VIEWPOINT CORP/NY/
Form 10-Q
August 14, 2001

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001 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	95-4102687
(State of incorporation)	(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 [X] No [ ]

As of August 6, 2001, there were outstanding 38,989,083 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)

	JUNE 30 2001 (UNAUDITED)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 6,072
Marketable securities	16,772
Accounts receivable, net	2,733
Notes receivable from related parties, net	1,270
Prepaid expenses and other current assets	2,254
Current assets related to discontinued operations	427
Total current assets	29,528
Property and equipment, net	5,427
Goodwill and other intangibles	52,184
Loans to officers	575
Other assets	141

Non-current assets related to discontinued operations	--
Total assets	$ 87,855
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 2,969
Accrued expenses	2,029
Due to related parties	4,657
Deferred revenues	433
Accrued incentive compensation	545
Current liabilities related to discontinued operations	513
Total current liabilities	11,146
Stockholders' equity:	
Preferred stock, $.001 par value, 5,000 shares authorized - no shares issued and outstanding at June 30, 2001 and December 31, 2000	--
Common stock, $.001 par value; 75,000 shares authorized - 38,905 and 37,964 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively	39
Paid-in capital	262,756
Deferred compensation	(15,438)
Treasury stock at cost; 160 shares at June 30, 2001	(1,015)
Accumulated other comprehensive income	32
Accumulated deficit	(169,665)
Total stockholders' equity	76,709
Total liabilities and stockholders' equity	$ 87,855

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 AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
Revenues:		
Licenses	$ 1,780	$ 25
Services	971	130

Total revenues	2,751	155
Cost of revenues	635	--
Gross profit	2,116	155
Operating expenses:		
Sales and marketing (including non-cash stock-based compensation charges totaling $681 and $1,009 for three months ended June 30, 2001 and 2000, respectively, and $1,277 and $3,563 for six months ended June 30, 2001 and 2000, respectively)	5,356	3,669
Research and development (including non-cash stock-based compensation charges totaling $745 and $594 for three months ended June 30, 2001 and 2000, respectively, and $1,485 and $1,573 for six months ended June 30, 2001 and 2000, respectively)	2,146	1,551
General and administrative (including non-cash stock-based compensation charges totaling $388 and $1,544 for three months ended June 30, 2001 and 2000, respectively, and $795 and $1,867 for six months ended June 30, 2001 and 2000, respectively)	2,716	2,841
Amortization of goodwill and other intangibles	4,283	38
Depreciation	440	124
Non-cash sales and marketing charge	--	5,749
Total operating expenses	14,941	13,972
Loss from operations	(12,825)	(13,817)
Other income	293	466
Loss before minority interest in loss of subsidiary	(12,532)	(13,351)
Minority interest in loss of subsidiary	--	2,642
Net loss from continuing operations	(12,532)	(10,709)
Adjustment to net loss on disposal of discontinued operations	730	--
Net loss	$(11,802)	$(10,709)
Basic and diluted net loss per common share:		
Net loss per common share from continuing operations	$ (0.33)	$ (0.39)
Net income per common share from discontinued operations	0.02	--
Net loss per common share	$ (0.31)	$ (0.39)
Weighted average number of shares outstanding - basic and diluted	38,458	27,629

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)

	SIX MONTHS JUNE 3
	2001
	(UNAUDITED)
Cash flows from operating activities:	
Net loss	$(23,851)
Adjustments to reconcile net loss to net cash used in operating activities:	
Net income of discontinued operations	(730)
Non-cash stock-based compensation charges	3,557
Depreciation and amortization	9,275
Provision for losses on receivables	150
Minority interest in loss of subsidiary	--
Non-cash sales and marketing charge	--
Reserve of notes receivable	(665)
Changes in operating assets and liabilities:	
Accounts receivable	(579)
Prepaid expenses and other assets	(259)
Accounts payable	(433)
Accrued expenses	1,168
Deferred revenues	(49)
Net cash provided by (used in) discontinued operations	5,977
Net cash used in operating activities	(6,439)
Cash flows from investing activities:	
Purchases of marketable securities	(19,232)
Proceeds from sales and maturities of marketable securities	18,200
Repayment of notes receivable from related parties	--
Purchases of property and equipment	(660)
Purchases of patents and trademarks	(39)
Net cash used for discontinued operations	--
Net cash provided by (used in) investing activities	(1,731)
Cash flows from financing activities:	
Issuance of loans to officers	(575)
Issuance of preferred stock in subsidiary, net of issuance costs of $175	--
Collection of subscription receivable related to common stock of subsidiary	--
Proceeds from exercise of stock options	1,504
Net cash provided by financing activities	929

Effect of exchange rate changes on cash	(7)
Net increase (decrease) in cash and cash equivalents	(7,248)
Cash and cash equivalents at beginning of period	13,320
Cash and cash equivalents at end of period	$ 6,072

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

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 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 complete and interim 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 June 30, 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 for the year 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 includes sales of perpetual and term based licenses for broadcasting Viewpoint 3D content, and limited licenses for its digital content library. License revenue is recognized over the term of the license in a term-based broadcast license model and up-front in a perpetual broadcast license model, providing that no significant vendor obligations remain and the resulting receivable is deemed collectible by management.

Service revenue, which consists of fee-based 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 is in compliance with the provisions of SAB No. 101.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and other intangibles will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles is more than its fair value. The provisions of each statement which apply to goodwill and intangible assets acquired prior to June 30, 2001, will be adopted by the Company on January 1, 2002. The financial statement impact of adopting these statements has not yet been determined.

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VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

Basic and diluted net loss per common share for the three and six months ended June 30, 2001, include the effect of the 744,740 shares to be issued to

Computer Associates International, Inc. ("Computer Associates") (see note 5), as if the shares were issued and outstanding on June 8, 2001.

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 periods presented in the accompanying consolidated statements of operations.

The Company recorded adjustments to net loss on disposal of discontinued operations of $730,000 and $1,265,000 during the six months ended June 30, 2001 and 2000, respectively, as a result of changes in estimates related to assets and liabilities of the discontinued business. Changes in estimates will be accounted for prospectively and included in adjustment to net 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. 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. The former executive and the Company entered into a consulting agreement under which, among other things, the former executive agreed to pay the Company $520,000 in outstanding obligations under the loan. In July 2001, the Company received the $520,000 from the former executive.

On April 2, 2001, the Company loaned $375,000 to an officer of the Company. The loan, which bears interest at 4.94% per annum, compounding annually, is secured solely by the officer's stock options in the Company and is non-recourse to the officer, unless the Company terminates the officer for cause or the officer resigns without good reason, in which case the loan will become fully recourse to the officer. The officers' employment agreement provides that if there is a change of control of the Company, or the officer is terminated without cause or resigns for good reason, the loan will be forgiven.

On May 31, 2001, the Company loaned $200,000 to an officer of the Company. The loan, which bears interest at 5.07% per annum, compounding annually, is secured solely by the officer's stock options in the Company and is non-recourse to the officer, unless the Company terminates the officer for cause.

5. AGREEMENTS WITH COMPUTER ASSOCIATES AND ACQUISITION OF VIEWPOINT DIGITAL

On April 19, 2001, the Company entered into an agreement with 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 having a value of $4,000,000, 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. ("Viewpoint

Digital").

On May 9, 2001, the Company and Computer Associates entered into a subsequent 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 at an issue price of $4.00 per share in repayment of (a) any additional amounts due under the promissory note due June 8, 2001, (b) $100,000 due under the agreement entered into on April 19, 2001, and (c) the first $8,943,000 of a $15,000,000 contingent promissory note due April 30, 2002, which amount will be determined by the achievement of certain levels of future operating results and employee retention.

Pursuant to the April 19, 2001 and May 9, 2001 agreements, the Company registered 3,400,000 shares of the Company's common stock under the Securities Act of 1933.

The amount due Computer Associates under the promissory note due June 8, 2001, and the agreement dated April 19, 2001, is approximately $4,657,000. For repayment of the first $4,000,000, the number of common shares to be issued was calculated on the basis of the average closing price of Viewpoint common stock over the ten-day trading period ending on and including June 8, 2001. The number of shares to be issued to Computer Associates is 744,740. For repayment of the remaining $657,000, the Company has the option of paying cash or issuing unregistered shares of Viewpoint common stock valued at $4.00 per share. In connection with this promissory note, the Company recorded additional goodwill and due to related parties in its consolidated balance sheet.

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," "targets," "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 for the year ended December 31, 2000, as filed on Form 10-K.

OVERVIEW

Viewpoint Corporation, ("Viewpoint" or the "Company") provides digital marketing technologies and services for creating and deploying virtual products 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, 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. Computer Associates' 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 custom 3D content creation services to thousands of customers in the entertainment, advertising, visual simulation, computer-based training and corporate communications industries.

The Company's primary initiatives include:

- Licensing technology for specific marketing visualization solutions;
- 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.

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

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 June 30, 2001, had an accumulated deficit of $169,665,000.

OPERATING RESULTS

The following table sets forth for the three and six months ended June 30, 2001 and 2000, the Company's consolidated statements of operations expressed as a percentage of total revenues.

	THREE MONTHS ENDED	
	JUNE 30, 2001	JUNE 30, 2000
Revenues:		
Licenses	64.7%	16.1%
Services	35.3	83.9
Total revenues	100.0	100.0
Cost of revenues	23.1	--
Gross profit	76.9	100.0
Operating expenses:		
Sales and marketing	194.7	2,367.1
Research and development	78.0	1,000.7
General and administrative	98.7	1,832.9
Amortization of goodwill and other intangibles	155.7	24.5
Depreciation	16.0	80.0
Non-cash sales and marketing charge	--	3,709.0
Total operating expenses	543.1	9,014.2
Loss from operations	(466.2)	(8,914.2)
Other income	10.7	300.7
Loss before minority interest in loss of subsidiary	(455.5)	(8,613.5)
Minority interest in loss of subsidiary	--	1,704.5
Net loss from continuing operations	(455.5)	(6,909.0)
Adjustment to net loss on disposal of discontinued operations	26.5	--
Net loss	(429.0)%	(6,909.0)%

REVENUES

	JUNE 30, 2001	JUNE 30, 2000	% CHANGE
Revenues:	(DOLLARS IN THOUSANDS)		
Three months ended:			
Total revenues	$2,751	$ 155	1,675%
Six months ended:			
Total revenues	$5,542	$ 317	1,648%

The increase in revenues for the three and six months ended June 30, 2001, compared to the same periods last year is primarily attributable to an increase in sales of licenses and fee-based professional services due to the maturity of Viewpoint Experience Technology, and incremental sales from the acquisition of Viewpoint Digital.

COST OF REVENUES

	JUNE 30, 2001	JUNE 30, 2000	% CHANGE
	(DOLLARS IN THOUSANDS)		
Three months ended:			
Cost of revenues	$ 635	$ --	N/A
Percentage of total revenues	23%	--%	
Six months ended:			
Cost of revenues	$1,541	$ --	N/A
Percentage of total revenues	28%	--%	

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

SALES AND MARKETING (INCLUDING NON-CASH STOCK-BASED COMPENSATION CHARGES TOTALING $681 AND $1,009 FOR THREE MONTHS ENDED JUNE 30, 2001 AND 2000, RESPECTIVELY, AND $1,277 AND $3,563 FOR SIX MONTHS ENDED JUNE 30, 2001 AND 2000, RESPECTIVELY)

	JUNE 30,	JUNE 30,	%

	2001	2000	CHANGE
	(DOLLARS IN THOUSANDS)		
Three months ended:			
Sales and marketing	$ 5,356	$ 3,669	46%
Percentage of total revenues	195%	2,367%	
Six months ended:			
Sales and marketing	$10,531	$ 7,328	44%
Percentage of total revenues	190%	2,312%	

Sales and marketing expenses excluding non-cash stock-based compensation charges increased for the three and six months ended June 30, 2001, compared to the same periods last year primarily due to an increase in salaries, benefits, and travel expenses related to an increase in personnel due to internal growth, and the acquisition of Viewpoint Digital. In addition, advertising and trade show costs increased as the Company continued to market Viewpoint Experience Technology.

RESEARCH AND DEVELOPMENT (INCLUDING NON-CASH STOCK-BASED COMPENSATION CHARGES TOTALING $745 AND $594 FOR THREE MONTHS ENDED JUNE 30, 2001 AND 2000, RESPECTIVELY, AND $1,485 AND $1,573 FOR SIX MONTHS ENDED JUNE 30, 2001 AND 2000, RESPECTIVELY)

	JUNE 30, 2001	JUNE 30, 2000	% CHANGE
	(DOLLARS IN THOUSANDS)		
Three months ended:			
Research and development	$2,146	$1,551	38%
Percentage of total revenues	78%	1,001%	
Six months ended:			
Research and development	$4,594	$3,352	37%
Percentage of total revenues	83%	1,057%	

Research and development expenses excluding non-cash stock-based compensation charges increased for the three and six months ended June 30, 2001, compared to the same periods last year 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.

GENERAL AND ADMINISTRATIVE (INCLUDING NON-CASH STOCK-BASED COMPENSATION CHARGES TOTALING $388 AND $1,544 FOR THREE MONTHS ENDED JUNE 30, 2001 AND 2000, RESPECTIVELY, AND $795 AND $1,867 FOR SIX MONTHS ENDED JUNE 30, 2001 AND 2000, RESPECTIVELY)

	JUNE 30, 2001	JUNE 30, 2000	% CHANGE
	(DOLLARS IN THOUSANDS)		
Three months ended:			

General and administrative	$2,716	$2,841	(4)%
Percentage of total revenues	99%	1,833%	
Six months ended:			
General and administrative	$4,899	$4,506	9%
Percentage of total revenues	88%	1,421%	

General and administrative expenses excluding non-cash stock-based compensation charges increased for the three and six months ended June 30, 2001, compared to the same periods last year primarily due to an increase in facilities costs and salaries and benefits related to an increase in personnel, and an increase in insurance, legal and accounting costs. The increases in the aforementioned expenses are attributable to internal growth as well as the acquisition of Viewpoint Digital.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLES

	JUNE 30, 2001	JUNE 30, 2000	% CHANGE
	(DOLLARS IN THOUSANDS)		
Three months ended:			
Amortization of goodwill and other intangibles	$4,283	$ 38	11,171%
Percentage of total revenues	156%	25%	
Six months ended:			
Amortization of goodwill and other intangibles	$8,420	$ 76	10,979%
Percentage of total revenues	152%	24%	

Amortization of goodwill and other intangibles increased for the three and six months ended June 30, 2001, compared to the same periods last year due 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

	JUNE 30, 2001	JUNE 30, 2000	% CHANGE
	(DOLLARS IN THOUSANDS)		
Three months ended:			
Depreciation	$440	$124	255%
Percentage of total revenues	16%	80%	
Six months ended:			
Depreciation	$855	$216	296%
Percentage of total revenues	15%	68%	

Depreciation increased for the three and six months ended June 30, 2001 compared to the same periods last year as a result of property and equipment additions during 2000 and 2001.

NON-CASH SALES AND MARKETING CHARGE

	JUNE 30, 2001	JUNE 30, 2000	% CHANGE
	(DOLLARS IN THOUSANDS)		
Three months ended:			
Non-cash sales and marketing charge	$ --	$5,749	(100)%
Percentage of total revenues	--%	3,709%	
Six months ended:			
Non-cash sales and marketing charge	$ --	$5,749	(100)%
Percentage of total revenues	--%	1,814%	

In connection with the issuance of mandatorily redeemable preferred stock to America Online, Inc. ("AOL"), the Company recorded a one-time non-cash sales and marketing charge of $5,749,000 during the three and six months ended June 30, 2000. The one-time non-cash charge represented the difference between the fair value of the Company's common shares into which AOL could have converted the preferred shares on the date of issuance, and the $10,000,000 cash consideration paid by AOL.

OTHER INCOME

	JUNE 30, 2001	JUNE 30, 2000	% CHANGE
	(DOLLARS IN THOUSANDS)		
Three months ended:			
Other income	$293	$466	(37)%
Percentage of total revenues	11%	301%	
Six months ended:			
Other income	$717	$987	(27)%
Percentage of total revenues	13%	311%	

Other income, which decreased for the three and six months ended June 30, 2001 compared to the same periods last year 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

	JUNE 30, 2001	JUNE 30, 2000	% CHANGE
	(DOLLARS IN THOUSANDS)		
Three months ended:			
Minority interest in loss of subsidiary	$ --	$2,642	(100)%
Percentage of total revenues	--%	1,705%	
Six months ended:			
Minority interest in loss of subsidiary	$ --	$3,327	(100)%
Percentage of total revenues	--%	1,050%	

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 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.

ADJUSTMENT TO NET LOSS ON DISPOSAL OF DISCONTINUED OPERATIONS

	JUNE 30, 2001	JUNE 30, 2000	% CHANGE
	(DOLLARS IN THOUSANDS)		
Three months ended:			
Adjustment to net loss on disposal of discontinued operations	$ 730	$ --	N/A
Percentage of total revenues	27%	--%	
Six months ended:			
Adjustment to net loss on disposal of discontinued operations	$ 730	$1,265	(42)%
Percentage of total revenues	13%	399%	

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 adjustments to net loss on disposal of discontinued operations of $730,000 and $1,265,000 during the six months ended June 30, 2001 and 2000, respectively, as a result of changes in estimates related to assets and liabilities of the discontinued business. Changes in estimates will be accounted for prospectively and included in adjustment to net loss on disposal of discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash and investments totaled $22,844,000 at June 30, 2001, down from $29,033,000 at December 31, 2000. Net cash used in operating activities of the Company totaled $6,439,000 for the six months ended June 30, 2001, compared to $17,484,000 for the six months ended June 30, 2000. Net cash used in operating activities for the six months ended June 30, 2001 primarily resulted from a $24,581,000 net loss from continuing operations, offset by $5,977,000 in net cash provided by discontinued operations, $3,557,000 in non-cash stock-based compensation charges and $9,275,000 in depreciation and amortization. Net cash used in operating activities for the six months ended June 30, 2000 primarily resulted from a $16,596,000 net loss from continuing operations, $12,983,000 net cash used for discontinued operations (principally severance and related expenses) and $3,327,000 minority interest in loss of subsidiary, net of $7,003,000 non-cash stock-based compensation charges and $5,749,000 non-cash sales and marketing charge related to the issuance of Metastream preferred stock to AOL.

Net cash used in investing activities totaled $1,731,000 million for the six months ended June 30, 2001, compared to net cash provided by investing activities of $13,644,000 for the six months ended June 30, 2000. Net cash used in investing activities for the six months ended June 30, 2001 primarily resulted from $1,032,000 of net purchases of marketable securities and $660,000 used for purchases of property and equipment. Net cash provided by investing activities for the six months ended June 30, 2000 primarily resulted from $14,763,000 of net proceeds from sales and maturities of marketable securities and $1,000,000 of proceeds from the repayment of a note receivable from an officer of the Company, net of $2,035,000 used for purchases of property and equipment.

Net cash provided by financing activities totaled $929,000 and $19,862,000 for the six months ended June 30, 2001 and 2000, respectively. Net cash provided by financing activities for the six months ended June 30, 2001 resulted from $1,504,000 of proceeds received from the exercise of stock options by the Company's employees, offset by $575,000 in loans to two officers of the Company. Net cash provided by financing activities for the six months ended June 30, 2000 resulted from $10,537,000 of proceeds received from the exercise of stock options by the Company's employees, $9,825,000 of net proceeds from the issuance of Series A Convertible Preferred Stock in Metastream to AOL and $1,000,000 collected from Computer Associates in connection with a subscription receivable related to Metastream common stock, net of a $1,500,000 note receivable issued to an officer of the Company.

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

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," "targets", "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 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;

- 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and other intangibles will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles is more than its fair value. The provisions of each statement which apply to goodwill and intangible assets acquired prior to June 30, 2001, will be adopted by the Company on January 1, 2002. The financial statement impact of adopting these statements has not yet been determined.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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 June 30, 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

EXHIBIT NUMBER	EXHIBIT TITLE
10.1	Letter Agreement between the Registrant and Computer Associates International, Inc., dated April 19, 2001 (incorporated by reference to the Registrant's Current Report on Form 8-K filed on April 27, 2001 (File No. 000-27168))
10.2	Letter Agreement between the Registrant and Computer Associates International, Inc., dated May 9, 2001 (incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 15, 2001 (File No. 000-27168))

(b) Reports on Form 8-K

On April 19, 2001, the Registrant filed a report on Form 8-K to report that it had entered into an agreement with Computer Associates International, Inc. under which, among other things, Computer Associates agreed to accept common stock of the Registrant in satisfaction of certain financial obligations due June 8, 2001 relating to the Registrant's acquisition from Computer Associates of all of the outstanding capital stock of Viewpoint Digital, Inc. on September 8, 2000.

On May 15, 2001, the Registrant filed a report on Form 8-K to report that it had entered into an agreement with Computer Associates International, Inc. under which, among other things, Computer Associates agreed to accept either cash or common stock of the Registrant in satisfaction of certain financial obligations due April 30, 2002 relating to the Registrant's acquisition from Computer Associates of all of the outstanding capital stock of Viewpoint Digital, Inc. on September 8, 2000.

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)

By /s/ ROBERT E. RICE

Robert E. Rice
Director, President and
Chief Executive Officer

By /s/ JEFFREY J. KAPLAN

Jeffrey J. Kaplan
Executive Vice President and
Chief Financial Officer

By /s/ ANTHONY L. PANE

Anthony L. Pane
Vice President and
Controller

Date: August 14, 2001