VIEWPOINT CORP/NY/
Form 10-K
March 28, 2002

==

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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-27168

VIEWPOINT CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	95-4102687
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

498 SEVENTH AVENUE, SUITE 1810, NEW YORK, NY 10018
(Address of principal executive offices) (zip code)

(212) 201-0800
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
COMMON STOCK,$0.001 PAR VALUE

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. [ ]

As of March 22, 2002 there were 39,809,611 shares of common stock issued and outstanding. The aggregate market value of such stock held by non-affiliates as of that date, was approximately $250,402,453.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the Notice of Annual Meeting of Stockholders to be held on June 12, 2002 are incorporated by reference into Part III.

TABLE OF CONTENTS

PART I

In addition to historical information, this Annual Report on Form 10-K 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations -- 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 the Quarterly Reports on Form 10-Q to be filed in 2002. 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 the forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. 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.

ITEM 1. BUSINESS

Viewpoint Corporation ("Viewpoint" or the "Company") is a leading provider of interactive media technologies and services. Its graphics operating system platform, the 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.

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. In December 1999, the Board of Directors of the Company approved a plan to focus exclusively on the Internet technologies of Metastream and to correspondingly divest the Company of all its prepackaged software business.

VIEWPOINT EXPERIENCE TECHNOLOGY AND THE VIEWPOINT MEDIA PLAYER

Viewpoint Experience Technology ("VET") allows Websites and other media publishers to integrate a full line of interactive graphics media technologies seamlessly onto regular Web pages or through other digital formats. Available media types include: photo-realistic 3D, ZoomView -- a "data on demand" 2D image that users may pan and drill into, text annotations and animations, Macromedia(R) Flash(TM)-compatible vector graphics animations, object movies, immersive surround pictures, and digital audio and video. These interactive digital media types can add dimension, contextual information, animation, realistic color, shadows and real-time reflections, movement and robust interactivity to static Web objects. VET enables users to better access and interact with images and objects, seamlessly mixing the narrative drive of more traditional media with the interaction of the Web, such that users can rotate objects, view extended, narrowband friendly presentations, configure colors, patterns and other options, all while experiencing extraordinary visual dimension and accuracy. The interaction between the user and VET content can educate users about a particular product, message or brand.

The Viewpoint Media Player ("VMP") is the client-side software platform that permits Viewpoint's customers to broadcast VET content through the Internet into end users' browser (primarily Internet Explorer, Netscape, and Gecko/Mozilla) and "non-browser" environments (primarily America Online, Inc.'s "Rainman" and CompuServe clients).

Like Sun Microsystem Inc.'s Java or Microsoft Corporation's ("Microsoft") .NET platform, with which VMP can interoperate, VET is a fundamentally extensible "Web services" architecture--a graphics operating system for the Web--focused on high visual quality, multimedia integration and data visualization. The VET media technologies are entirely "serverless," meaning deployment of such content requires only standard HTTP servers on the broadcast end.

The key principle behind client-side software is to transmit "coarse," or highly compressed, digital information that is deployed from the server, rather than numerous pictures and text. The client-side software then leverages the user's CPU processing power to decompress, display,

3

and process this information "locally" on that CPU, no longer taxing network bandwidth to examine, configure, interact, and explore digital content. VET content contains instructions interpreted by the VMP components "on the fly" and is continually re-interpreted into pictures and sounds that the browser (or "non-browser") may present to the user. As CPU capacities have grown at a much more rapid rate than that of connection speeds in recent years, the Company believes VET's use of this speed advantage is of significant competitive importance.

Additionally, VET employs an extensible mark-up language (or "XML") media "envelope", which enables Viewpoint content to exchange data with back-end servers in real time and to perform dynamic content configuration. This XML media envelope is also the basis for the extensibility of the VMP. Through this XML data description format, VET digital content can seamlessly download and extend new graphics services on the client-side, which in turn may interpret and convert different and new media types and formats that may be referenced or embedded in that digital content. This fundamental extensibility is a key architecture advantage that has allowed the Company to extend the feature set of the VMP continually since its launch in the summer of 2000, providing an "instant upgrade" ability. This design prevents the "lowest common denominator" syndrome that affects Web technologies as they mature - with VET, Web publishers and content authors can be assured that users have the latest features and enhancements of the VMP platform.

As a form of efficient visual communication, the Company believes the commercial applications of VET are virtually unlimited. However, the Company has chosen to focus its near-term marketing efforts on several key areas, including: enterprise applications, which entails building new or enhancing existing software applications; media and Internet advertising; and Website deployment into various vertical markets, such as: automotive, retail, and medical.

VIEWPOINT PROFESSIONAL SERVICES

Viewpoint provides fee-based professional services for implementing visualization solutions. Encompassing both digital content creation and application enhancing services, our strategic, creative and consulting services bring together our teams of experts in rich media, content creation and technology implementation in order to identify the ideal Viewpoint solution for each client's unique needs and to ensure the timely, successful implementation of those solutions. Our professional services groups use Viewpoint Experience Technology, as well as a spectrum of tools and other technologies to create enhanced rich media solutions for the client's particular purpose, whether over the Web, intranet systems or offline media and applications. Our professional services groups provide the support our clients need to implement the rich media content, to fully utilize the enhanced software or to maximize the branding potential of the advertising opportunity.

In addition to providing Web services, our professional services groups also develop realistic digital effects and animation for the entertainment and game industries, film producers, major brands, advertising agencies and commercial production houses. Our custom digital assets have had starring and supporting roles in:

- numerous feature films, including Black Hawk Down, Driven and ANTZ;
- television programs such as the telecasts of The Academy Awards Ceremony and The 2002 Winter Olympics;
- television advertisements for Ford, Dodge, Chevy and Seiko; and
- VET-enabled Websites for companies such as Ford Motor Company, Nike, Inc., Compaq Computer Corporation, Dell Computer Corporation, and Eddie Bauer.

MARKET OPPORTUNITY

The number of Internet users has increased rapidly over the past several years. In addition, commercial applications that are based on digital technology, including the Internet, have increased at a rapid pace. The Company believes that these patterns have resulted in increasing expenditures for online marketing, advertising, branding, and e-commerce, and that such communications will increasingly utilize rich media formats. Visualization as a means of communication over wide areas, within and between companies and customers, has become vital in conducting business over the past five years. The Company sees an eventual convergence of the various media types, including: print, broadcast television, the Web, gaming and motion pictures, among others that present a tremendous opportunity for those who utilize or equip digital visualization.

The Company's initial focus was on Website licensing for marketing and direct selling. The Company believes that its Viewpoint Experience Technology meets this market's requirements for:

- Effective merchandising to build brand awareness and drive sales.
- Realistic product interaction.
- Interoperability of all other media types required for compelling product displays (including, for example, 3D, vector graphics, object movies, 2D, digital sound and video).
- Excellent compression and streaming delivery at narrowband and broadband data rates.
- Client-side data logging of the use of downloaded rich media.
- Low infrastructure impact for deployment, and ease of integration into Web, HTML, and IT infrastructures.
- Continual advancement and "refresh" of features through the

graphics operating system platform.

- Consistent and high quality playback across browser and non-browser environments and all major playback platforms.

The Company's focus has recently been broadened to include enterprise applications. Viewpoint's graphics operating platform provides a powerful visualization edge to complement existing enterprise application software. The Company believes that, as data becomes more complicated and is communicated over wider geographic distances, providing visualization becomes critical to success. Examples of enterprise applications include: virtual product design, process workflow and customer service applications. This Company's primary target audience for enterprise applications is Fortune 500 companies who can benefit from improving communication through visualization. The Company's model is to apply its already developed engineering resources to create custom solutions to address those needs.

In addition, the Company has developed a new group to penetrate the Internet advertising market as well as digital advertising on a broader scale. The Company believes that the Web lacks compelling advertising formats and that numerous additional digital advertising formats are emerging, such as those for television's new digital set-top boxes. The Company believes it is well-positioned to develop and deliver engaging, interactive advertisements over digital media, including the Internet. It is believed that Viewpoint Experience Technology can deliver compelling and interactive ad formats, tapping into a large selection of technologies. The Company feels that creative talent which may have objected to the limited formats of existing "banner" ads will be drawn to the new formats and therefore bring credibility to the newly enhanced medium. Further, the potential for client-side tracking and logging as well as guaranteed playback quality and consistency across advertising platforms should provide strong defensibility in this space.

VIEWPOINT'S BUSINESS MODEL

The Company's business model differs from that of many other companies that have developed Website design and content-creation software for sale or license to a target market of Internet professionals -- that is, Website developers, interactive agencies, solutions integrators, application service providers and content developers, as well as professionals working in-house at e-merchants and other Website owners. Instead of selling tools to Internet professionals -- a relatively small market - the Company has sought primarily to license technology to the audience where the value is created: the much larger market of e-commerce merchants, Website owners and others who can harvest benefits from communicating visually in the digital domain.

The Company's licensing strategy focuses on earning fees by providing clients with the ability to broadcast digital content in the Viewpoint format. Viewpoint's technology is designed so that content in the Viewpoint format that is broadcast or otherwise distributed without a valid "key" will be spoiled by a "watermarking" image. The Company offers these keys through a variety of broadcast license arrangements that document the client's rights under the arrangement. Licenses are tailored to the specific needs of the client. Examples of typical arrangements include:

- licenses which are time-based, which are generally limited to specific Web site addresses or specific content;

- licenses which are perpetual, which are generally limited to specific types or amounts of content;

- licenses which permit a "narrowcast" only to a local area network or intranet; and

- licenses which permit the client to distribute content by means of CDs, DVDs and other portable storage media.

The Company believes that this revenue model, if successful, should produce a recurring stream of revenues from existing clients with the opportunity to scale income substantially as new customers are acquired.

Another key aspect of our approach is an "open tools" philosophy. The Company believes that the long-term success of its platform will be fueled by having the most popular content creation tools natively output in the Viewpoint format, rather than requiring design professionals to use Viewpoint's own proprietary toolset. This approach also eliminates much of the very large cost associated with development and support of proprietary commercial toolsets. Another advantage of this strategy is that software tools companies that do incorporate Viewpoint functionality, such as Adobe Systems Incorporated ("Adobe") and Autodesk Incorporated, have natural incentives to promote the Viewpoint platform. More than 50 companies are developing or have developed support for the Viewpoint format within their tools. In addition, we make available on our Website, without charge, the core software necessary to develop Viewpoint content, as well as extensive tutorials and related materials.

Another cornerstone of the business model is that the Viewpoint Media Player, representing the required client-side playback engine, is free for users to playback broadcasted content. After downloading the player, users can receive all updates of the media player software for free, seamlessly and without interruption of the playback.

The Company's professional services groups play an integral role in its overall strategy. Professional services provide a significant revenue opportunity, through the sale of complete solutions comprising technology and content creation services to customers desiring a single vendor solution. At the same time, the groups increase our ability to sell broadcast licenses, by enabling us to offer Viewpoint content to clients who are impressed by the advantages of Viewpoint Experience Technology but who do not wish to create Viewpoint content themselves or trust that creation to others. Also, the groups' work keeps us on the cutting-edge of the industry, giving us hands-on experience with the design and development problems faced by our own clients, and enabling us to provide thorough, up-to-date training for other industry professionals. The Company is not reliant on its own content creation services, however, as it has cultivated a network of thousands of independent content developers trained to provide those services as well.

Recently, the Company's professional services have begun to include specific engineering services to enhance existing or create new software applications meant to perform a specific task or set of tasks or assist in communicating through visualization. While content creation services focus on creating interactive digital objects and enhancing Websites, engineering services create or alter software to enable clients to design products, improve process workflow or enhance customer service experiences. The Company's engineering services leverage off of the existing engineering staff and the Company's growing engineering application developers network.

COMPETITION

The Company's current competitors (and some of their products) include: Kaon (Activate!3D); Cycore AB (Cult3D); IBM Corporation (Hotmedia); Macromedia, Inc. (Shockwave and Flash); Shells Interactive Ltd. (3D Dreams); Pulse Entertainment (Pulse3D); Shout Interactive (Shout 3D); Virtue 3D, Inc.

(Virtuoso); and Rich FX (Examine-FX). Some of the Company's competitors have longer operating histories and significantly greater financial, management, technology, development, sales, marketing and other resources than the Company. As the Company competes with larger competitors across a broader range of products and technologies, the Company may face increasing competition from such companies. If these or other competitors develop products, technologies or solutions that offer significant performance, price or other advantages over those of the Company, the Company's business would be harmed.

A variety of other possible actions by the Company's competitors could also have a material adverse effect on the Company's business, including increased promotion or the introduction of new or enhanced products and technologies. Moreover, new personal computer platforms and operating systems may provide new entrants with opportunities to obtain a substantial market share in the Company's markets.

The Company's competitors may be able to develop products or technologies comparable or superior to those of the Company, or may be able to develop new products or technologies more quickly. The Company also faces competition from developers of personal computer operating systems such as Microsoft and Apple Computer, Inc., as well as from open-source operating systems such as Linux. These operating systems may incorporate functions that could be superior to or incompatible with the Company's products and technologies. Such competition would adversely affect the Company's business.

The Company believes that Viewpoint Experience Technology offers significant advantages over many of our competitors' products:

- GREATER VISUAL REALISM -- We believe that 3D and other digital rich media objects created in the Viewpoint format offer higher quality and a more true-to-life online experience than competitors' formats.

- INTERACTIVITY -- Viewpoint Experience Technology lets a customer interact with our clients' brands and examine their products in ways not possible with our competitors' formats. Viewpoint lets consumers pick up/put down, zoom in/out, see how parts move, add/remove components, turn products on/off, change colors/fabrics/textures, instantly receive key data (e.g. compare pricing).

- NARROWBAND FRIENDLY -- Viewpoint's proprietary compression technology, TrixelsNT, greatly cuts download time of 3D objects to almost what is expected from ordinary 2D images, so that even consumers with slow connections to the Internet can see Viewpoint content quickly and can interact with them in real time. The client-side rendering makes this possible as only a small file of instructions are communicated to the client-side CPU, where the object is actually rendered. Many of the Company's competitors render objects on the server-side which is more taxing on servers and connections and leads to poorer user interoperability.

- MANY MEDIA/ONE PLAYER -- Viewpoint includes and integrates seamlessly with many rich media types like IPIX Panoramas, high quality 3D, text annotations, Flash(TM) vector graphics, audio and more, enabling clients to create more compelling Web experiences in a concise and integrated fashion.

- NO POP-UP WINDOWS -- Viewpoint's transparent "windowless rendering" allows 3D images to share space on the page with text, graphics, and even buttons and hyperlinks. The new "browserless rendering" now allows 3D objects and vector graphics animation to play right over open windows. 2D images can "hyper" zoom from traditional thumbnails into images that utilize the entire screen's desktop area. The XML capabilities of the technology allows a seamless and immediately updateable data integration with back-end servers without generating additional windows.

- AUTOMATIC UPDATES -- Once users download the Viewpoint Media Player, they can automatically receive all releases and upgrades. Because new releases and additional functionality can be sent automatically, in the background, the user's online experience is never interrupted.

- LACK OF DEPENDENCE ON JAVA -- The Company's technology is not based upon the Java software language. It has been announced publicly that Java is not supported in the current version of Microsoft's browser, Internet Explorer 6.0, the latest version of the world's most popular Internet browser. This lack of support for Java requires users to download a plug-in in order to view Java-based media. Many of Viewpoint's competitors base their technology on the Java language and the Company feels its lack of dependence on Java technology is an advantage.

- SEAMLESS INTEGRATION -- VET technology requires no special server side software to deploy, and integrates easily with existing HTML pages or back end database systems.

PRODUCT DEVELOPMENT

Continuous development of new products and enhancements of our existing products is critical to our success. The Company's principal current product development efforts are focused on the development of VET and other complementary technologies. From time to time, the Company may also acquire basic software technologies that it considers complementary to its Viewpoint solution.

The Company's growth will, in part, be a function of the introduction of new products, technologies and services and future enhancements to existing products and technologies. Any such new products, technologies or enhancements may not achieve market acceptance. In addition, the Company has historically experienced delays in the development of new products, technologies and enhancements, and such delays may occur in the future. If the Company were unable, due to resource constraints or technological or other reasons, to develop and introduce such products, technologies or enhancements in a timely manner, this inability could have a material adverse effect on the Company's business. In particular, the introductions of new products, technologies and enhancements, are subject to the risk of development delays.

The Company's research and development expenses, exclusive of non-cash stock compensation charges, were approximately $6,633,000, $6,241,000 and $2,515,000, for 2001, 2000 and 1999, respectively. The Company may hire additional engineers in connection with its continued product development efforts, which would result in increased research and development expenses.

INTELLECTUAL PROPERTY

The Company regards its patents, copyrights, service marks, trademarks, trade dress, trade secrets, propriety technology and similar intellectual property as critical to its success, and relies on trademark, copyright and patent law, trade secret protection and confidentiality and/or license agreements with its employees, partners, customers and others to protect its proprietary rights. The Company has applied for the registration of certain of its trademarks and service marks in the United States and internationally. In addition, the Company has filed U.S. and international patent applications covering certain of its proprietary technology. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which the Company's products and services are made available online. The Company has licensed in the past, and expects that it may license in the future, certain of its proprietary rights, such as patents, trademarks, technology or copyrighted material, to third parties.

EMPLOYEES

As of March 22, 2002, Viewpoint had 172 full time employees, including 40 in sales and marketing; 66 in creative services; 46 in research, development and quality assurance; and 20 in administration. The Company also employs independent contractors. The employees and the Company are not parties to any collective bargaining agreements, and the Company believes that its relationships with its employees are good.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information regarding the Company's executive officers as of March 22, 2002:

NAME	AGE	POSITION
Robert E. Rice	47	Chairman, President and Chief Executive Officer
David Feldman	35	Executive Vice President and Chief Strategist
Christopher Gentile	43	Executive Vice President, Creative Services
Paul Kadin	51	Executive Vice President, Business Development
Jeffrey J. Kaplan	54	Executive Vice President, Business Affairs
Anders Vinberg	52	Executive Vice President, Engineering and Enter
Anthony L. Pane	36	Senior Vice President and Chief Financial Offic

Mr. Rice has been President and Chief Executive Officer since March 2000 and Chairman of the Company's Board of Directors since July 2000. At the Company, he served as Vice President of Strategic Affairs until September 1999. He served as the President and a Director of Metastream since its formation in June 1999. Mr. Rice co-founded Real Time Geometry Corporation and served as its chairman until its sale to the Company in 1996. Before founding Real Time Geometry, Mr. Rice was a partner at the law firm of Milbank, Tweed, Hadley and McCloy LLP, where he advised on various corporate, tax, and intellectual property issues. While at Milbank, Mr. Rice also co-founded the Professional Chess Association with World Champion Garry Kasparov and served as its commissioner for two years, organizing World Championships and major televised events around the globe.

Mr. Feldman has been Executive Vice President and Chief Strategist of the Company since February 2001. Mr. Feldman served as Vice President of Business Development and Chief Strategist of Metastream from its formation in June 1999 through its merger with the Company in November 2000 and served as Vice President and Chief Strategist at the Company from November 2000 until

February 2001. Mr. Feldman served as Vice President, Business Development of the Company in 1999 and had served as Director, Business Development, and Director, Princeton Products Group of the Company from 1997 to 1999. Mr. Feldman served both as Chief Strategist and a member of the board of directors of Specular International from 1995 until its acquisition by the Company in 1997.

8

Mr. Gentile has been Executive Vice President, Creative Services of the Company since November 2000. Before the merger of Metastream and Viewpoint, Mr. Gentile served at Metastream as Vice-President of Production from July 1999 through February 2000, and as Managing Director of Professional Services from February 2000 through November 2000. Before joining Metastream, Mr. Gentile founded or co-founded several businesses, including MC Squared Incorporated, a wholly owned consulting company that he founded in 1996 and where he has served as President; Millennium RUSH, LLC, a software development company that he founded in 1995 and where he served as President; and Abrams Gentile Entertainment, Inc. a developer of consumer products and theme park designs that he co-founded in 1986 and where he served as a partner.

Mr. Kadin has been with the Company since February 2000 and has served as Executive Vice President, Business Development since February 2001. Following an initial focus on Sales, Marketing, and Client Services globally, his current focus is on development of the Company's digital advertising formats for the Web and other media outlets. Prior to joining Viewpoint, Mr. Kadin was President - North America for Customer Dialogue Systems, a Belgian based financial services software provider. During 1996-98, he was Executive Vice President of Dreyfus Corporation in charge of retail investment sales, product management and internet activities. From 1988-1996, Mr. Kadin held senior positions in retail banking at Chase Manhattan. A series of consumer brand management positions from 1975-1987 at Procter and Gamble, Warner Lambert and Sara Lee established Mr. Kadin's marketing background.

Mr. Kaplan has been the Executive Vice President of Business Affairs of the Company since November 2001 and was Executive Vice President and Chief Financial Officer for the period from February 2001 to November 2001. Mr. Kaplan served as Executive Vice President and Chief Financial Officer of Rare Medium Group, Inc. from September 1999 until joining the Company and served as Executive Vice President, Chief Financial Officer and Director of Safety Components International, Inc., a leading manufacturer of airbag cushions and fabric from February 1997 to August 1999. Safety Components filed for bankruptcy on April 10, 2000 and emerged from bankruptcy on October 11, 2000. From October 1993 to February 1997, Mr. Kaplan served as Executive Vice President, Chief Financial Officer and Director of International Post Limited, a leading provider of post-production services for commercial and advertising markets.

Mr. Vinberg has been Executive Vice President, Engineering and Information Systems at the Company since September 2000. Before this, Mr. Vinberg was Divisional Senior Vice President at Computer Associates International, Inc., ("Computer Associates") a software company, since 1986. In this position, Mr. Vinberg acted as chief architect and was responsible for the architecture of several of Computer Associates' strategic products. Mr. Vinberg also represented Computer Associates on the board of directors of Metastream from October 1999 until its merger with the Company in November 2000.

Mr. Pane joined the company in August of 2000 and has served as Senior Vice President and Chief Financial Officer since November 2001. Previously Mr. Pane was the Company's Vice President and Controller. From May 1999 to August 2000, Mr. Pane served as Controller of Computer Generated Solutions, Inc. From July 1997 to March 1999, Mr. Pane was the Vice President and Controller of the American Stock Exchange, Inc. From July 1994 to July 1997, Mr. Pane served in various positions with Alliance Entertainment Corp., including as Chief Financial Officer of its subsidiary, Abbey Road Distributors. Mr. Pane also served in various positions, including Manager, for six years at PricewaterhouseCoopers and Ernst & Young.

ITEM 2. PROPERTIES

The Company leases approximately 17,000 square feet of space on the 18th floor of a 24-story office building in New York City, New York. This space houses approximately 100 personnel, including substantially all of the Company's general and administrative and research and development personnel as well as a significant portion of the sales and marketing and creative services personnel. The primary lease agreement expires in March 2010, if not renewed. The Company believes that this office space is adequate for its current needs and that additional space is available in the building or in the New York City area to provide for anticipated growth.

The Company also leases approximately 12,000 square feet of office space in Draper, Utah, pursuant to a sublease agreement which expires in April 2010. This space houses approximately 40 personnel principally engaged in sales and marketing, creative services, and management information systems services.

The Company also leases approximately 12,000 square feet of office space in Los Angeles, California, pursuant to a lease which expires in December 2004. This space houses approximately 23 personnel principally engaged in sales and marketing, creative services, and management information systems services.

The Company also leases a small office space in London under a short-term lease.

9

ITEM 3. LEGAL PROCEEDINGS

The Company is engaged in certain legal actions arising in the ordinary course of business. The Company believes it has adequate legal defenses in legal actions in which it is the defendant and believes that the ultimate outcome of such actions will not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

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

None.

10

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Viewpoint Corporation's ("Viewpoint" or the "Company") common stock, $0.001 par value, began trading over the counter in December 1995. The common stock is traded on The Nasdaq National Market under the symbol "VWPT." On March 22, 2002, there were 304 holders of record of our common stock. Because many of such shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. The following table sets forth, for the periods indicated, the range of high and low closing sales prices per share of our commons stock:

	HIGH	L
2001	$ 8.50	$
4th Quarter	7.11	
3rd Quarter	7.65	
2nd Quarter	8.50	
1st Quarter	7.69	
2000	$ 30.88	$
4th Quarter	11.00	
3rd Quarter	14.06	
2nd Quarter	18.50	
1st Quarter	30.88	

The Company has not paid any cash dividends on its common stock to date. The Company currently anticipates that it will retain all future earnings, if any, for use in its business and does not anticipate paying any cash dividends on its common stock in the foreseeable future.

11

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes thereto appearing elsewhere in this Annual Report on Form 10-K.

	YEARS ENDED DECEMBER		
	2001	2000	1999
		(IN THOUSANDS, EXCEPT	
STATEMENT OF OPERATIONS DATA			
Revenues:			
Licenses	$ 9,681	$ 1,421	$ 2,818
Services	4,327	2,159	275
Total revenues	14,008	3,580	3,093
Cost of Revenues:			
Licenses	309	76	--
Services	3,283	1,467	--
Total cost of revenues	3,592	1,543	--
Gross profit	10,416	2,037	3,093
Operating expenses:			
Sales and marketing (including non-cash stock-based compensation charges totaling $2,335 in 2001, $5,122 in 2000, and $675 in 1999)..........................	17,814	18,741	3,000

Research and development (including non-cash stock-based compensation charges totaling $2,920 in 2001, $4,193 in 2000, and $2,540 in 1999)	9,553	10,434	5,055
General and administrative (including non-cash stock-based compensation charges totaling $1,918 in 2001, $3,026 in 2000, and $2,866 in 1999)	10,423	9,814	6,993
Compensation charge related to forgiveness of an officer loan	--	2,322	--
Amortization of goodwill and other intangibles (1)(2)	17,453	3,025	75
Goodwill impairment (3)	7,925	--	--
Depreciation	1,804	801	406
Non-cash sales and marketing charges (4)	--	19,998	--
Acquired in-process research and development costs (2)	--	963	--
Total operating expenses	64,972	66,098	15,529
Loss from operations	(54,556)	(64,061)	(12,436)
Other income	1,064	2,180	2,286
Loss before provision for income taxes	(53,492)	(61,881)	(10,150)
Provision (benefit) for income taxes	--	--	5,481
Loss before minority interest in loss of subsidiary	(53,492)	(61,881)	(15,631)
Minority interest in loss of subsidiary	--	4,429	1,048
Net loss from continuing operations	(53,492)	(57,452)	(14,583)
Discontinued operations:			
Loss from discontinued operations (5)	--	--	(14,811)
Adjustment to net loss on disposal of discontinued operations (5)	1,122	1,496	(21,260)
Net income (loss) from discontinued operations	1,122	1,496	(36,071)
Net loss	(52,370)	(55,956)	(50,654)
Accretion of mandatorily redeemable preferred stock of subsidiary	--	(438)	--
Net loss applicable to common shareholders	$(52,370)	$(56,394)	$(50,654)
Basic and diluted net loss per common share:			
Net loss per common share from continuing operations	$ (1.37)	$ (2.01)	$ (0.59)
Net income (loss) per common share from discontinued operations	0.03	0.05	(1.47)
Net loss per common share	$ (1.34)	$ (1.96)	$ (2.06)
Weighted average number of shares outstanding -- basic and diluted	39,077	28,718	24,581

	DECEMBER 31, 2001	2000	1999	1998	1997
	(IN THOUSANDS)				
BALANCE SHEET DATA					
Cash, cash equivalents and marketable securities.....	$ 15,413	$ 29,033	$ 37,247	$ 46,335	$ 50,002
Working capital (2)	12,056	34,313	33,638	55,439	77,677
Total assets	61,917	102,349	50,574	79,116	97,257
Stockholders' equity	52,737	96,339	29,901	70,181	87,242

----

(1) In November 2000, the Company consummated a share exchange with Computer Associates International, Inc., ("Computer Associates") and another shareholder of Metastream Corporation ("Metastream"), pursuant to which the Company issued 1.15 shares of the Company's common stock in exchange for each outstanding share of common stock of Metastream. The share exchanges were accounted for as acquisitions of minority interest under the purchase method of accounting, and goodwill of $42,892,000 was recorded.

(2) In September 2000, the Company purchased all the outstanding capital stock of Viewpoint Digital, Inc. ("Viewpoint Digital") from Computer Associates. The purchase price of $19,169,000, excluding contingent consideration of $30,000,000 in notes payable, consisted of 715,000 shares of common stock valued at $8,938,000, cash consideration of $10,000,000 and $231,000 in direct acquisition costs. The contingent consideration consisted of two promissory notes each in the amount of $15,000,000. Both notes are contingent upon the achievement of certain levels of future operating results and employee retention through March 8, 2002. 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, which amount will be determined by the achievement of certain levels of future operating results and employee retention. The amount due Computer Associates under the promissory note due June 8, 2001 is approximately $4,657,000. In connection with this promissory note, the Company recorded additional goodwill and due to related parties in its consolidated balance sheet. The acquisition of Viewpoint Digital was accounted for under the purchase method of accounting, and goodwill and other intangibles of $21,589,000 were recorded, inclusive of acquired in-process research and development costs of $963,000.

(3) During 2001, the Company performed impairment assessments on the goodwill and other intangibles recorded upon the acquisition of Viewpoint Digital and the acquisition of Computer Associates' minority interest in Metastream. As a result of continuing poor economic

conditions, which resulted in a decrease in estimated undiscounted future cash flows, the Company recorded a $7,925,000 goodwill impairment charge on the Viewpoint Digital goodwill during the fourth quarter of 2001. The charge was determined based upon the estimated discounted cash flows over the remaining useful life of the goodwill using a discount rate of 15%. 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.

(4) In connection with the issuance of mandatorily redeemable preferred stock in Metastream to America Online, Inc. ("AOL") and Adobe Systems Incorporated ("Adobe"), the Company recorded one-time non-cash sales and marketing charges of approximately $19,998,000 during the year ended December 31, 2000. These charges represented the difference between the fair market value of the Company's common shares into which AOL and Adobe could have converted the Metastream shares on the date of issuance, and the $20,000,000 aggregate cash consideration received from both AOL and Adobe. These charges were recorded as sales and marketing, as the incremental value of the equity over the cash consideration received was deemed to be the fair value of the license and distribution agreements simultaneously entered into with AOL and Adobe.

(5) In December 1999, the Board of Directors of the Company approved a plan to focus exclusively on the Company's 3D and rich media visualization and marketing technologies, and to correspondingly divest itself of all its prepackaged graphics software business. Consequently, the results of operations of the prepackaged graphics software business have been classified as net income (loss) from discontinued operations for the years ended December 31, 1997 through 2001.

ITEM 7. 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 Annual Report on Form 10-K 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 the Quarterly Reports on Form 10-Q to be filed in 2002. 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 the forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. 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, the 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.

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 to operate a business exploiting these technologies. The Company originally held an 80% equity interest in Metastream with Computer Associates holding the remaining 20% equity interest.

In December 1999, the Board of Directors of the Company approved a plan to focus exclusively on the Internet technologies of Metastream 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, 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 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, the Viewpoint Media Player

Viewpoint believes that its success will depend largely on its ability to proliferate its digital technologies into various media, including broadcast television, games, movies, print, closed intranets, new and existing enterprise applications and television set-top

boxes. Accordingly, Viewpoint has and intends to continue to invest 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.

In light of its relatively recent change in strategic focus from selling prepackaged software, 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 December 31, 2001, had an accumulated deficit of $198,184,000.

The Company may, from time to time, provide guidance of certain financial and non-financial expectations and has done so within this Form 10-K. We use these expectations to assist us in making decisions about our allocations of resources, not as predictions of future results. The expectations are subject to risks of our business as well as those contained in "Factors That May Affect Future Results of Operations."

RESULTS OF OPERATIONS

The following table sets forth certain selected financial information expressed as a percentage of net revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
STATEMENT OF OPERATIONS DATA			
Revenues:			
Licenses	69.1%	39.7%	91.1%
Services	30.9	60.3	8.9
Total revenues:	100.0	100.0	100.0
Cost of revenues:			
Licenses	2.2	2.1	--
Services	23.4	41.0	--
Total cost of revenues	25.6	43.1	--
Gross profit	74.4	56.9	100.0
Operating expenses:			
Sales and marketing (including non-cash stock-based compensation charges)	127.2	523.4	97.1
Research and development (including non-cash stock-based compensation charges)	68.2	291.5	163.4
General and administrative (including non-cash stock-based compensation charges)	74.4	274.1	226.1
Compensation charge related to forgiveness of an officer loan	--	64.9	--
Amortization of goodwill and other intangibles	124.6	84.5	2.4
Goodwill impairment	56.6	--	--
Depreciation	12.9	22.4	13.1
Non-cash sales and marketing charges	--	558.6	--
Acquired in-process research and development costs	--	26.9	--

Total operating expenses	463.9	1,846.3	502.1
Loss from operations	(389.5)	(1,789.4)	(402.1)
Other income	7.6	60.9	73.9
Loss before provision for income taxes	(381.9)	(1,728.5)	(328.2)
Provision for income taxes	--	--	177.2
Loss before minority interest in loss of subsidiary	(381.9)	(1,728.5)	(505.4)
Minority interest in loss of subsidiary	--	123.7	33.9
Net loss from continuing operations	(381.9)	(1,604.8)	(471.5)
Discontinued operations:			
Loss from discontinued operations	--	--	(478.9)
Adjustment to net loss on disposal of discontinued operations	8.0	41.8	(687.3)
Net income (loss) from discontinued operations	8.0	41.8	(1,166.2)
Net loss	(373.9)	(1,563.0)	(1,637.7)
Accretion of mandatorily redeemable preferred stock of subsidiary	--	(12.2)	--
Net loss applicable to common shareholders	(373.9)%	(1,575.2)%	(1,637.7)%

15

REVENUES

	2001	% CHANGE	2000	% CHANGE	1999
		(DOLLARS IN THOUSANDS)			
Total revenues	$14,008	291%	$ 3,580	16%	$ 3,093

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 license revenues and (b) service revenues. 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 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.

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 $8,260,000 or 581% and service revenue increased approximately $2,168,000 or 100% for the year ended December 31, 2001, compared to the year ended December 31, 2000. The increase in revenues is primarily attributable to an increase in sales of licenses and fee-based professional services resulting from increases to our direct sales force, expansion of our indirect channel partnerships, and incremental sales from the acquisition of Viewpoint Digital. The weakening of the U.S. economy, however, continues to negatively impact our revenue growth. The Company's revenues can also be negatively impacted by increased competition in the market, the lack of acceptance of the Company's existing products or the Company's failure to develop new products.

During the year ended December 31, 2001, the Company recorded revenues totaling $2,385,000 related to agreements, including reseller arrangements, with two stockholders who have representatives on the Company's Board of Directors. One of the agreements is a multi-year agreement that may significantly impact revenues in the future.

In furtherance of the Company's indirect sales strategy, the Company entered into a license agreement under which the Company licensed certain of its products to a long-time, leading distributor of 3D animation software. During the year ended December 31, 2001 the Company recorded revenue of $750,000 for this transaction and, after certain minimum revenue targets are met, the Company will share in future revenues derived from sublicenses of the products. The distributor will bear all marketing and sales costs. The Company expects this type of transaction to lead to higher margins over time.

During the year ended December 31, 2001, the Company established a strategic relationship with one of its customers whereby the customer purchased licenses from the Company and the Company agreed to purchase publicly traded equities of the customer's parent. The Company also entered into a license agreement with another customer in exchange for the customer's mass distribution of the Viewpoint Media Player to an important target audience. These transactions effectively include nonmonetary sales of our software for equity securities and services of our customers, and accordingly the Company used the fair value of the equities and services received in determining the amount of revenues and expenses to record. Total revenues and expenses were $429,000 and $264,000, respectively, related to these transactions.

Revenues in 2000 were related to sales of licenses, fee-based professional services and 3D digital content with two customers accounting for 40% of total revenues. Fee based professional services and 3D digital content sales of $2,459,000 were the result of the acquisition of Viewpoint Digital. Revenues in 1999 primarily consisted of one-time licenses for Viewpoint and related technologies from a limited number of strategic partners. Specifically, revenues from two customers accounted for 88% of total revenues in 1999.

The Company expects its revenue to continue to increase in 2002 based upon the visible increase in the market acceptance of our technology. It is anticipated that the increase in revenues will be derived from both license and service revenues.

COST OF REVENUES

	2001	% CHANGE	2000	% CHANGE	1999
	(DOLLARS IN THOUSANDS)				
Total cost of revenues	$3,592	133%	$1,543	N/A	$--
Percentage of total revenues	26%		43%		-- %

Cost 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.

As the amount of services revenue is expected to increase in 2002, the Company expects cost of revenues to increase in absolute dollars, while decreasing slightly as a percentage of total revenues, due to improved efficiencies and the mix of license and services revenues.

SALES AND MARKETING (INCLUDING NON-CASH STOCK-BASED COMPENSATION CHARGES TOTALING $2,335 IN 2001, $5,122 IN 2000 AND $675 IN 1999)

	2001	% CHANGE	2000	% CHANGE	1999
	(DOLLARS IN THOUSANDS)				
Sales and marketing	$17,814	(5)%	$18,741	525%	$ 3,000
Percentage of total revenues	127%		523%		97%

Sales and marketing expenses include salaries and benefits, sales commissions, non-cash stock-based compensation charges, consulting fees and travel 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 decreased $927,000, or 5% in 2001 compared to 2000 primarily due to a decrease in advertising costs, Web development costs and non-cash stock-based compensation charges, which was partially offset by an increase in salaries, benefits, sales commissions, and travel expenses related to an increase in personnel due to internal growth and the acquisition of Viewpoint Digital. Non-cash stock-based compensation charges decreased because the Company generally no longer grants stock options to employees at below fair market value at the date of grant and certain employees who were granted stock options below fair market value have left the Company.

Sales and marketing expenses increased $15,741,000, or 525%, in 2000 compared to 1999, primarily due to an increase in salaries and benefits, non-cash stock based compensation charges, recruiting fees, travel expenses, and an increase in advertising and public relation agency fees related to the launch of Viewpoint Experience Technology.

The Company does not expect a material increase in sales and marketing expenses in 2002 over that of 2001 as a result of the company's indirect marketing strategy and the increased utilization of creative services personnel, which will increase cost of revenues, rather than sales and marketing expenses. It is expected that these decreases in costs will be partially offset by increases in selling expenses to support the projected higher revenues. As a percentage of total revenues, sales and marketing expenses are expected to decrease.

RESEARCH AND DEVELOPMENT (INCLUDING NON-CASH STOCK-BASED COMPENSATION CHARGES TOTALING $2,920 IN 2001, $4,193 IN 2000 AND $2,540 IN 1999)

	2001	% CHANGE	2000	% CHANGE	1999
		(DOLLARS IN THOUSANDS)			
Research and development	$ 9,553	(8)%	$10,434	106%	$ 5,055
Percentage of total revenues	68%		292%		163%

Research and development expenses consist primarily of salaries and benefits for software developers, contracted development efforts, non-cash stock-based compensation charges, and required equipment costs 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 $881,000, or 8% in 2001 compared to 2000 primarily due to a decrease in non-cash stock-based compensation charges and a decrease in bad debt expense partially offset by an increase in salaries and benefits and an increase in contracted development efforts. Approximately $2,106,000 of the decrease is attributable to a decrease in bad debt expense resulting from a $1,441,000 reserve against a loan from an executive whose chief responsibilities were research and development in 2000 of which approximately $665,000 was recovered during 2001. Non-cash stock-based compensation charges decreased because the Company generally no longer grants stock options to employees at below fair market value at the date of grant and certain employees who were granted stock options below fair market value have left the Company.

Research and development expenses increased $5,379,000, or 106% in 2000 compared to 1999 due to an increase in salaries and benefits, non-cash stock-based compensation charges, and travel related to increased internal development personnel, and contracted development efforts in connection with the further development of Viewpoint Experience Technology. In addition, approximately $1,441,000 of the increase is due to a reserve against a loan from an executive whose chief responsibilities were research and development.

The Company expects research and development expenses to remain relatively flat in 2002, as compared to 2001. Anticipated increases in research and development expenditures are expected to be offset by customer-specific engineering efforts in the enterprise applications group, which will be classified as cost of revenues. As a percentage of total revenues, research and development expenses are expected to decrease.

GENERAL AND ADMINISTRATIVE (INCLUDING NON-CASH STOCK-BASED COMPENSATION CHARGES TOTALING $1,918 IN 2001, $3,026 IN 2000 AND $2,866 IN 1999)

	2001	% CHANGE	2000	% CHANGE	1999
	(DOLLARS IN THOUSANDS)				
General and administrative...	$10,423	6%	$9,814	40%	$6,993
Percentage of total revenues.	74%		274%		226%

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

General and administrative expenses increased $609,000 or 6% in 2001 compared to 2000 due to an increase in salaries and benefits, rent expense, insurance and legal costs offset by a decrease in bad debt expense and non-cash stock-based compensation charges. Non-cash stock-based compensation charges decreased because the Company generally no longer grants stock options to employees at below fair market value at the date of grant and certain employees who were granted stock options below fair market value have left the Company.

General and administrative expenses increased $2,821,000 or 40% in 2000 compared to 1999 due to a reserve against an officer's loan and an increase in corporate expenses resulting from a full year of operations for Metastream.

General and administrative expenses are expected to decrease in absolute dollars and as a percentage of total revenues in 2002 compared to 2001, due to the closing of the Company's Tokyo and San Francisco offices.

18

COMPENSATION CHARGE RELATED TO FORGIVENESS OF AN OFFICER LOAN

	2001	% CHANGE	2000	% CHANGE	1999
	(DOLLARS IN THOUSANDS)				
Compensation charge related to forgiveness of an officer loan	$ --	(100)%	$2,322	N/A	$--
Percentage of total revenues..........	-- %		65%		-- %

A loan to an officer which accrued interest semi-annually at 5.67%, was forgiven in 2000 in accordance with the contractual terms of the officer's employment agreement, upon the merger of the Company and Metastream.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLES

	2001	% CHANGE	2000	% CHANGE	1999
		(DOLLARS IN THOUSANDS)			
Amortization of goodwill and other intangibles	$17,453	477%	$ 3,025	3,933%	$ 75
Percentage of total revenues	125%		85%		2%

Amortization of goodwill and other intangibles increased $14,428,000 or 477% in 2001 compared to 2000 due to a full year of amortization of intangibles recorded as part of the acquisition of Viewpoint Digital and the acquisition of Computer Associates' minority interest in Metastream.

Amortization of goodwill and other intangibles increased $2,950,000 or 3,933% in 2000 compared to 1999 due to amortization of intangibles recorded as part of the acquisition of Viewpoint Digital in September 2000 and the acquisition of Computer Associates' minority interest in Metastream in November 2000.

Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," will be adopted by the Company on January 1, 2002, and as a result, the Company will cease to amortize approximately $33,042,000 of goodwill. The Company recorded approximately $13,068,000 and $1,414,000 of goodwill amortization during 2001 and 2000, respectively. In lieu of amortization, the Company will be required to test goodwill for impairment using the two-step approach prescribed in SFAS No. 142.

GOODWILL IMPAIRMENT

	2001	% CHANGE	2000	% CHANGE	1999
		(DOLLARS IN THOUSANDS)			
Goodwill impairment..............	$ 7,925	N/A	$ --	N/A	$ --
Percentage of total revenues.....	57%		-- %		-- %

The Company assesses the impairment of long-lived assets periodically in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." During 2001, the Company performed impairment assessments on the goodwill and other intangibles recorded upon the acquisition of Viewpoint Digital and the acquisition of Computer Associates' minority interest in Metastream. As a result of continuing poor economic conditions, which resulted in a decrease in estimated undiscounted future cash flows, the Company recorded a $7,925,000 goodwill impairment charge on the Viewpoint Digital goodwill during the fourth quarter of 2001. The charge was determined based upon the estimated discounted cash flows over the remaining useful life of the goodwill using a discount rate of 15%. 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 Company has not completed its impairment analysis of goodwill under SFAS No. 142, but it may need to take additional goodwill impairment charges in 2002.

DEPRECIATION

	2001	% CHANGE	2000	% CHANGE	1999
		(DOLLARS IN THOUSANDS)			
Depreciation....................	$ 1,804	125%	$ 801	97%	$ 406
Percentage of total revenues.....	13%		22%		13%

Depreciation expense increased $1,003,000, or 125% in 2001 compared to 2000, and $395,000, or 97% in 2000 compared to 1999

due to increases in property and equipment additions.

The Company expects that depreciation expense will increase in absolute dollars in 2002 compared to 2001, in conjunction with the anticipated purchasing of depreciable equipment during the year. As a percentage of total revenues, depreciation expense is expected to decrease.

NON-CASH SALES AND MARKETING CHARGES

	2001	% CHANGE	2000	% CHANGE	1999
		(DOLLARS IN THOUSANDS)			
Non-cash sales and marketing charges.........................	$ --	(100)%	$19,998	N/A	$ --
Percentage of total revenues.....	-- %		559%		-- %

In connection with the issuance of mandatorily redeemable preferred stock in Metastream to AOL and Adobe, the Company recorded one-time non-cash sales and marketing charges of $19,998,000 during the year ended December 31, 2000. These charges represented the difference between the fair market value of the Company's common shares into which AOL and Adobe could have converted the Metastream shares on the date of issuance, and the $20,000,000 aggregate cash consideration received from both AOL and Adobe. These charges were recorded as sales and marketing, as the incremental value of the equity over the cash consideration received was deemed to be the fair value of the license and distribution agreements simultaneously entered into with AOL and Adobe.

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT COSTS

2001	% CHANGE	2000	% CHANGE	1999
		(DOLLARS IN THOUSANDS)		

	2001	% CHANGE	2000	% CHANGE	1999
Acquired in-process research and development costs........	$ --	(100)%	$ 963	N/A	$ --
Percentage of total revenues.	-- %		27%		-- %

Acquired in-process research and development costs represent the write-off of research and development costs recorded as part of the Viewpoint Digital acquisition in September 2000.

OTHER INCOME

	2001	% CHANGE	2000	% CHANGE	1999
	(DOLLARS IN THOUSANDS)				
Other income.................	$ 1,064	(51)%	$ 2,180	(5)%	$2,286
Percentage of total revenues.	8%		61%		74%

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 $1,116,000 or 51% in 2001 compared to 2000, and $106,000 or 5% in 2000 compared to 1999 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 in 2002 compared to 2001 due to a decline in interest rates and an expected decrease in average cash, cash equivalents and marketable security balances.

PROVISION FOR INCOME TAXES

	2001	% CHANGE	2000	% CHANGE	1999
	(DOLLARS IN THOUSANDS)				
Provision for income taxes...	$ --	N/A	$ --	(100)%	$5,481
Percentage of total revenues.	-- %		-- %		177%

In the fourth quarter of 1999, the Company recorded a provision for income taxes in the amount of $5,481,000, which provided a full valuation allowance against its net deferred tax assets. The Company's net deferred tax assets include substantial amounts of net operating loss carryforwards. Inability to generate taxable income within the carryforward period would affect the ultimate realizability of such assets. Consequently, management determined that sufficient uncertainty exists regarding the realizability of these

assets to warrant the establishment of the full valuation allowance. Utilization of the Company's net operating loss carryforwards, which begin to expire in 2011 for federal and state purposes, may be subject to certain limitations under Section 382 of the Internal Revenues Code of 1986, as amended.

MINORITY INTEREST IN LOSS OF SUBSIDIARY

	2001	% CHANGE	2000	% CHANGE	1999
			(DOLLARS IN THOUSANDS)		
Minority interest in loss of subsidiary..................	$ --	(100)%	$ 4,429	323%	$1,048
Percentage of total revenues.	-- %		124%		34%

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 the minority interest in the Company's consolidated statements of operations. In November 2000, the Company acquired the minority interest by issuing approximately 5,578,000 shares of Company common stock in exchange for 4,850,000 shares of Metastream common stock.

NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

	2001	% CHANGE	2000	% CHANGE	1999
			(DOLLARS IN THOUSANDS)		
Net income (loss) from discontinued operations......	$ 1,122	(25)%	$ 1,496	(104)%	$ (36,071)
Percentage of total revenues.	8%		42%		(1,166)%

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 loss on disposal of discontinued operations, which totaled approximately $21,260,000 for the year ended December 31, 1999, consisted of the estimated future results of operations of the discontinued business through the estimated date of divestiture, the amounts expected to be realized upon the sale of the discontinued business, severance and related benefits, and asset write-downs. The Company recorded an adjustment to net loss on disposal of discontinued operations of $1,496,000 during the year ended December 31, 2000, primarily as a result of better than expected net revenues during the year from the discontinued business. The Company also recorded an adjustment to net loss on disposal of discontinued operations of $1,122,000 during the year ended December 31, 2001, 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 net income (loss) from discontinued operations.

FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS

WE HAVE A LIMITED OPERATING HISTORY THAT MAKES AN EVALUATION OF OUR BUSINESS DIFFICULT

We have been developing e-commerce visualization solutions for the Web since our acquisition of Real Time Geometry Corp. in December 1996. Additionally, the e-commerce market is relatively new and evolving rapidly. Accordingly, we have a relatively short operating history in this market upon which you can evaluate our business and prospects. You should consider our prospects in light of the risks and difficulties frequently encountered by early stage online companies, including, but not limited to:

- We have an evolving and unpredictable business model;
- We face intense competition;
- We must establish and develop broad market acceptance of our products, technologies and services;
- We must continue to develop new products, technologies and enhancements;

- We must respond quickly to rapidly changing market developments, customer demands and industry standards;
- We must attract, train and retain qualified employees; and
- We must effectively manage our growth.

WE HAVE A HISTORY OF LOSSES AND EXPECT TO INCUR LOSSES IN THE FUTURE

We have had significant quarterly and annual operating losses since our inception, and as of December 31, 2001, we had an accumulated deficit of approximately $198,184,000. We have recently changed the focus of our business from prepackaged graphics software products to e-commerce visualization solutions. We believe that, despite this change in our strategic focus, we will continue to incur operating losses for the foreseeable future.

OUR FUTURE REVENUES MAY BE UNPREDICTABLE AND MAY CAUSE OUR QUARTERLY RESULTS TO FLUCTUATE

As a result of our limited operating history and the rapidly changing nature of the markets in which we compete, we may be unable to forecast our quarterly and annual revenues accurately. If our future quarterly operating results fall below the expectations of securities analysts or investors, the trading price of our common stock will likely drop. Our quarterly operating results have fluctuated significantly in the past and may continue to fluctuate in the future as a result of many factors, including:

- Ability to retain existing customers, attract new customers, and satisfy our customers' demands;
- Market acceptance of our products, technologies and services;
- Introduction or enhancement of new products, technologies or services by us or our competitors;
- Changes in prices for our products, technologies and services

or our competitors' products, technologies and services;

- Changes in usage of the Internet and online services and consumer acceptance of the Internet and e-commerce;

- Acceptance of our technology in other digital medium, such as: enterprise applications, digital cable set-top boxes, print, motion pictures and broadcast television;

- Costs of litigation and intellectual property protection;

- Industry transitions to new business and information delivery models;

- Growth in Internet use;

- Emergence of new competition;

- Varying operating costs and capital expenditures related to the expansion of our business operations and infrastructure; and

- Technical difficulties with our technologies.

Based on these and other factors, we believe our revenues, expenses and operating results could vary significantly in the future and period-to-period comparisons should not be relied upon as indications of future results.

Our staffing and other operating expenses are based in large part on anticipated revenues. It would be difficult for us to adjust our spending to compensate for any unexpected shortfall. If we are unable to reduce our spending following any such shortfall, our results of operations would be adversely affected.

WE MAY BE UNABLE TO MEET OUR FUTURE CAPITAL REQUIREMENTS

We expect that our cash on hand, cash equivalents, and marketable securities will meet our operating expense, working capital and capital expenditure needs for at least the next 12 months. After that time, we may need to raise additional funds and we cannot be certain that we would be able to obtain additional financing on favorable terms, if at all. If we cannot raise funds, if needed, on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could have a material adverse effect on our business, operating results and financial condition.

OUR STOCK PRICE IS VOLATILE AND MAY CONTINUE TO FLUCTUATE IN THE FUTURE

The market price of our common stock has fluctuated significantly in the past. The price at which our common stock will trade in the future will depend on a number of factors including:

- Our historical and anticipated operating results;

- General market and economic conditions;

- Our announcement of new products, technologies or services;

- Actual or anticipated fluctuations in our operating results;

and

- Developments regarding our products, technologies or services, or those of our competitors.

In addition, the stock market has experienced extreme price and volume fluctuations recently. This volatility has had a substantial effect on our stock price, as well as the stock prices of other software companies, particularly Internet companies. These broad market and industry fluctuations may adversely affect the market price of our common stock. As a result, the market price of our common stock may continue to fluctuate.

Also, securities class action litigation has often been brought against companies following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, operating results and financial condition.

IF THE INTERNET DOES NOT CONTINUE TO EXPAND AS A WIDESPREAD COMMERCE MEDIUM, DEMAND FOR OUR PRODUCTS AND TECHNOLOGIES MAY DECLINE SIGNIFICANTLY

The market for our products, technologies and services is new and evolving rapidly. Growth in this market depends, in large part, on increased use of the Internet for e-commerce. If the rate of adoption of the Internet as a method for e-commerce slows, the market for our products, technologies and services may not grow, or may develop more slowly than expected.

It may be reasonable to believe that increased Internet use may depend on the availability of greater bandwidth or data transmission speeds or on other technological improvements, and we are largely dependent on third party companies to provide or facilitate these improvements. Changes in content delivery methods and emergence of new Internet access devices such as TV set-top boxes could dramatically change the market for streaming media products and services if new delivery methods or devices do not use streaming media or if they provide an alternative method for transferring data than streaming media.

The e-commerce market is relatively new and evolving. Licensing of our products and technologies depends in part on the development of the Internet as a viable commercial marketplace. There are now substantially more users and much more "traffic" over the Internet than ever before, use of the Internet is growing faster than anticipated, and the technological infrastructure of the Internet may be unable to support the demands placed on it by continued growth. Delays in development or adoption of new technological standards and protocols, or increased government regulation, could also affect Internet use. In addition, issues related to use of the Internet, such as security, reliability, cost, ease of use and quality of service, remain unresolved and may affect the amount of business that is conducted over the Internet and in other digital media.

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

The market for e-commerce visualization is characterized by rapidly changing technology. As a result, our success depends substantially upon our ability to continue to enhance our products and technologies and to develop new products and technologies that meet customers' increasing expectations. Additionally, we may not be successful in developing and marketing enhancements to our existing products and technologies or introducing new products and technologies on a timely basis. Our new or enhanced products and technologies may not succeed in the marketplace.

In addition, the industry is subject to rapidly changing methods and models of information delivery. If a general market migration to a method of information delivery that is not conforming with the Company's technologies were to occur, the Company's business and financial results would be adversely impacted.

We expect our research and development expenditures will increase in the future. If our increased research and development spending is not accompanied by increased revenues, our business would be harmed.

POTENTIAL DELAYS IN PRODUCT RELEASES COULD HARM OUR BUSINESS

We also depend on internal efforts for the development of new products, technologies and enhancements. In the past, we have had delays in the development of new products, technologies and enhancements. We may experience similar delays in the future, which would harm our business.

UNDETECTED ERRORS IN OUR PRODUCTS AND TECHNOLOGIES COULD RESULT IN ADVERSE PUBLICITY, REDUCED MARKET ACCEPTANCE OR LAWSUITS BY CUSTOMERS

We offer complex software products and technologies, which may contain undetected errors. If errors are found in our products or technologies after we have commercially released them, we could likely experience adverse publicity, reduced market acceptance or lawsuits by customers. This would adversely affect our business.

IN ORDER TO INCREASE MARKET AWARENESS OF OUR PRODUCTS AND GENERATE INCREASED REVENUE WE MAY NEED TO EXPAND OUR SALES AND MARKETING CAPABILITIES

We expanded our sales force in 2001 and may be required to continue to expand our sales and marketing operations to increase market awareness of our products and generate increased revenue. We cannot be certain that we would be successful in these efforts. In addition, market acceptance of these and future products will depend on continued market development for Internet products and services and the commercial adoption of standards on which our Viewpoint technology products are based. Our products and services require a sophisticated sales effort targeted at the senior management of our prospective clients. New hires require training and take time to achieve full productivity. We cannot be certain that our recent hires will become as productive as necessary or that we will be able to hire enough qualified individuals or retain existing employees in the future.

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS AND WE MAY BE LIABLE FOR INFRINGING THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS

Our success and ability to compete partly depend on the uniqueness or value of our products and technologies. We rely on a combination of copyright, trademark, patent, trade secret laws, employee and third-party nondisclosure agreements and exclusive contracts to protect our intellectual and proprietary rights, products, and technologies. Policing unauthorized use of our products and technologies is difficult and the steps we take may not prevent the misappropriation or infringement of technology or proprietary rights. In addition, litigation may be necessary to enforce our intellectual property rights. Such misappropriation or litigation could result in substantial costs and diversion of resources and the potential loss of intellectual property rights, any of which would adversely impair our business.

Our products and technologies may be the subject of infringement claims in the future. This could result in costly litigation and could require us to obtain a license to the intellectual property of third parties. We may be unable to obtain licenses from these third parties on favorable terms, if at all. Even if a license is available, we may have to pay substantial royalties to obtain it. If we cannot obtain necessary licenses on reasonable terms, our business would be adversely affected.

SECURITY RISKS COULD LIMIT THE GROWTH OF E-COMMERCE AND EXPOSE US TO LITIGATION OR LIABILITY

E-commerce depends on the ability to transmit confidential information securely over public networks. Any compromise of our customers' ability to transmit confidential information securely could harm our business. Online transmissions are subject to the following risks, among others:

- Encryption and authentication technology may be subject to events or developments that could compromise or breach the security of customer information;

- A third party could circumvent security measures and misappropriate proprietary information or interrupt operations;

- Credit card companies could restrict online credit card transactions; or

- Security breaches could damage our or our customers' reputation and expose us to litigation or liability.

INCREASING GOVERNMENT REGULATION COULD INCREASE OUR COST OF DOING BUSINESS OR INCREASE OUR LEGAL EXPOSURE

In 1999 Congress passed legislation that regulates certain aspects of the Internet, including on-line content, copyright infringement, user privacy, taxation, access charges, liability for third-party activities and jurisdiction. In addition, federal, state, local and foreign governmental organizations have and may continue to enact legislation applicable to the Internet in areas such as content distribution, performance and copying, other copyright issues, network security, encryption, the use of key escrow data, privacy protection, caching of content by server products, electronic authentication or "digital" signatures, illegal or obscene content, access charges and retransmission activities. The applicability to the Internet of existing laws governing issues such as property ownership, content, taxation, defamation and personal privacy is also uncertain. Export or import restrictions, new legislation or regulation or governmental enforcement of existing regulations may limit the growth of the Internet, increase our cost of doing business or increase our legal exposure.

In addition, our business may be indirectly affected by our clients who may be subject to such legislation. Increased regulation of the Internet may decrease the growth in the use of the Internet, which could decrease the demand for our services, increase our cost of doing business or otherwise have a material adverse effect on our business, results of operations and financial condition.

WE MAY NEED TO ENTER INTO BUSINESS COMBINATIONS AND STRATEGIC ALLIANCES WHICH COULD BE DIFFICULT TO INTEGRATE AND MAY DISRUPT OUR BUSINESS

We may continue to expand our operations or market presence by entering into business combinations, investments, joint ventures or other strategic alliances with other companies. These transactions create risks such as:

- Difficulty assimilating the operations, technology and personnel of the combined companies;

- Disruption of our ongoing business;

- Problems retaining key technical and managerial personnel;

- Expenses associated with amortization of purchased intangible assets;

- Additional operating losses and expenses of acquired businesses;

- Impairment of relationships with existing employees, customers and business partners; and

- If such other business combinations and strategic alliances are not successful in addressing these risks, our business would be adversely affected.

THE LOSS OF ANY OF OUR KEY PERSONNEL WOULD HARM OUR BUSINESS

We depend on the continued employment of our senior executive officers and other key management personnel. Other than a very few instances, we do not have long-term employment agreements with our key personnel, and we do not have "key person" life

insurance policies. If any of our senior officers or other key employees leave our company and are not adequately replaced, our business would be adversely affected.

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

For the year ended December 31, 2001, the Company recorded revenues totaling 17% of total 2001 revenues related to certain agreements, including reseller arrangements, with two stockholders who have representatives on the Company's Board of Directors. The loss of any reseller or strategic partner could significantly reduce our revenues, which could have a material adverse effect on our financial condition, operating results and business.

In order to expand our business, we must generate, maintain and strengthen strategic relationships with third parties. Currently, we have relationships with AOL and Adobe, through which they integrate our technology into their services. We may need to establish additional strategic relationships in the future. If these parties do not provide sufficient, high-quality service or integrate and support our technology correctly, or if we are unable to enter into successful new strategic relationships, our revenues and growth may suffer. We cannot be assured that the time and effort spent on developing or maintaining strategic relationships will produce significant benefits to us.

OUR LENGTHY SALES CYCLE AND PRODUCT IMPLEMENTATION MAKES IT DIFFICULT TO PREDICT OUR QUARTERLY RESULTS

We have a long sales cycle because we generally need to educate potential customers regarding the use and benefits of e-business applications.

Our long sales cycle makes it difficult to predict the quarter in which revenues may fall. In addition, since we recognize a portion of our revenue throughout completion of our services, the timing of product implementation could cause significant variability in our license and service revenues and operating results for any particular period. The implementation of our product requires a significant commitment of resources by our customers which makes it difficult to predict the quarter when implementation will be completed.

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 A SIMILAR AMOUNT OF REVENUE IN SUBSEQUENT PERIODS

We face a risk because a large amount of our revenues are generated from a small number of clients, and there are no assurances that these clients will retain our services for the same level of work in the future. Any cancellation, deferral or significant reduction in work performed for these principal clients or a significant number of smaller clients could have a material adverse effect on our business, financial condition and results of operations.

OUR FUTURE SUCCESS DEPENDS ON OUR ABILITY TO IDENTIFY, HIRE, TRAIN AND RETAIN HIGHLY QUALIFIED EMPLOYEES

Our future success depends on our continuing ability to identify, hire, train and retain other highly qualified technical and managerial employees. The competition for such employees is intense, and we have experienced difficulty in identifying and hiring qualified engineering and creative services personnel. If we do not succeed in attracting and retaining necessary technical and managerial employees in the future, our business would be adversely affected.

Additionally, in order to attract and retain employees in the past, we have granted options to purchase shares of common stock to employees at an exercise price below the fair market value of the common stock on the date of grant. As a result, we have had to record deferred compensation related to the intrinsic value of the option. This deferred compensation is amortized over the vesting period of applicable options, which is generally four years, resulting in a non-cash charge to earnings over the related vesting period. We generally no longer issue options at an exercise price below the fair market value of the common stock on the date of grant, however, if we do so in the future, our business would be adversely affected.

OUR CHARTER DOCUMENTS COULD MAKE IT MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE US

Our Certificate of Incorporation and By-laws are designed to make it difficult for a third party to acquire control of us, even if a change in control would be beneficial to stockholders. For example, our Certificate or Incorporation authorizes our Board of Directors to issue up to 5,000,000 shares of "blank check" preferred stock. Without stockholder approval, the Board of Directors has the

authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire our company.

In addition, we must receive a stockholders' proposal for an annual meeting within a specified period for that proposal to be included on the agenda. Because stockholders do not have the power to call meetings and are subject to timing requirements in submitting stockholder proposals for consideration at an annual or special meeting, any third-party takeover not supported by the Board of Directors would be subject to significant delays and difficulties.

OUR BUSINESS IS SUBJECT TO GENERAL ECONOMIC CONDITIONS AS WELL AS THOSE SPECIFIC TO THE INTERNET AND RELATED INDUSTRIES, WHICH HAVE BECOME LESS CERTAIN FOLLOWING THE TERRORIST ATTACKS OF SEPTEMBER 11, 2001

Our revenues and results of operations have been and will be subject to fluctuations based upon the general economic conditions in the United States and, to a lesser extent, abroad. If there is a general economic downturn or a recession in the United States, we expect that business enterprises, including our customers and potential customers, could substantially and immediately reduce their budgets or delay implementation of Internet-focused business solutions. A deterioration in existing economic conditions could therefore materially and adversely affect our financial condition, operating results and business.

The growth and prosperity of the Internet and industries which derive their revenues from Internet will impact the results of the Company. Any downturn in the growth rate of the Internet and related industries' as a business segment would adversely impact the Company's financial condition, operating results and stock price.

Terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001 disrupted commerce throughout the United States and other parts of the world. The continued threat of terrorism within the United States and abroad and the potential for military action and heightened security measures in response to such threat may cause significant disruption to commerce throughout the world. To the extent that such disruptions result in delays or cancellations of customer orders, a general decrease in corporate spending on information technology, or our inability to effectively market and sell our licenses and services, our business and results of operations could be materially and adversely affected. We are unable to predict whether the threat of terrorism or the responses thereto will result in any long-term commercial disruptions or if such activities or responses will have a long term material adverse effect on our business, results of operations or financial condition.

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 and long-lived assets. We base our estimates on 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 Note 2 to the consolidated financial statements included in this Annual Report on Form 10-K.

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."

27

Viewpoint generates revenues through two sources: (a) software license revenues and (b) service revenues. 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 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.

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 on a 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 customer. Nonmonetary revenue is recognized at the estimate fair value of the services received. Generally, nonmonetary revenues equal nonmonetary expenses; however, due to timing, nonmonetary accounts receivable and accounts payable may result.

Long-Lived Assets

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company periodically reviews the carrying value of long-lived assets, primarily consisting of property and equipment, with estimated useful lives that range from 3 to 5 years, and goodwill and other intangible assets, with estimated useful lives that range from 1 to 4 years, to determine whether there are any indications of impairment losses. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of acquired businesses. Impairment losses, if any, are recorded when the expected undiscounted future operating cash flows derived from such assets are less than their carrying value. Beginning in 2002, the methodology for assessing potential impairments of intangibles will change based on new accounting rules issued by the Financial Accounting Standards Board ("FASB"). Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents, and marketable securities totaled $15,413,000 at December 31, 2001, down from $29,033,000 at December 31, 2000 and $37,247,000 at December 31, 1999. Included in cash and cash equivalents at December 31, 2001, is $291,000 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 $15,026,000 for 2001 compared to $28,745,000 for 2000 and $11,903,000 for 1999. Net cash used in operating activities in 2001 primarily resulted from a $53,492,000 net loss from continuing operations offset in part by $6,488,000 of net cash provided by discontinued operations, $7,173,000 in