judgments affect the application of our revenue policy.

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

Viewpoint generates revenues through two sources: (a) software licenses and (b) services. License revenues are generated from licensing the rights to use our products directly to end-users and indirectly through value added resellers (VARs). Service revenues are generated from fee-based professional services, sales of customer support services (maintenance contracts), and training services performed for customers that license our products.

License revenue includes sales of perpetual and term-based licenses for broadcasting digital content in the Viewpoint format, and limited licenses for our digital content library. License revenue is recognized over the term of the license in a term-based broadcast license model where the term is less than 15 months, and up-front in a perpetual broadcast license model and a term-based broadcast license model where the term is 15 months or longer, providing that no significant vendor obligations remain and the resulting receivable is deemed collectible by management.

Fee-based professional services are performed on a time-and-material basis or on a fixed-fee basis, under separate service arrangements. Revenues related to these services are recognized on a percentage-of-completion basis in accordance with the provisions of SOP 81-1

Accounting For Performance of Construction-Type and Certain Production-Type Contracts. Percentage-of-completion for service contracts is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total cost for each contract at completion. Revenues from customer support services are recognized ratably over the term of the contract. Revenues from training services are recognized as services are performed.



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**VIEWPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Standard terms for license agreements call for payment within 90 days. Probability of collection is based upon the assessment of the customer's financial condition through the review of their current financial statements or credit reports. For follow-on sales to existing customers, prior payment history is also used to evaluate probability of collection. Our agreements with customers do not contain product return rights.

Fees from licenses sold together with fee-based professional services are generally recognized upon delivery of the software, provided that the payment of the license fees are not dependent upon the performance of the services, and the services are not essential to the functionality of the licensed software. If the services are essential to the functionality of the software or payment of the license fees are dependent upon the performance of the services, both the software license and service fees are recognized under the percentage-of-completion method of contract accounting.

If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. If a nonstandard acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

The Company periodically enters into nonmonetary arrangements whereby the Company's licenses or services are exchanged for services of its customers. Nonmonetary revenue is recognized at the estimated fair value of the services received. Generally, nonmonetary revenues equal nonmonetary expenses; however, due to timing, nonmonetary accounts receivable and accounts payable may result.

**Recent Accounting Pronouncements**

In July 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 143, Accounting for Asset Retirement Obligations. The statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The statement is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 is not expected to have a material impact on the Company's financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This Statement requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF No. 94-3. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material impact on the Company's financial statements.

**2. Basic and Diluted Net Loss Per Common Share**

Basic net loss per common share is computed using the weighted average number of shares of common stock and diluted net loss per common share is computed using the weighted average number of shares of common stock and common equivalent shares outstanding. Common equivalent shares related to stock options totaling 4,491,104 and 8,450,976 for the three months ended September 30, 2002 and 2001, respectively, and 7,539,587 and 8,186,476 for the nine months ended September 30, 2002 and 2001, respectively, are excluded from the computation of diluted net loss per common share because their effect was antidilutive.

Basic and diluted net loss per common share for the three and nine months ended September 30, 2001, include the effect of 744,740 shares issued to Computer Associates International, Inc. ( Computer Associates ) on June 24, 2002, as if the shares were issued and outstanding on June 8, 2001.

**3. Agreements with Computer Associates**

Pursuant to the purchase of all of the outstanding capital stock of Viewpoint Digital, Inc. ( Viewpoint Digital ) on September 8, 2000, the Company issued two contingent promissory notes to Computer Associates each in the

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**VIEWPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

maximum amount of \$15,000,000, but subject to reduction on the basis of the performance of the Viewpoint Digital assets. During 2001, the Company entered into certain agreements with Computer Associates whereby Computer Associates agreed to accept newly-issued shares of Viewpoint common stock having a value of \$4,000,000, in partial repayment of the first contingent promissory note due June 8, 2001. In addition, Computer Associates agreed to accept, at the Company's election, either cash or newly-issued shares of Viewpoint common stock at an issue price of \$4.00 per share in repayment of any additional amounts due under the promissory note due June 8, 2001, and the first \$8,943,000 of the \$15,000,000 contingent promissory note due April 30, 2002.

In June 2002, Viewpoint issued 909,093 shares of Viewpoint common stock to Computer Associates in full satisfaction of the first contingent promissory note due June 8, 2001. The amount due Computer Associates under the promissory note due April 30, 2002 is approximately \$2,928,000 and is reflected in due to related parties in the Company's consolidated balance sheet at September 30, 2002.

**4. Related Party Transactions**

During the three and nine months ended September 30, 2002, the Company recorded revenues totaling \$3,088,000 and \$8,686,000, respectively, related to agreements, including reseller arrangements, with America Online, Inc. ( AOL ) and Computer Associates, both of whom have representatives on the Company's Board of Directors. The \$8,686,000 of revenues for the nine months ended September 30, 2002 includes approximately \$3,384,000 due to a March 2002 amendment to a contract with AOL, which resulted in the Company recording revenues when payments are due, as contrasted to the partial deferral of those payments, which would otherwise have occurred. As of September 30, 2002, the Company has \$438,000 in accounts receivable and \$404,000 in deferred revenue relating to transactions entered into with these related parties.

During the three and nine months ended September 30, 2001, the Company recorded revenues totaling \$1,110,000 and \$1,466,000, respectively, related to agreements, including reseller arrangements, with AOL and Computer Associates.

**5. Goodwill and Intangible Assets**

Effective January 1, 2002, the Company completed the adoption of SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. As required by SFAS No. 142, the Company discontinued amortizing the remaining balances of goodwill as of January 1, 2002. All remaining and future acquired goodwill will be subject to impairment tests annually, or earlier if indicators of potential impairment exist, using a fair-value-based approach. All other intangible assets will continue to be amortized over their estimated useful lives and assessed for impairment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. In conjunction with the implementation of SFAS No. 142, the Company completed a goodwill impairment review as of January 1, 2002 and found no impairment on that date.

Upon adoption of the new Business Combination rules, an assembled workforce no longer met the definition of an identifiable intangible asset. As a result, the net balance of \$1,767,000, has been reclassified to goodwill on January 1, 2002.



Adjusted basic and diluted net loss per share  
 \$(0.10) \$(0.20) \$(0.46) \$(0.64)

(1) Includes amortization of an assembled workforce that has been reclassified as goodwill effective January 1, 2002, amounting to \$265 and \$795 for the three and nine months ended September 30, 2001, respectively.

The Company recorded \$2,928,000 of additional goodwill during the first quarter of 2002 in connection with a contingent promissory note due Computer Associates on April 30, 2002 for the acquisition of Viewpoint Digital. As of March 31, 2002, due to the persistence of unfavorable economic conditions along with lower-than-expected revenues generated to date and reduced estimates of future performance of the Viewpoint Digital assets, the Company performed an additional impairment analysis on the goodwill and other intangible asset balances recorded upon the acquisition of Viewpoint Digital. In accordance with the provisions of SFAS No. 142 and SFAS No. 144, the Company recorded impairment charges totaling \$6,275,000. The fair value of the Viewpoint Digital assets was estimated using the expected present value of future cash flows. The assumptions supporting the cash flows, including the discount rate, were determined using the Company's best estimates as of the date the impairment was recorded.

The changes in the carrying amount of goodwill and intangible assets during the nine months ended September 30, 2002 are as follows (in thousands):

|                                  | <u>Goodwill</u> | <u>Intangible<br/>Assets</u> | <u>Total</u> |
|----------------------------------|-----------------|------------------------------|--------------|
| Balance as of January 1, 2002    | \$33,042        | \$ 2,361                     | \$35,403     |
| Additions during period          |                 |                              |              |
| 2,928 47 2,975                   |                 |                              |              |
| Impairment losses                |                 |                              |              |
| (4,694) (1,581) (6,275)          |                 |                              |              |
| Amortization                     |                 |                              |              |
| (664) (664)                      |                 |                              |              |
| Balance as of September 30, 2002 | \$31,276        | \$163                        | \$31,439     |





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**VIEWPOINT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6. Comprehensive Loss**

Total comprehensive loss for the three and nine months ended September 30, 2002 and 2001 consisted of the following (in thousands):

|  | THREE MONTHS<br>ENDED<br>SEPTEMBER 30, |            | NINE MONTHS<br>ENDED<br>SEPTEMBER 30, |            |
|--|--|------------|---------------------------------------|------------|
|  | 2002                                   | 2001       | 2002                                  | 2001       |
| Net loss   | \$(4,000)                              | \$(11,539) | \$(18,576)                            | \$(35,390) |
| Foreign currency translation adjustment<br>(5) (9) (6) (16)          |  |            |                                       |            |
| Unrealized gain (loss) on marketable securities<br>(87) (10) (27) 17 |  |            |                                       |            |
|  |  |            |                                       |            |
|  |  |            |                                       |            |
|  |  |            |                                       |            |
|  |  |            |                                       |            |
| Comprehensive loss   | \$(4,092)                              | \$(11,558) | \$(18,609)                            | \$(35,389) |

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

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

*In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially. 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 2002 and our Annual Report on Form 10-K for 2001. When used in this report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "targets," "estimates," and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.*

**Overview**

Viewpoint Corporation is a leading provider of interactive media technologies and services. Its graphics operating system platform, Viewpoint Media Player, has been licensed by Fortune 500 companies and others for use in online, offline and embedded applications serving a wide variety of needs, including: business process visualizations, marketing campaigns, rich media advertising and product presentations. The Company also provides cross media digital solutions for film, broadcast television and games.

The Company's primary initiatives include:

Licensing technology for specific marketing and e-commerce visualization solutions;

Providing a full range of fee-based digital asset content creation and engineering professional services for implementing visualization solutions for marketing and creating new and enhancing existing enterprise software applications;

Proliferating the Viewpoint format into digital advertisements on various digital media, primarily the Web and digital set-top cable boxes;

Forging technological alliances with leading interactive agencies and Web content providers; and

Maximizing market penetration and name recognition, including distribution of the Company's client-side software graphics operating system, Viewpoint Media Player.

Viewpoint believes that its success will depend largely on its ability to proliferate its digital technologies into various media, including the Internet, broadcast television, games, movies, print, closed intranets, new and existing enterprise applications and television set-top boxes. Accordingly, Viewpoint has invested and intends to continue investing in research and development and sales and marketing. Revenues from continuing operations primarily have been from the sale of technology licenses and fee based professional services, including digital content creation services and engineering services to enhance and create new enterprise software applications.

Viewpoint has a limited operating history upon which an evaluation of the Company and its prospects can be based. 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. Viewpoint has had significant quarterly and annual operating losses since its inception, and as of September 30, 2002, had an accumulated deficit of \$216,760,000.



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**RESULTS OF OPERATIONS**

The following table sets forth for the three and nine months ended September 30, 2002 and 2001, 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, |      |
|-------------------------------------|----------------------------------|------|---------------------------------|------|
|                                     | 2002                             | 2001 | 2002                            | 2001 |
| <b>Statement of Operations Data</b> |                                  |      |                                 |      |
| Revenues:                           |                                  |      |                                 |      |
| Licenses                            | 69%                              | 61%  | 71%                             | 64%  |
| Services                            | 31                               | 39   | 29                              | 36   |
| <hr/>                               |                                  |      |                                 |      |
| <hr/>                               |                                  |      |                                 |      |
| <hr/>                               |                                  |      |                                 |      |
| <hr/>                               |                                  |      |                                 |      |
| Total revenues                      | 100                              | 100  | 100                             | 100  |
| <hr/>                               |                                  |      |                                 |      |
| <hr/>                               |                                  |      |                                 |      |
| <hr/>                               |                                  |      |                                 |      |
| <hr/>                               |                                  |      |                                 |      |
| Cost of revenues:                   |                                  |      |                                 |      |
| Licenses                            | 1                                | 2    | 2                               |      |
| Services                            | 21                               | 23   | 19                              | 24   |
| <hr/>                               |                                  |      |                                 |      |
| <hr/>                               |                                  |      |                                 |      |
| <hr/>                               |                                  |      |                                 |      |

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Total cost of revenues  
21 24 21 26

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Gross profit  
79 76 79 74

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Operating expenses:

Sales and marketing (including non-cash  
stock-based compensation charges)  
82 101 78 153

Research and development (including  
non-cash stock-based compensation  
charges)  
22 71 25 78

General and administrative (including  
non-cash stock-based compensation  
charges)  
42 75 44 83

Depreciation  
9 12 9 14

Amortization of intangible assets  
21 4 26

Amortization of goodwill  
92 109

Impairment of goodwill and other  
intangible assets  
41

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Total operating expenses  
155 372 201 463

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Loss from operations  
(76) (296) (122) (389)  
Other income  
1 6 1 9

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Net loss from continuing operations  
(75) (290) (121) (380)  
Adjustment to net loss on disposal of  
discontinued operations  
1 8

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Net loss  
(75)% (290)% (120)% (372)%

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**Revenues**

|  | September<br>30,<br>2002 | September<br>30,<br>2001 | %      |
|--|--------------------------|--------------------------|--------|
|  |                          |                          | Change |

(dollars in  
thousands)

Three months ended:

|          |         |         |     |
|----------|---------|---------|-----|
| Licenses | \$3,657 | \$2,421 | 51% |
| Services | 1,669   | 1,546   | 8%  |

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|                |         |         |     |
|----------------|---------|---------|-----|
| Total revenues | \$5,326 | \$3,967 | 34% |
|----------------|---------|---------|-----|

Nine months ended:

|          |          |         |     |
|----------|----------|---------|-----|
| Licenses | \$11,058 | \$6,109 | 81% |
| Services | 4,430    | 3,400   | 30% |

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|                |          |         |     |
|----------------|----------|---------|-----|
| Total revenues | \$15,488 | \$9,509 | 63% |
|----------------|----------|---------|-----|

The Company recognizes revenue in accordance with SOP 97-2, Software Revenue Recognition, as amended, and SAB No. 101 Revenue Recognition in Financial Statements.

Viewpoint generates revenues through two sources: (a) software licenses and (b) services. License revenues are generated from licensing the rights to use our products directly to end-users and indirectly through VARs. Service

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revenues are generated from fee-based professional services, sales of customer support services (maintenance contracts), and training services performed for customers that license our products.

License revenue includes sales of perpetual and term-based licenses for broadcasting digital content in the Viewpoint format, and limited licenses for our digital content library. License revenue is recognized over the term of the license in a term-based broadcast license model where the term is less than 15 months, and up-front in a perpetual broadcast license model and a term-based broadcast license model where the term is 15 months or longer, providing that no significant vendor obligations remain and the resulting receivable is deemed collectible by management.

Fee-based professional services are performed on a time-and-material basis or on a fixed-fee basis, under separate service arrangements. Revenues related to these services are recognized on a percentage-of-completion basis in accordance with the provisions of SOP 81-1

Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Percentage-of-completion for service contracts is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total cost for each contract at completion. Revenues from customer support services are recognized ratably over the term of the contract. Revenues from training services are recognized as services are performed.

License revenue increased approximately \$1,236,000, or 51%, and \$4,949,000, or 81%, for the three months and nine months ended September 30, 2002, respectively, compared to the same periods last year. Service revenue increased approximately \$123,000, or 8%, and \$1,030,000, or 30%, for the three months and nine months ended September 30, 2002, respectively, compared to the same periods last year. The increase in revenues is attributable to a number of factors, most notably: our expanding relationship with AOL, the expansion of our indirect channel partnerships, and the increased proliferation of our technology through distribution of Viewpoint Media Player. The persistence of unfavorable economic conditions, however, continue to negatively impact our revenue growth.

During the three and nine months ended September 30, 2002, the Company recorded revenues totaling \$3,088,000 and \$8,686,000, respectively, related to agreements, including reseller arrangements, with AOL and Computer Associates, both of whom have representatives on the Company's Board of Directors. The \$8,686,000 of revenues for the nine months ended September 30, 2002 includes approximately \$3,384,000 due to a March 2002 amendment to a contract with AOL, which resulted in the Company recording revenues when payments are due, as contrasted to the partial deferral of those payments which would otherwise have occurred.

During the three and nine months ended September 30, 2001, the Company recorded revenues totaling \$1,110,000 and \$1,466,000 respectively, related to agreements, including reseller arrangements, with AOL and Computer Associates.

The Company expects its revenue to continue to increase through the end of 2002 based upon the visible increase in the market acceptance of our technology.

**Cost of revenues**

|                              | September<br>30,<br>2002 | September<br>30,<br>2001 | %      |
|------------------------------|--------------------------|--------------------------|--------|
|                              |                          |                          | Change |
|                              | (dollars in thousands)   |                          |        |
| <b>Three months ended:</b>   |                          |                          |        |
| Licenses                     | \$6                      | \$36                     | (83)%  |
| Services                     | 1,125                    | 933                      | 21%    |
| <hr/>                        |                          |                          |        |
| <hr/>                        |                          |                          |        |
| Total cost of revenues       | \$1,131                  | \$969                    | 17%    |
| Percentage of total revenues |                          |                          |        |

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21% 24%

Nine months ended:

Licenses

\$251 \$199 26%

Services

2,947 2,311 28%

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Total cost of revenues

\$3,198 \$2,510 27%

Percentage of total revenues

21% 26%

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Costs of revenues consist primarily of salaries and consulting fees for those who provide fee-based professional services. The increase in cost of revenues is directly related to an increase in fee-based professional services.

The Company expects its cost of revenues to increase in absolute dollars, while decreasing slightly as a percentage of total revenues, due to continuously improving efficiencies and the mix of license and services revenues.

*Sales and marketing (including non-cash stock-based compensation charges totaling \$727 and \$654 for the three months ended September 30, 2002 and 2001, respectively and \$2,517 and \$1,931 for the nine months ended September 30, 2002 and 2001, respectively)*

|                              | September<br>30,<br>2002 | September<br>30,<br>2001 | %     |
|------------------------------|--------------------------|--------------------------|-------|
|                              | Change                   |                          |       |
|                              | (dollars in thousands)   |                          |       |
| Three months ended:          |                          |                          |       |
| Sales and marketing          | \$4,367                  | \$4,013                  | 9%    |
| Percentage of total revenues | 82%                      | 101%                     |       |
| Nine months ended:           |                          |                          |       |
| Sales and marketing          | \$12,018                 | \$14,544                 | (17)% |
| Percentage of total revenues | 78%                      | 153%                     |       |

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 increased \$354,000 or 9%, for the three months ended September 30, 2002 compared to the same period last year primarily due to an increase in marketing costs, and salaries and benefits of our sales and marketing personnel.

Sales and marketing expenses decreased \$2,526,000, or 17%, for the nine months ended September 30, 2002 compared to the same period last year primarily due to a decrease in salaries and benefits, marketing costs, and travel and entertainment expenses offset by an increase in non-cash stock-based compensation charges. Non-cash stock-based compensation charges increased as certain personnel who were reflected in research and development during the nine months ended September 30, 2001 are now reflected in sales and marketing due to a change in the nature of their duties.

The Company expects sales and marketing expenses to decrease in 2002 as compared to 2001 based on an overall reduction in headcount and the increased utilization of creative services personnel, which will increase cost of revenues, rather than sales and marketing expenses.

*Research and development (including non-cash stock-based compensation charges totaling \$191 and \$715 for the three months ended September 30, 2002 and 2001, respectively and \$546 and \$2,200 for the nine months ended September 30, 2002 and 2001, respectively)*

|                          | September<br>30,<br>2002 | September<br>30,<br>2001 | % |
|--------------------------|--------------------------|--------------------------|---|
|                          | Change                   |                          |   |
|                          | (dollars in thousands)   |                          |   |
| Three months ended:      |                          |                          |   |
| Research and development |                          |                          |   |

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\$1,140 \$2,806 (59)%  
Percentage of total revenues  
22% 71%

Nine months ended:

Research and development  
\$3,835 \$7,400 (48)%  
Percentage of total revenues  
25% 78%



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Research and development expenses consist primarily of salaries and benefits for software developers, contracted development efforts, and non-cash stock-based compensation charges related to the Company's product development efforts. The Company expenses as incurred research and development costs necessary to establish the technological feasibility of its internally developed software products and technologies. To date, the establishment of technological feasibility of the Company's products and general release have substantially coincided. As a result, the Company has not capitalized any internal 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, when technological feasibility has been established, it is probable that the project will be completed and the software will be used as intended. The Company expenses costs incurred during preliminary project assessment, research and development, re-engineering, training and application maintenance.

Research and development expenses decreased \$1,666,000, or 59%, and \$3,565,000, or 48%, for the three months and nine months ended September 30, 2002, respectively, compared to the same periods last year primarily due to a decrease in salaries and benefits, contracted development, and non-cash stock-based compensation charges. Salaries and benefits decreased due to specific engineering salaries and benefits being classified as cost of revenues as compared to research and development, as a result of revenue generating customer-specific development work. In addition, salaries and benefits, and non-cash stock-based compensation charges decreased as certain personnel which were reflected in research and development during the three and nine months ended September 30, 2001, are now reflected in sales and marketing due to a change in the nature of their duties.

The Company expects research and development expenses to decrease in 2002, as compared to 2001.

*General and administrative (including non-cash stock-based compensation charges totaling \$282 and \$428 for the three months ended September 30, 2002 and 2001, respectively and \$1,110 and \$1,223 for the nine months ended September 30, 2002 and 2001, respectively)*

|                              | September<br>30,<br>2002 | September<br>30,<br>2001 | %      |
|------------------------------|--------------------------|--------------------------|--------|
|                              |                          |                          | Change |
|                              |                          |                          | _____  |
|                              | (dollars in thousands)   |                          |        |
| <b>Three months ended:</b>   |                          |                          |        |
| General and administrative   | \$2,247                  | \$2,974                  | (24)%  |
| Percentage of total revenues | 42%                      | 75%                      |        |
| <b>Nine months ended:</b>    |                          |                          |        |
| General and administrative   | \$6,846                  | \$7,873                  | (13)%  |
| Percentage of total revenues | 44%                      | 83%                      |        |

General and administrative expenses primarily consist of corporate overhead of the Company, which includes salaries and benefits related to administrative personnel, facilities costs, and other administrative costs such as legal, accounting and investor relation fees, and insurance expense.

General and administrative expenses decreased \$727,000, or 24%, and \$1,027,000, or 13% for the three months and nine months ended September 30, 2002, respectively, compared to the same periods last year primarily due to a decrease in facilities costs, salaries and benefits, non-cash stock-based compensation charges, and accounting fees. These decreases were partially offset by a rise in insurance expense.

General and administrative expenses are expected to decrease in 2002, as compared to 2001.

**Table of Contents*****Depreciation***

|                              | <b>September<br/>30,<br/>2002</b> | <b>September<br/>30,<br/>2001</b> | <b>%<br/>Change</b> |
|------------------------------|-----------------------------------|-----------------------------------|---------------------|
|                              | (dollars in thousands)            |                                   |                     |
| <b>Three months ended:</b>   |                                   |                                   |                     |
| Depreciation                 | \$493                             | \$466                             | 6%                  |
| Percentage of total revenues | 9%                                | 12%                               |                     |
| <b>Nine months ended:</b>    |                                   |                                   |                     |
| Depreciation                 | \$1,463                           | \$1,321                           | 11%                 |
| Percentage of total revenues | 9%                                | 14%                               |                     |

Depreciation expense increased \$27,000, or 6%, and \$142,000, or 11%, during the three months and nine months ended September 30, 2002, respectively, compared to the same periods last year due to property and equipment additions.

***Amortization of intangible assets***

|                                   | <b>September<br/>30,<br/>2002</b> | <b>September<br/>30,<br/>2001</b> | <b>%<br/>Change</b> |
|-----------------------------------|-----------------------------------|-----------------------------------|---------------------|
|                                   | (dollars in thousands)            |                                   |                     |
| <b>Three months ended:</b>        |                                   |                                   |                     |
| Amortization of intangible assets | \$1                               | \$831                             | (100)%              |
| Percentage of total revenues      | %                                 | 21%                               |                     |
| <b>Nine months ended:</b>         |                                   |                                   |                     |
| Amortization of intangible assets | \$664                             | \$2,494                           | (73)%               |
| Percentage of total revenues      | 4%                                | 26%                               |                     |

Amortization of intangible assets decreased \$830,000 and \$1,830,000, for the three and nine months ended September 30, 2002, respectively, compared to the same periods last year as all intangible assets acquired in the Viewpoint Digital transaction were either fully amortized or written off in accordance with SFAS No. 144 during the three months ended March 31, 2002.

***Amortization of goodwill***

| <b>September<br/>30,</b> | <b>September<br/>30,</b> | <b>%</b> |
|--------------------------|--------------------------|----------|
|--------------------------|--------------------------|----------|

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|                              | <u>2002</u>            | <u>2001</u> | <u>Change</u> |
|------------------------------|------------------------|-------------|---------------|
|                              | (dollars in thousands) |             |               |
| <b>Three months ended:</b>   |                        |             |               |
| Amortization of goodwill     |                        |             |               |
| \$                           | \$3,673                |             | (100)%        |
| Percentage of total revenues |                        |             |               |
|                              |                        |             | % 92%         |
| <b>Nine months ended:</b>    |                        |             |               |
| Amortization of goodwill     |                        |             |               |
| \$                           | \$10,430               |             | (100)%        |
| Percentage of total revenues |                        |             |               |
|                              |                        |             | % 109%        |

Amortization of goodwill decreased \$3,673,000 and \$10,430,000 for the three and nine months ended September 30, 2002, respectively, compared to the same periods last year due to the adoption of SFAS No. 142 on January 1, 2002. As a result of SFAS 142, the Company ceased amortizing approximately \$33,042,000 of goodwill. In lieu of amortization, the Company is required to test goodwill for impairment on an annual basis or earlier if indicators of potential impairment exist.

***Impairment of goodwill and other intangible assets***

|  | <u>September<br/>30,<br/>2002</u> | <u>September<br/>30,<br/>2001</u> | <u>%<br/>Change</u> |
|--|-----------------------------------|-----------------------------------|---------------------|
|  | (dollars in thousands)            |                                   |                     |
| <b>Three months ended:</b>                               |                                   |                                   |                     |
| Impairment of goodwill<br>and other intangible<br>assets |                                   |                                   |                     |
| \$   | \$                                |                                   | %                   |
| Percentage of total<br>revenues                          |                                   |                                   |                     |
|  |                                   |                                   | % %                 |
| <b>Nine months ended:</b>                                |                                   |                                   |                     |
| Impairment of goodwill<br>and other intangible<br>assets |                                   |                                   |                     |
| \$   | \$6,275                           | \$ NA                             |                     |
| Percentage of total<br>revenues                          |                                   |                                   |                     |
|  |                                   |                                   | 41% %               |

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In conjunction with the implementation of SFAS No. 142, the Company completed a goodwill impairment review as of January 1, 2002 and found no impairment on that date. As of March 31, 2002, due to the persistence of unfavorable economic conditions along with lower-than-expected revenues generated to date and reduced estimates of future performance of the Viewpoint Digital assets, the Company performed an additional impairment analysis on the goodwill and other intangible asset balances recorded upon the acquisition of Viewpoint Digital. In accordance with the provisions of SFAS No. 142 and SFAS No. 144, the Company recorded impairment charges totaling \$6,275,000 during the three months ended March 31, 2002. The fair value of the Viewpoint Digital assets was estimated using the expected present value of future cash flows. The assumptions supporting the cash flows, including the discount rate, were determined using the Company's best estimates as of the date the impairment was recorded.

**Other income**

|                              | September<br>30,<br>2002 | September<br>30,<br>2001 | %     |
|------------------------------|--------------------------|--------------------------|-------|
|                              | Change                   |                          |       |
|                              | —                        | —                        | —     |
|                              | (dollars in thousands)   |                          |       |
| <b>Three months ended:</b>   |                          |                          |       |
| Other income                 | \$44                     | \$226                    | (81)% |
| Percentage of total revenues | 1%                       | 6%                       |       |
| <b>Nine months ended:</b>    |                          |                          |       |
| Other income                 | \$133                    | \$943                    | (86)% |
| Percentage of total revenues | 1%                       | 9%                       |       |

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

Other income decreased \$182,000, or 81%, and \$810,000, or 86%, for the three months and nine months ended September 30, 2002, respectively, compared to the same periods last year primarily due to a decrease in average cash, cash equivalents and marketable securities balances as well as a decline in interest rates.

Other income is expected to decrease in absolute dollars and as a percentage of total revenues for 2002, as compared to 2001 due to a decline in interest rates and an expected decrease in average cash, cash equivalents and marketable securities balances.

**Factors That May Affect Future Results of Operations**

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

We have a limited operating history that makes an evaluation of our business difficult;

We have a history of losses and expect to incur losses in the future;

Our future revenues may be unpredictable and may cause our quarterly results to fluctuate;

We may be unable to meet our future capital requirements;

Our stock price is volatile and may continue to fluctuate in the future;

If the Internet does not continue to expand as a widespread commerce medium, demand for our products and technologies may decline significantly;



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Our market 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;

Potential delays in product releases could harm our business;

Undetected errors in our products and technologies could result in adverse publicity, reduced market acceptance or lawsuits by customers;

In order to increase market awareness of our products and generate increased revenue we may need to expand our sales and marketing capabilities;

We may be unable to protect our intellectual property rights and we may be liable for infringing the intellectual property rights of others;

Security risks could limit the growth of e-commerce and expose us to litigation or liability;

Increasing government regulation could increase our cost of doing business or increase our legal exposure;

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

The loss of any of our key personnel would harm our business;

Our revenues could be negatively affected by the loss of resellers and strategic partners and if we fail to establish, maintain or expand our strategic relationships for the integration of our technology with the services of third parties, the growth of our business may cease or decline;

Our lengthy sales cycle and product implementation makes it difficult to predict our quarterly results;

Our projects vary in size and scope; therefore, a client that accounts for a large portion of our revenues in one period may not generate similar amounts of revenue in subsequent periods;

Our future success depends on our ability to identify, hire, train and retain highly qualified employees;

Our charter documents could make it more difficult for a third party to acquire us;

Our business is subject to general economic conditions as well as those specific to the Internet and related industries.

**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. On an on-going basis, the Company evaluates its critical accounting policies and estimates, including those related to revenue recognition. We base our estimates on

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historical experience and on various other assumptions that we believe to be reasonable under the circumstances though actual results may differ from these estimates under different assumptions or conditions. For a complete description of the Company's accounting policies, see the consolidated financial statements included in our Annual Report on Form 10-K for the period ended December 31, 2001.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

*Revenue Recognition*

Revenue recognition rules for software companies are very complex. We follow very specific and detailed guidelines in measuring revenue; however, certain judgments affect the application of our revenue policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter to quarter.

The Company recognizes revenue in accordance with SOP 97-2, Software Revenue Recognition, as amended, and SAB No. 101 Revenue Recognition in Financial Statements.

Viewpoint generates revenues through two sources: (a) software licenses and (b) services. License revenues are generated from licensing the rights to use our products directly to end-users and indirectly through VARs. Service revenues are generated from fee-based professional services, sales of customer support services (maintenance contracts), and training services performed for customers that license our products.

License revenue includes sales of perpetual and term-based licenses for broadcasting digital content in the Viewpoint format, and limited licenses for our digital content library. License revenue is recognized over the term of the license in a term-based broadcast license model where the term is less than 15 months, and up-front in a perpetual broadcast license model and a term-based broadcast license model where the term is 15 months or longer, providing that no significant vendor obligations remain and the resulting receivable is deemed collectible by management.

Fee-based professional services are performed on a time-and-material basis or on a fixed-fee basis, under separate service arrangements. Revenues related to these services are recognized on a percentage-of-completion basis in accordance with the provisions of SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Percentage-of-completion for service contracts is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total cost for each contract at completion. Revenues from customer support services are recognized ratably over the term of the contract. Revenues from training services are recognized as services are performed.

Standard terms for license agreements call for payment within 90 days. Probability of collection is based upon the assessment of the customer's financial condition through the review of their current financial statements or credit reports. For follow-on sales to existing customers, prior payment history is also used to evaluate probability of collection. Our agreements with customers do not contain product return rights.

Fees from licenses sold together with fee-based professional services are generally recognized upon delivery of the software, provided that the payment of the license fees are not dependent upon the performance of the services, and the services are not essential to the functionality of the licensed software. If the services are essential to the functionality of the software, or payment of the license fees are dependent upon the performance of the services, both the software license and service fees are recognized under the percentage-of-completion method of contract accounting.

If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. If a nonstandard acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

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The Company periodically enters into nonmonetary arrangements whereby the Company's licenses or services are exchanged for services of its customer. Nonmonetary revenue is recognized at the estimated fair value of the services received. Generally, nonmonetary revenues equal nonmonetary expenses; however, due to timing, nonmonetary accounts receivable and accounts payable may result.

**Recent Accounting Pronouncements**

In July 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. The statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The statement is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 is not expected to have a material impact on the Company's financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This Statement requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF No. 94-3. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material impact on the Company's financial statements.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash, cash equivalents, and marketable securities totaled \$11,063,000 at September 30, 2002, down from \$15,413,000 at December 31, 2001. Included in cash and cash equivalents at September 30, 2002 and December 31, 2001, is \$293,000 and \$291,000, respectively, of restricted cash, which was pledged as collateral to secure a letter of credit, used for a security deposit on the Company's New York facility.

Net cash used in operating activities of the Company totaled \$4,928,000 and \$11,335,000 for the nine months ended September 30, 2002 and 2001, respectively. Net cash used in operating activities for the nine months ended September 30, 2002 primarily resulted from a \$18,678,000 net loss from continuing operations, partially offset by \$6,275,000 of impairment of goodwill and other intangible assets, \$4,173,000 in non-cash stock-based compensation charges, \$2,127,000 in depreciation and amortization, and \$570,000 in provision for bad debts. Net cash used in operating activities for the nine months ended September 30, 2001 primarily resulted from a \$36,120,000 net loss from continuing operations, partially offset by \$14,245,000 in depreciation and amortization, \$5,978,000 in net cash provided by discontinued operations, and \$5,354,000 in non-cash stock-based compensation charges.

Net cash provided by investing activities totaled \$4,459,000 and \$11,446,000, for the nine months ended September 30, 2002 and 2001, respectively. Net cash provided by investing activities for the nine months ended September 30, 2002 primarily resulted from \$5,218,000 in net proceeds from sales and maturities of marketable securities partially offset by \$712,000 for the purchase of property and equipment. Net cash provided by investing activities for the nine months ended September 30, 2001 primarily resulted from \$11,825,000 in net proceeds from sales and maturities of marketable securities.

Net cash provided by financing activities totaled \$1,370,000 and \$1,350,000 for the nine months ended September 30, 2002 and 2001, respectively, primarily resulting from proceeds received from the exercise of stock options by the Company's employees during the respective periods. During the nine months ended September 30, 2001, net cash provided by financing activities was partially offset by \$575,000 of loans to officers.

Pursuant to the purchase of all of the outstanding capital stock of Viewpoint Digital on September 8, 2000, the



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Company issued two contingent promissory notes to Computer Associates each in the maximum amount of \$15,000,000, but subject to reduction on the basis of the performance of the Viewpoint Digital assets. During 2001, the Company entered into certain agreements with Computer Associates whereby Computer Associates agreed to accept newly-issued shares of Viewpoint common stock having a value of \$4,000,000, in partial repayment of the first contingent promissory note due June 8, 2001. In addition, Computer Associates agreed to accept, at the Company's election, either cash or newly-issued shares of Viewpoint common stock at an issue price of \$4.00 per share in repayment of any additional amounts due under the promissory note due June 8, 2001, and the first \$8,943,000 of the \$15,000,000 contingent promissory note due April 30, 2002.

In June 2002, Viewpoint issued 909,093 shares of Viewpoint common stock to Computer Associates in full satisfaction of the first contingent promissory note due June 8, 2001. The amount due Computer Associates under the promissory note due April 30, 2002 is approximately \$2,928,000 and is reflected in due to related parties in the Company's consolidated balance sheet at September 30, 2002.

The Company believes that its current cash, cash equivalents, and marketable securities balances and cash provided by future operations, if any, are sufficient to meet its operating cash flow needs and anticipated capital expenditure requirements through at least the next twelve months. The Company may seek additional funds before that time through public or private equity financing or from other sources to fund our operations and pursue our growth strategy. We have no commitment for additional financing, and we may experience difficulty in obtaining additional financing on favorable terms, if at all. Any financing we obtain may contain covenants that restrict our freedom to operate our business or may have rights, preferences or privileges senior to our common stock and may dilute our current shareholders' ownership interest in Viewpoint.

### **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. The Company does not have any derivative financial instruments as of September 30, 2002. Credit risk is managed by limiting the amount of securities placed with any one issuer, investing in high-quality marketable securities and securities of the U.S. government and limiting the average maturity of the overall portfolio. The majority of the Company's portfolio, which is classified as available-for-sale, is comprised of fixed income securities that are subject to the risk of market interest rate fluctuations, and all of the Company's securities are subject to risks associated with the ability of the issuers to perform their obligations under the instruments. The Company may suffer losses in principal if forced to sell securities, which have declined in market value due to changes in interest rates.

### **Item 4. Controls and Procedures**

#### **Evaluation of disclosure controls and procedures**

Within 90 days prior to the date of this report (the Evaluation Date), the Company's President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c)). Based on that evaluation, these officers have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and designed to ensure that material information relating to the Company and the Company's consolidated subsidiaries would be made known to them by others within those entities.

#### **Changes in internal controls**

There were no significant changes in the Company's internal controls, or to the Company's knowledge, in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the Evaluation Date.

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**PART II OTHER INFORMATION**

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

| <u>Exhibit Number</u> | <u>Exhibit Title</u>  |
|-----------------------|---|
| 99.1                  | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.2                  | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

(b) Reports on Form 8-K

None.

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**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 14, 2002 By: /s/ ROBERT E. RICE

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Robert E. Rice  
President and Chief Executive Officer Dated: November 14, 2002  
By: /s/ ANTHONY L. PANE

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Anthony L. Pane  
Senior Vice President and  
Chief Financial Officer

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**CERTIFICATIONS**

I, Robert E. Rice, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Viewpoint Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 14, 2002

By: /s/ ROBERT E. RICE

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Robert E. Rice  
President and Chief Executive Officer

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I, Anthony L. Pane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Viewpoint Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 14, 2002

By: /s/ ANTHONY L. PANE

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Anthony L. Pane  
Senior Vice President and  
Chief Financial Officer