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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

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

For the transition period from ____________ to ____________

Commission file number: 0-27168

VIEWPOINT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**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 and zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

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

Total assets	$51,572	$61,917
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$1,578	$1,314
Accrued expenses	1,267	1,304
Due to related parties, net	2,867	4,764
Deferred revenues	660	907
Accrued incentive compensation	545	545
Current liabilities related to discontinued operations	231	346
Total current liabilities	7,148	9,180
Stockholders equity:		
Preferred stock, $.001 par value; 5,000 shares authorized no shares issued and outstanding at September 30, 2002 and December 31, 2001		
Common stock, $.001 par value; 75,000 shares authorized 41,159 shares issued and 40,999 shares outstanding at September 30, 2002, and 39,620 shares issued and 39,460 shares outstanding at December 31, 2001	41	40
Paid-in capital	268,059	263,157
Deferred compensation	(5,886)	(11,279)
Treasury stock at cost; 160 shares at September 30, 2002 and December 31, 2001	(1,015)	(1,015)

Accumulated other comprehensive income (loss)	(15)	18
Accumulated deficit	(216,760)	(198,184)
Total stockholders equity	44,424	52,737
Total liabilities and stockholders equity	$51,572	$61,917

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

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

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Revenues:				
Licenses	$3,657	$2,421	$11,058	$6,109
Services	1,669	1,546	4,430	3,400
Total revenues	5,326	3,967	15,488	9,509
Cost of revenues:				
Licenses	6	36	251	199
Services	1,125	933	2,947	2,311

Total cost of revenues	1,131	969	3,198	2,510
Gross profit	4,195	2,998	12,290	6,999
Operating expenses:				
Sales and marketing (including non-cash stock-based compensation charges totaling $727 and $654 for the three months ended September 30, 2002 and 2001, respectively and $2,517 and $1,931 for the nine months ended September 30, 2002 and 2001, respectively)	4,367	4,013	12,018	14,544
Research and development (including non-cash stock-based compensation charges totaling $191 and $715 for the three months ended September 30, 2002 and 2001, respectively and $546 and $2,200 for the nine months ended September 30, 2002 and 2001, respectively)	1,140	2,806	3,835	7,400
General and administrative (including non-cash stock-based compensation charges totaling $282 and $428 for the three months ended September 30, 2002 and 2001, respectively and $1,110 and $1,223 for the nine months ended September 30, 2002 and 2001, respectively)	2,247	2,974	6,846	7,873
Depreciation	493	466	1,463	1,321
Amortization of intangible assets	1	831	664	2,494
Amortization of goodwill		3,673		10,430
Impairment of goodwill and other intangible assets			6,275	

Total operating expenses	8,248	14,763	31,101	44,062
Loss from operations	(4,053)	(11,765)	(18,811)	(37,063)
Other income	44	226	133	943
Net loss from continuing operations	(4,009)	(11,539)	(18,678)	(36,120)
Adjustment to net loss on disposal of discontinued operations	9		102	730
Net loss	$(4,000)	$(11,539)	$(18,576)	$(35,390)

Basic and diluted net loss per common share:

Net loss per common share from continuing operations
$(0.10) $(0.29) $(0.46) $(0.93)
Net income per common share from discontinued operations
0.02

Net loss per common share
$(0.10) $(0.29) $(0.46) $(0.91)

Weighted average number of shares outstanding basic and diluted
40,987 39,801 40,677 38,755

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

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

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

Net cash used in operating activities	(4,928)	(11,335)
Cash flows from investing activities:		
Purchases of marketable securities	(3,507)	(19,060)
Proceeds from sales and maturities of marketable securities	8,725	30,885
Repayment of notes receivable from related parties		520
Purchases of property and equipment	(712)	(800)
Purchases of patents and trademarks	(47)	(99)
Net cash provided by investing activities	4,459	11,446
Cash flows from financing activities:		
Issuance of loans to officers		(575)
Proceeds from exercise of stock options	1,370	1,925
Net cash provided by financing activities	1,370	1,350
Effect of exchange rate changes on cash and cash equivalents	(6)	(16)

Net increase in cash and cash equivalents	895	1,445
Cash and cash equivalents at beginning of period	8,345	13,320
Cash and cash equivalents at end of period	$9,240	$14,765

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

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VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

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

These unaudited consolidated financial statements have been prepared in accordance with the instructions to Rule 10-01 of Regulations S-X and, therefore, do not include all of the information and footnotes normally provided in annual financial statements. As a result, these unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management s discussion and analysis of financial condition and results of operations, contained in Viewpoint s Annual Report on Form 10-K for the year ended December 31, 2001. The results of operations for the three and nine months ended September 30, 2002 are not necessarily indicative of the results to be expected for the year ending December 31, 2002.

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

Revenue Recognition

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

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Recent Accounting Pronouncements

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

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

2. Basic and Diluted Net Loss Per Common Share

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

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

3. Agreements with Computer Associates

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

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VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

4. Related Party Transactions

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

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

5. Goodwill and Intangible Assets

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

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