

VIEWPOINT CORP/NY/
Form 10-Q
May 15, 2001

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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 AND EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES AND 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 OF INCORPORATION)

95-4102687
(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

498 SEVENTH AVE., SUITE 1810, NEW YORK, NY 10018
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(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 May 2, 2001, there were outstanding 38,120,621 shares of the
registrant's Common Stock, \$0.001 par value per share, which is the only
outstanding class of common or voting stock of the registrant.

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VIEWPOINT CORPORATION

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VIEWPOINT CORPORATION

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | MARCH 31, 2001 | DECEMBER 31, 2000 |
|--|-------------------|----------------------|
| | ----- | ----- |
| | (UNAUDITED) | (AUDITED) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 8,174 | \$ 13,320 |
| Marketable securities..... | 20,216 | 15,713 |
| Accounts receivable, net..... | 2,486 | 2,101 |
| Notes receivable from related parties, net..... | 750 | 1,620 |
| Prepaid expenses and other current assets..... | 2,174 | 1,957 |
| Current assets related to discontinued operations..... | 162 | 5,662 |
| | ----- | ----- |
| Total current assets..... | 33,962 | 40,373 |
| Property and equipment, net..... | 5,607 | 5,622 |
| Goodwill and other intangibles..... | 51,771 | 56,111 |
| Other assets..... | 154 | 179 |

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| | | |
|---|-----------|------------|
| Non-current assets related to discontinued operations..... | 114 | 114 |
| | ----- | ----- |
| Total assets..... | \$ 91,608 | \$ 102,399 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable..... | \$ 2,644 | \$ 3,402 |
| Accrued expenses..... | 1,098 | 861 |
| Deferred revenues..... | 754 | 636 |
| Accrued incentive compensation..... | 545 | 546 |
| Current liabilities related to discontinued operations.... | 828 | 615 |
| | ----- | ----- |
| Total current liabilities..... | 5,869 | 6,060 |
| Stockholders' equity: | | |
| Preferred stock, \$.001 par value; 5,000 shares authorized-none issued and outstanding at March 31, 2001 and December 31, 2000..... | | |
| | -- | -- |
| Common stock, \$.001 par value; 75,000 shares authorized -- 38,028 and 37,964 shares issued and outstanding at March 31, 2001 and December 31, 2000, respectively..... | | |
| | 38 | 38 |
| Paid-in capital..... | 264,968 | 264,698 |
| Deferred compensation..... | (20,411) | (22,595) |
| Treasury stock at cost; 160 shares at March 31, 2001..... | (1,015) | -- |
| Accumulated other comprehensive income..... | 22 | 12 |
| Accumulated deficit..... | (157,863) | (145,814) |
| | ----- | ----- |
| Total stockholders' equity..... | 85,739 | 96,339 |
| | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$ 91,608 | \$ 102,399 |
| | ===== | ===== |

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 ENDED MARCH 31, | |
|-----------------------|---------------------------------|-------|
| | 2001 | 2000 |
| | ----- | ----- |
| Revenues: | | |
| Licenses..... | \$ 1,908 | \$ 25 |
| Services..... | 883 | 137 |
| | ----- | ----- |
| Total revenues..... | 2,791 | 162 |
| Cost of revenues..... | 906 | -- |
| | ----- | ----- |
| Gross profit..... | 1,885 | 162 |
| | ----- | ----- |

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| | | |
|--|-------------|------------|
| Operating expenses: | | |
| Sales and marketing (excluding non-cash stock-based compensation charges totaling \$596 in 2001 and \$2,554 in 2000)..... | 4,579 | 1,104 |
| Research and development (excluding non-cash stock-based compensation charges totaling \$740 in 2001 and \$979 in 2000)..... | 1,319 | 677 |
| General and administrative (excluding non-cash stock-based compensation charges totaling \$407 in 2001 and \$323 in 2000)..... | 2,165 | 1,488 |
| Non-cash stock-based compensation charges..... | 1,743 | 3,856 |
| Amortization of goodwill and other intangibles..... | 4,137 | 38 |
| Depreciation..... | 415 | 92 |
| | ----- | ----- |
| Total operating expenses..... | 14,358 | 7,255 |
| | ----- | ----- |
| Loss from operations..... | (12,473) | (7,093) |
| Other income..... | 424 | 521 |
| | ----- | ----- |
| Loss before minority interest in loss of subsidiary..... | (12,049) | (6,572) |
| Minority interest in loss of subsidiary..... | -- | 685 |
| | ----- | ----- |
| Net loss from continuing operations..... | (12,049) | (5,887) |
| Income on disposal of discontinued operations..... | -- | 1,265 |
| | ----- | ----- |
| Net loss..... | \$ (12,049) | \$ (4,622) |
| | ===== | ===== |
| Basic and diluted net loss per share: | | |
| Net loss per common share from continuing operations..... | \$ (0.32) | \$ (0.22) |
| Net income per common share from discontinued operations..... | -- | 0.05 |
| | ----- | ----- |
| Net loss per common share..... | \$ (0.32) | \$ (0.17) |
| | ===== | ===== |
| Weighted average number of shares outstanding -- basic and diluted..... | 37,985 | 26,804 |
| | ===== | ===== |

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)

| | | |
|---|---------------------------------|------------|
| | THREE MONTHS ENDED MARCH 31, | |
| | ----- | ----- |
| | 2001 | 2000 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss..... | \$ (12,049) | \$ (4,622) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |

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| | | |
|---|----------|-----------|
| Net income on disposal of discontinued operations..... | -- | (1,265) |
| Amortization of deferred compensation..... | 1,743 | 3,856 |
| Depreciation and amortization..... | 4,552 | 130 |
| Reserve of notes receivable..... | (145) | -- |
| Minority interest in loss of subsidiary..... | -- | (685) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable..... | (182) | 111 |
| Prepaid expenses and other assets..... | (192) | 711 |
| Accounts payable..... | (758) | 389 |
| Accrued expenses..... | 237 | (65) |
| Deferred revenues..... | 272 | (183) |
| Net cash provided by (used) in discontinued operations..... | 5,713 | (5,241) |
| | ----- | ----- |
| Net cash used in operating activities..... | (809) | (6,864) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment..... | (400) | (1,250) |
| Purchases of marketable securities..... | (17,328) | (26,442) |
| Proceeds from maturities of marketable securities..... | 12,850 | 30,100 |
| Repayment of notes receivable from related party..... | -- | 1,000 |
| Net cash used in discontinued operations..... | -- | (84) |
| | ----- | ----- |
| Net cash provided by (used in) investing activities..... | (4,878) | 3,324 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Collection of subscription receivable related to subsidiary common stock..... | -- | 1,000 |
| Proceeds from exercise of stock options..... | 556 | 9,363 |
| | ----- | ----- |
| Net cash provided by financing activities..... | 556 | 10,363 |
| Effect of exchange rates on cash..... | (15) | 8 |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents..... | (5,146) | 6,831 |
| Cash and cash equivalents at beginning of period..... | 13,320 | 4,480 |
| | ----- | ----- |
| Cash and cash equivalents at end of period..... | \$ 8,174 | \$ 11,311 |
| | ===== | ===== |

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

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VIEWPOINT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

UNAUDITED INTERIM FINANCIAL INFORMATION

The accompanying unaudited consolidated financial statements include the accounts of Viewpoint Corporation and its subsidiaries (collectively "Viewpoint" or the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete

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financial statement presentation. In the opinion of management, the accompanying consolidated balance sheets and related interim consolidated statements of operations and cash flows include all adjustments (consisting only of normal recurring items) considered necessary for their fair presentation. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. The consolidated results of operations for the period ended March 31, 2001 are not necessarily indicative of results to be expected for the year ending December 31, 2001. The information included in this Form 10-Q should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as of December 31, 2000 and 1999, and for the three years in the period ended December 31, 2000, as filed on Form 10-K.

Certain reclassifications have been made to the 2000 consolidated financial statements to conform to the 2001 presentation.

REVENUE RECOGNITION

The Company recognizes revenue in accordance with Statement of Position 97-2, "Software Revenue Recognition," as amended. Accordingly, revenue from software arrangements involving multiple elements (e.g., software products, upgrades/enhancements, post contract customer support, etc.) is allocated to each element based on the relative fair value of the elements. The determination of fair value is based on objective evidence, which is specific to the Company.

License Revenue is recognized over the term of the license in a time-based broadcast license model and up-front in a perpetual broadcast license model.

Service revenue, which consists of fees for professional services, is recognized as the services are performed or, if no pattern of performance is discernible, on a straight-line basis over the period during which the services are performed.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," which gives additional guidance in applying generally accepted accounting principles to revenue recognition in the financial statements. The Company was in compliance with the provisions of SAB No. 101.

2. 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 and warrants are excluded from the computation of diluted net loss per common share because their effect was antidilutive.

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VIEWPOINT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. DISCONTINUED OPERATIONS

In December 1999, the Board of Directors of the Company approved a plan to focus exclusively on its digital marketing technologies and services and to correspondingly divest itself of its prepackaged graphics software business. Accordingly, these operations are reflected as discontinued operations for all

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periods presented in the accompanying consolidated statements of operations.

The Company recorded an adjustment to net loss on disposal of discontinued operations of \$1,265,000 during the three months ended March 31, 2000 as a result of better than expected net revenues during the quarter from the discontinued business. The provision for loss on disposal of discontinued operations is an estimate and subject to change. Changes in estimates will be accounted for prospectively and included in income (loss) on disposal of discontinued operations.

4. RELATED PARTY TRANSACTIONS

In connection with the acquisition of Real Time Geometry Corp. ("RTG") in December 1996, the Company entered into a noncompetition agreement with one of RTG's founders who was a former executive of the Company. In addition, the Company loaned \$2,000,000 to the former executive. The loan, which accrued interest semi-annually at 5.67% and was payable on January 15, 2001, was collateralized by shares of common stock of the Company owned by the former executive. As of December 31, 2000, the Company recorded a reserve against the loan in the amount of \$1,442,000, which represented the unsecured portion of the loan as of December 31, 2000. The former executive defaulted on the loan and the Company took possession of the collateral on January 16, 2001. As a result, the Company recorded treasury stock based on the closing price of the Company's common stock on January 16, 2001.

5. SUBSEQUENT EVENTS

On April 19, 2001, the Company entered into an agreement with Computer Associates International, Inc. ("Computer Associates") regarding, among other things, the waiver of transfer restrictions applicable to shares received by Computer Associates under the Exchange Agreement, dated as of August 10, 2000, between the Company and Computer Associates (the "Exchange Agreement") to enable Computer Associates to sell 1,000,000 shares of Viewpoint common stock to a third party in a private transaction. The Company agreed to register the 1,000,000 shares under the Securities Act of 1933. Under the agreement entered into on April 19, 2001, Computer Associates agreed to accept newly-issued shares of Viewpoint common stock in partial repayment of a promissory note due June 8, 2001 and issued by the Company in connection with its acquisition of all of the outstanding capital stock of Viewpoint Digital Inc.

On May 9, 2001, the Company and Computer Associates entered into a subsequent agreement (the "Agreement") under which, among other things:

- The Company agreed to waive transfer restrictions applicable to an additional 2,400,000 unregistered shares (the "Shares") of the Company's common stock received by Computer Associates in accordance with the Exchange Agreement to enable Computer Associates to transfer the Shares to third parties in private transactions;
- The Company agreed to register the Shares under the Securities Act of 1933; and
- Computer Associates agreed to accept, at the Company's election, either cash or newly-issued, unregistered shares of Viewpoint common stock in repayment of (a) any additional amounts due under the promissory note due June 8, 2001, (b) any amounts due under the agreement entered into on April 19, 2001, and, (c) to the extent Computer Associates realizes proceeds from the sale of the Shares as well as the shares sold by Computer Associates under the agreement entered into on April 19, 2001 in excess of the amounts due under clauses (a) and (b), in repayment of a promissory note due April 30, 2002.

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

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

The discussion and analysis below contains trend analysis and other forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results could differ materially from those expressed or forecasted in any such forward-looking statements as a result of certain factors, including those set forth in "Factors That May Affect Future Operating Results," as well as those discussed elsewhere in the Company's SEC reports, including without limitation, the Company's audited consolidated financial statements and notes thereto as of December 31, 2000 and 1999, and for the three years in the period ended December 31, 2000, as filed on Form 10-K.

OVERVIEW

Viewpoint Corporation, a Delaware corporation ("Viewpoint" or the "Company") is focused on providing digital marketing technologies and services for creating and deploying virtual products centered on the Company's Viewpoint Experience Technology for marketing and e-commerce on the Web environment.

Until December 1999, the Company was primarily engaged in the development, marketing, and sales of prepackaged software graphics products. Its principal products were computer graphics "painting" tools and photo imaging software products. With its acquisition of Real Time Geometry Corporation in December 1996, however, the Company became involved, on a limited basis, in the development of technologies designed to make practical the efficient display and deployment of rich media on the Internet.

In June 1999, the Company increased its commitment to the development of rich media internet technologies and formed Metastream.com Corporation ("Metastream") to operate a business exploiting these technologies. The Company originally held an 80% equity interest in Metastream with Computer Associates International, Inc. ("Computer Associates") holding the remaining 20% equity interest. This 20% interest was acquired by the Company in November 2000.

In December 1999, the Board of Directors of the Company approved a plan to focus exclusively on the internet technologies of its majority-owned subsidiary and to correspondingly divest the Company of all its prepackaged software business. By April 2000, the Company had sold substantially all of its prepackaged software product lines.

In September 2000, the Company acquired Viewpoint Digital, Inc. ("Viewpoint Digital"), a wholly-owned subsidiary of Computer Associates. Viewpoint Digital publishes the world's largest library of 3D digital content and provides creative 3D services to thousands of customers in entertainment, advertising, visual simulation, computer-based training and corporate communications.

The Company's primary initiatives include:

- Licensing technology for specific marketing visualization solutions;

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- Providing a full range of fee-based professional services for implementing marketing visualization solutions;
- Forging technological alliances with leading interactive agencies and web content providers; and
- Maximizing market penetration and name recognition.

Viewpoint believes that its success will depend largely on its ability to extend its technology and market leadership in e-commerce visualization. Accordingly, Viewpoint intends to invest heavily in research and

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development and sales and marketing. Revenues from continuing operations primarily have been from the sale of technology licenses and fee based professional services.

In light of its recent change in strategic focus, Viewpoint has a limited operating history upon which an evaluation of the Company and its prospects can be based. Viewpoint 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 March 31, 2001, had an accumulated deficit of \$157,863,000.

OPERATING RESULTS

REVENUES

| | THREE MONTHS ENDED MARCH 31, | | |
|---------------------|------------------------------|----------|-------|
| | 2001 | % CHANGE | 2000 |
| | ----- | ----- | ----- |
| | (DOLLARS IN THOUSANDS) | | |
| Total revenues..... | \$2,791 | 1,623% | \$162 |

Total revenues of \$2,791,000 for the three months ended March 31, 2001 were comprised of \$1,908,000 in license fees and \$883,000 in fee-based professional services. Total revenues of \$162,000 for the three months ended March 31, 2000 were comprised of \$25,000 in license fees and \$137,000 in fee-based professional services.

COST OF REVENUES

| | THREE MONTHS ENDED MARCH 31, | | |
|---------------------------|------------------------------|----------|-------|
| | 2001 | % CHANGE | 2000 |
| | ----- | ----- | ----- |
| | (DOLLARS IN THOUSANDS) | | |
| Cost of revenues..... | \$ 906 | N/A | \$ -- |
| As % of net revenues..... | 32% | | --% |

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Cost of revenues consist primarily of salaries and consulting fees for those who provide fee-based professional services.

SALES AND MARKETING (EXCLUDING NON-CASH STOCK- BASED COMPENSATION CHARGES TOTALING \$596 IN 2001 AND \$2,554 IN 2000)

| | THREE MONTHS ENDED MARCH 31, | | |
|---------------------------|------------------------------|----------|---------|
| | 2001 | % CHANGE | 2000 |
| (DOLLARS IN THOUSANDS) | | | |
| Sales and marketing..... | \$4,579 | 315% | \$1,104 |
| As % of net revenues..... | 164% | | 682% |

Sales and marketing expenses consist primarily of salaries and benefits, consulting fees, travel expenses, advertising and tradeshow costs related to the Company's sales and marketing efforts. The 315% increase in sales and marketing, is primarily due to an increase in salaries and benefits, recruiting fees and travel expenses related to an increase in personnel.

RESEARCH AND DEVELOPMENT (EXCLUDING NON-CASH STOCK-BASED COMPENSATION CHARGES TOTALING \$740 IN 2001 AND \$979 IN 2000)

| | THREE MONTHS ENDED MARCH 31, | | |
|-------------------------------|------------------------------|----------|-------|
| | 2001 | % CHANGE | 2000 |
| (DOLLARS IN THOUSANDS) | | | |
| Research and development..... | \$1,319 | 95% | \$677 |
| As % of net revenues..... | 47% | | 418% |

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The 95% increase in research and development expenses is primarily due to an increase in salaries and benefits related to increased internal development personnel in connection with the further development of Viewpoint Experience Technology. The Company expects research and development expenses to continue to increase in future periods, but such expenses may vary as a percentage of net revenues.

GENERAL AND ADMINISTRATIVE (EXCLUDING NON-CASH STOCK-BASED COMPENSATION CHARGES TOTALING \$407 IN 2001 AND \$323 IN 2000)

| | THREE MONTHS ENDED MARCH 31, | | |
|---------------------------------|------------------------------|----------|---------|
| | 2001 | % CHANGE | 2000 |
| (DOLLARS IN THOUSANDS) | | | |
| General and administrative..... | \$2,165 | 45% | \$1,488 |
| As % of net revenues..... | 78% | | 919% |

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General and administrative expenses primarily consist of corporate overhead of the Company, which includes salaries and benefits costs related to finance and administration personnel along with other administrative costs such as legal, accounting, investor relations, and insurance expense. The 45% increase in general and administrative expenses is primarily attributable to an increase in salaries and benefits costs related to an increase in personnel.

NON-CASH STOCK-BASED COMPENSATION CHARGES

In connection with the grant of stock options in Metastream to certain employees and non-employee directors during 1999 and 2000, the Company recorded deferred compensation representing the difference between the fair value of Metastream's common stock and the exercise price of the options at the date of grant. Stock-based compensation expense is recognized over the vesting schedule of the underlying options.

Stock based compensation decreased from \$3,856,000 for the three months ended March 31, 2000 to \$1,743,000 for the three months ended March 31, 2001. The decrease is primarily attributable to vesting on certain options granted below fair value during the three months ended March 31, 2000 and the forfeiture of employee stock options. The Company does not anticipate issuing additional options below fair market value.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLES

Amortization of goodwill and other intangibles, which increased from \$38,000 during the three months ended March 31, 2000 to \$4,137,000 during the months ended March 31, 2001, is primarily attributable to the amortization of intangibles recorded as part of the acquisition of Viewpoint Digital and the acquisition of Computer Associates' minority interest in Metastream.

DEPRECIATION

Depreciation increased from \$92,000 for the three months ended March 31, 2000 to \$415,000 for the three months ended March 31, 2001. This increase is primarily the result of property and equipment additions during 2000 and 2001.

OTHER INCOME

Other income, which decreased from \$521,000 during the three months ended March 31, 2000 to \$424,000 during the three months ended March 31, 2001, primarily consists of interest and investment income on cash and marketable securities. As a result, other income fluctuates with changes in the Company's cash and marketable securities balances and market interest rates.

MINORITY INTEREST IN LOSS OF SUBSIDIARY

Metastream, originally a joint initiative between the Company and Computer Associates, was formed in June 1999. For financial reporting purposes, the assets, liabilities and operations of Metastream were included in the Company's consolidated financial statements. Computer Associates and another minority shareholder's

combined 20% interest in Metastream was recorded as minority interest in the Company's consolidated balance sheets, and the losses attributed to their combined 20% interest were reported as minority interest in the Company's consolidated statements of operations. In November 2000, the Company acquired

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the minority interest in Metastream by issuing approximately 5,578,000 shares of Company common stock in exchange for 4,850,000 shares of Metastream common stock.

DISCONTINUED OPERATIONS

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

The Company recorded an adjustment to net loss on disposal of discontinued operations of \$1,265,000 during the three months ended March 31, 2000 as a result of better than expected net revenues during the quarter from the discontinued business. The provision for loss on disposal of discontinued operations is an estimate and subject to change. Changes in estimates will be accounted for prospectively and included in income (loss) on disposal of discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash and investments totaled \$28,390,000 at March 31, 2001, down from \$29,033,000 at December 31, 2000. Net cash used in operating activities of the Company totaled \$809,000 for the three months ended March 31, 2001, compared to \$6,864,000 for the three months ended March 31, 2000. Net cash used in operating activities for the three months ended March 31, 2001 primarily resulted from a \$12,049,000 net loss from continuing operations, offset by \$5,713,000 in net cash provided by discontinued operations, \$1,743,000 in non-cash stock-based compensation charges and \$4,552,000 in depreciation and amortization. Net cash used in operating activities for the three months ended March 31, 2000 primarily resulted from a \$5,887,000 net loss from continuing operations and \$5,241,000 in net cash used in discontinued operations, offset by \$3,856,000 in non-cash stock-based compensation charges.

Net cash used in investing activities totaled \$4,878,000 for the three months ended March 31, 2001, compared to net cash provided by investing activities of \$3,324,000 for the three months ended March 31, 2000. Net cash used in investing activities for the three months ended March 31, 2001 primarily resulted from \$4,478,000 in net purchases of marketable securities. Net cash provided by investing activities for the three months ended March 31, 2000 primarily resulted from \$3,658,000 in net proceeds from maturities of marketable securities and \$1,000,000 from the repayment of a note receivable from a related party, net of \$1,250,000 used in purchases of property and equipment.

Net cash provided by financing activities totaled \$556,000 and \$10,363,000 for the three months ended March 31, 2001 and 2000, respectively, primarily resulting from proceeds received from the exercise of stock options by the Company's employees during the respective periods. In addition, during the three months ended March 31, 2000, the Company collected \$1,000,000 of a subscription receivable related to common stock of Metastream.

The Company believes that its current cash 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. In addition, the Company may pursue additional debt or equity financing to augment their working capital position; however, there can be no assurance that the Company can obtain financing at terms acceptable to the Company.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

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This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and variations of such words and similar expressions are intended to identify

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such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results could differ materially from those expressed or forecasted in any such forward-looking statements as a result of certain factors, including those listed below.

Shares of the Company's common stock are speculative in nature and involve a high degree of risk. The risks set forth below are described in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and should be considered carefully. The risks described below are not the only ones facing the Company. Many factors could cause our results to be different, including the following risk factors and other risks described in this document. If any of the following risks occur, our business would likely be adversely affected and the trading price of the Company's common stock could decline. This could result in a loss of all or part of your investment.

- 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;
- 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 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;

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- We Recently Acquired Viewpoint Digital And 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 Strategic Partners;
- 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.

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RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which established accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. To date, we have not engaged in derivative and hedging activities.

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 equivalents and marketable securities. The Company does not have any derivative financial instruments as of March 31, 2001. 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 composed 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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT
NUMBER

EXHIBIT TITLE

10.1 Letter Agreement between the Registrant and Fred Brown dated
March 29, 2001.

(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
(Registrant)

/s/ JEFFREY J. KAPLAN

Jeffrey J. Kaplan
Executive Vice President and
Chief Financial Officer

Date: May 15, 2001

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