VIEWPOINT CORP
Form 10-Q
November 14, 2003

Table of Contents

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, 2003

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 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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes [X] No [ ]

As of November 11, 2003, 49,123,007 shares of $0.001 par value common stock were outstanding.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements
CONSOLIDATED BALANCE SHEETS
CONSOLIDATED STATEMENTS OF OPERATIONS
CONSOLIDATED STATEMENTS OF CASH FLOWS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 3. Quantitative and Qualitative Disclosures About Market Risk
Item 4. Controls and Procedures
PART II - OTHER INFORMATION
Item 6. Exhibits and Reports on Form 8-K
SIGNATURES
EMPLOYMENT AGREEMENT: AMATO
EMPLOYMENT AGREEMENT: MITCHELL
EMPLOYMENT AGREEMENT: RICE
302 CERTIFICATION
302 CERTIFICATION
906 CERTIFICATION

Table of Contents

TABLE OF CONTENTS

		Page
	PART I FINANCIAL INFORMATION	
Item 1.	Consolidated Financial Statements (unaudited)	
	Consolidated Balance Sheets September 30, 2003 and December 31, 2002 (unaudited)	3
	Consolidated Statements of Operations Three and nine months ended September 30, 2003 and 2002 (unaudited)	4
	Consolidated Statements of Cash Flows Nine months ended September 30, 2003 and 2002 (unaudited)	5
	Notes to Consolidated Financial Statements (unaudited)	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	35
	PART II OTHER INFORMATION	
Item 6.	Exhibits and Reports on Form 8-K	37
	Signatures	38

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

	September 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 746	$ 10,678
Marketable securities	1,017	890
Accounts receivable, net	1,218	2,925
Related party accounts receivable, net	286	838
Notes receivable, net		750
Prepaid expenses and other current assets	633	599
Total current assets	3,900	16,680
Restricted cash	455	987
Property and equipment, net	2,111	3,591
Goodwill, net	31,276	31,276
Intangible assets, net	187	165
Other assets	294	653
Total assets	$ 38,223	$ 53,352
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,994	$ 2,962
Accrued expenses	1,520	759
Due to related parties, net	2,928	2,920
Deferred revenues	379	334
Related party deferred revenues	687	249
Accrued incentive compensation	545	545
Current liabilities related to discontinued operations	231	231
Total current liabilities	8,284	8,000
Convertible notes	3,001	6,712
Warrants to purchase common stock	130	288
Subordinated notes	1,685	
Commitments and contingencies (Note 7)		
Stockholders equity:		
Preferred stock, $.001 par value; 5,000 shares authorized no shares issued and outstanding at September 30, 2003 and December 31, 2002		
Common stock, $.001 par value; 75,000 shares authorized 46,158 shares issued and 45,998 shares outstanding at September 30, 2003 and 41,179 shares issued and 41,019 shares outstanding at December 31, 2002	46	41
Paid-in capital	269,119	267,569
Deferred compensation	(586)	(4,130)

Treasury stock at cost; 160 shares at September 30, 2003 and December 31, 2002	(1,015)	(1,015)
Accumulated other comprehensive loss	(56)	(36)
Accumulated deficit	(242,385)	(224,077)
Total stockholders equity	25,123	38,352
Total liabilities and stockholders equity	$ 38,223	$ 53,352

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Revenues:				
Licenses	$ 317	$ 1,633	$ 2,166	$ 4,129
Related party licenses		2,024	1,060	6,929
Services	1,508	605	3,705	2,673
Related party services	693	1,064	4,086	1,757
Total revenues	2,518	5,326	11,017	15,488
Cost of revenues:				
Licenses	21	6	96	251
Services	1,419	1,125	4,967	2,947
Total cost of revenues	1,440	1,131	5,063	3,198
Gross profit	1,078	4,195	5,954	12,290
Operating expenses:				
Sales and marketing (including non-cash stock-based compensation charges totaling $88 and $552 for the three months ended September 30, 2003 and 2002, respectively, and $467 and $1,992 for the nine months ended September 30, 2003 and 2002, respectively)	1,637	4,068	7,625	11,234
Research and development (including non-cash stock-based compensation charges totaling $138 and $366 for the three months ended September 30, 2003 and 2002, respectively, and $803 and $1,071 for the nine months ended September 30, 2003 and 2002, respectively)	1,201	1,439	4,125	4,619
General and administrative (including non-cash stock-based compensation charges totaling $294 and $282 for the three months ended September 30, 2003 and 2002, respectively, and $1,118 and $1,110 for the nine months ended September 30, 2003 and 2002, respectively)	3,133	2,247	8,058	6,846
Depreciation	383	493	1,305	1,463
Amortization of intangible assets	1	1	9	664
Restructuring and impairment charges	674		1,885	
Impairment of goodwill and other intangible assets				6,275
Total operating expenses	7,029	8,248	23,007	31,101
Loss from operations	(5,951)	(4,053)	(17,053)	(18,811)
Other income (expense):				
Interest and other income, net	8	44	42	133
Interest expense	(257)		(743)	

Changes in fair values of warrants to purchase common stock and conversion options of convertible notes	667		1,010	
Loss on early extinguishment of debt			(1,682)	
Total other income (expense)	418	44	(1,373)	133
Loss before provision for income taxes	(5,533)	(4,009)	(18,426)	(18,678)
Provision for income taxes	26		39	
Net loss from continuing operations	(5,559)	(4,009)	(18,465)	(18,678)
Adjustment to net loss on disposal of discontinued operations	41	9	157	102
Net loss	$ (5,518)	$ (4,000)	$ (18,308)	$ (18,576)
Basic and diluted net loss per common share:				
Net loss per common share from continuing operations	$ (0.12)	$ (0.10)	$ (0.41)	$ (0.46)
Net loss per common share	$ (0.12)	$ (0.10)	$ (0.41)	$ (0.46)
Weighted average number of shares outstanding basic and diluted	45,987	40,987	44,463	40,677

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

Table of Contents

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

	Nine Months Ended September 30,	
	2003	**2002**
Cash flows from operating activities:		
Net loss	$(18,308)	$(18,576)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustment to net loss on disposal of discontinued operations		(102)
Non-cash stock-based compensation charges	2,388	4,173
Restructuring and impairment charges	1,885	
Depreciation and amortization	1,314	2,127
Provision for bad debt	745	570
Impairment of goodwill and other intangible assets		6,275
Loss on write-off of notes receivable	750	
Loss on sale or disposal of equipment	226	45
Accrued interest income		(17)
Changes in fair values of warrants to purchase common stock and conversion options of convertible notes	(1,010)	
Loss on early extinguishment of debt	1,682	
Amortization of debt discount and issuance costs	320	
Changes in operating assets and liabilities:		
Accounts receivable	962	(731)
Related party accounts receivable	552	960
Prepaid expenses and other assets	(339)	312
Accounts payable	(215)	264
Accrued expenses	(763)	(37)
Due to related parties, net	8	(72)
Deferred revenues	45	(434)
Related party deferred revenues	438	187
Net cash provided by discontinued operations		128
Net cash used in operating activities	(9,320)	(4,928)
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	1,525	8,725
Purchases of marketable securities	(1,652)	(3,507)
Net (increase) decrease in restricted cash	499	(2)
Purchases of property and equipment	(419)	(712)
Proceeds from sale of property and equipment	7	
Purchases of patents and trademarks	(31)	(47)
Net cash provided by (used in) investing activities	(71)	4,457
Cash flows from financing activities:		
Payment of issuance costs on convertible notes	(576)	
Proceeds from issuance of subordinated notes and common stock net of issuance costs paid of $189	3,311	
Repayment of convertible notes	(3,300)	
Restricted cash used to pay interest on convertible notes	33	
Proceeds from exercise of stock options	11	1,370
Net cash provided by (used in) financing activities	(521)	1,370

Effect of exchange rate changes on cash and cash equivalents	(20)	(6)
Net increase (decrease) in cash and cash equivalents	(9,932)	893
Cash and cash equivalents at beginning of period	10,678	8,054
Cash and cash equivalents at end of period	$ 746	$ 8,947

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

Table of Contents

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

	Nine Months Ended September 30,	
	2003	**2002**
Supplemental disclosure of cash flow activities:		
Cash paid during the period for income taxes	$ 79	$ 151
Cash paid during the period for interest	161	
Supplemental disclosure of non-cash investing and financing activities:		
Unrealized gains on marketable securities	$	$ 27
Issuance costs on convertible notes and subordinated notes accrued and not yet paid	12	
Issuance of 1,351,351 shares of common stock as partial repayment of convertible notes	1,000	
Consideration not yet issued in connection with the acquisition of Viewpoint Digital		2,928

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

6

Table of Contents

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/A for the year ended December 31, 2002. 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 Regulation 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/A for the year ended December 31, 2002. The results of operations for the three and nine months ended September 30, 2003 are not necessarily indicative of the results to be expected for the year ending December 31, 2003 or other future periods.

Certain reclassifications have been made to the 2002 consolidated financial statements to conform to the 2003 presentation.

Liquidity

The Company had cash, cash equivalents and marketable securities of $1,763,000 at September 30, 2003. During the nine months ended September 30, 2003 net cash used in operations amounted to $9,320,000. Viewpoint has had significant quarterly and annual operating losses since its inception, and as of September 30, 2003, had an accumulated deficit of $242,385,000. There can be no assurance that Viewpoint will achieve or sustain cash flows from operations or profitability.

The Company believes that its current cash, cash equivalents, and marketable securities balances, cash obtained through a private equity financing and $10,000,000 in cash to be paid by AOL in the fourth quarter will be sufficient to meet its operating cash flow needs and anticipated capital expenditure requirements through at least the next twelve months.

In October 2003, the Company entered into an amended license agreement with AOL which provides for payments by AOL of $10,000,000, all due in the fourth quarter of 2003. The agreement contains multiple elements consisting of a perpetual broadcast license, a perpetual source code license to certain source code, quarterly updates to the source code through December 2005, and maintenance and consulting services.

In November 2003, the Company sold 3,125,000 shares of common stock in a private placement to Federal Partners, L.P., an affiliate of The Clarke Estates, Inc. for $2,500,000 or $0.80 per share. Under the terms of the investment, the Company is obliged to file a registration statement covering the resale of the shares within 45 days of the closing date, which occurred on November 12, 2003.

Holders of the Company s convertible notes (see Note 3 for specific terms and conditions) which were issued on March 25, 2003, may redeem notes in an amount up to 20% of the $2,500,000 received by the Company in the November 12, 2003 private placement. To exercise this right, the noteholders must notify the Company within 10 days of the Company s public announcement of the closing of the private placement. Additionally, the Company s convertible notes contain provisions that permit the holders to redeem notes on or after June 30, 2004 if the Company s common stock trades below the conversion price for 25 consecutive trading days, subject to the terms and conditions of the notes described in Footnote 3.

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has contingency plans for the fourth quarter of 2003 and 2004 if expected revenue targets are not achieved. These plans include further workforce reductions as well as reductions in overhead and capital expenditures. The Company may seek additional funds when necessary through public or private equity financing or from other sources to fund our operations and pursue our growth.

We currently have no commitment for additional financing, and we may experience difficulty in obtaining additional financing on favorable terms, if at all. Any financing we obtain may contain covenants that restrict our freedom to operate our business or may have rights, preferences or privileges senior to our common stock and may dilute our current shareholders ownership interest in Viewpoint.

Revenue Recognition

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. Per SOP 97-2 and SAB No. 101, the Company recognizes revenue when the following criteria are met: (a) persuasive evidence of an arrangement exists, (b) delivery has occurred or services have been rendered, (c) the Company s fee is fixed or determinable, and (d) collectibility is reasonably assured.

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 customers and indirectly through Value Added Resellers (VARs). Service revenues are generated from fee-based professional services, customer support services (maintenance arrangements), and training services performed for customers that license our products.

License revenues from direct customers include sales of perpetual and term based licenses for broadcasting digital content in the Viewpoint format. License revenues are recognized up-front provided no further significant obligations exist and the resulting receivable is deemed collectible by management. Arrangements with VARs require (i) an up-front, non-refundable payment, (ii) a percentage royalty based on sell through, or (iii) both as consideration for the right to resell our technology. Up-front, non-refundable payments are recognized as license revenues when the VAR s right to resell our technology begins and the technology has been delivered to the VAR, which is upon contract signing, provided all other revenue recognition criteria are met and no further significant obligations exist. For arrangements that do not call for an up-front, non-refundable payment, revenues are recognized as the royalties are earned, which is upon notification of sell through by the VAR, provided all other revenue recognition criteria are met and no further significant obligations exist.

Fee-based professional services for customized software development are performed on a fixed-fee or time-and-materials basis under separate service arrangements. Revenues for fixed-fee arrangements are recognized over the pattern of performance in accordance with the provisions of SAB No. 101. The pattern of performance for service arrangements is measured principally by the percentage of costs incurred and accrued to date for each contract, which principally consist of direct labor costs, cost of outsourcing, and overhead, 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.

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 in accordance with SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts. The percentage of competition method is used for those arrangements in which reasonably dependable estimates are available.

For arrangements involving multiple elements, the Company defers revenue for the undelivered elements based on their relative fair value and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of each undelivered element in multiple element arrangements is based on the price charged when the same element is sold separately. For maintenance and technical support elements, we use renewal rates to determine the price when sold separately. The Company

Table of Contents

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

accounts for multiple element arrangements which involve only fee-based professional services in accordance with EITF 00-21.

Standard terms for license arrangements require payment within 90 days of the contract date, which typically coincides with delivery. Standard terms for service arrangements, which are typically billed and collected on an installment basis, require final payment within 90 days of completion of the services. Probability of collection is based upon the assessment of the customer s financial condition through the review of their current financial statements and/or credit reports. For follow-on sales to existing customers, prior payment history is also used to evaluate probability of collection. Our arrangements with customers do not contain product return rights. If the fee is not fixed or determinable, revenue is recognized as payments become due or as cash is received 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 revenues are 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.

Notes Receivable

During 2000, the Company loaned $1,500,000 to a former officer of the Company. The loan was non-interest bearing, and was collateralized by 200,000 shares of restricted Company stock, as well as options to purchase 790,000 shares of Company stock. The loan, which was originally due on May 1, 2004, became due 30 days after the officer ceased to be an employee of the Company, which occurred on January 5, 2001. At that date, the Company recorded a reserve against the loan in the amount of $750,000. The Company had commercial litigation to pursue recovery, however, notification of a court judgment in favor of the former officer was received in September 2003. As a result of this unfavorable outcome, a loss of $750,000 was charged to operations to write off the remaining balance of the note.

Stock-Based Compensation

The Company accounts for stock option grants in accordance with Accounting Principals Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , Financial Accounting Standards Board (FASB) issued Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25 (FIN 44), and complies with the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation , as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure. Under APB Opinion No. 25, compensation expense is recognized over the vesting period based on the difference, if any, at the date of grant between the fair value of the Company s stock and the exercise price. The Company accounts for stock issued to non-employees in accordance with SFAS No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

Table of Contents

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, as amended by SFAS No. 148, and has been determined as if the Company has accounted for its employee stock option grants under the fair value method of SFAS No. 123. The fair value of options issued to employees was estimated at the date of grant using the Black-Scholes option-pricing model. For purposes of pro forma disclosures, the estimated fair value of the Company s employee options is amortized to expense over the options vesting period. If the Company elected to record stock-based compensation charges in accordance with SFAS 123, the pro forma non-cash stock-based employee compensation charges, net loss and net loss per common share would approximate the following (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss, as reported	$(5,518)	$(4,000)	$(18,308)	$(18,576)
Add: Non-cash stock-based employee compensation charges included in reported net loss, net of related tax effects	520	1,184	2,388	3,899
Deduct: Non-cash stock-based employee compensation charges determined under fair value based method for all awards, net of related tax effects	(1,196)	(2,460)	(4,990)	(8,312)
Pro forma net loss	$(6,194)	$(5,276)	$(20,910)	$(22,989)
Net loss per share:				
Basic and diluted as reported	$ (0.12)	$ (0.10)	$ (0.41)	$ (0.46)
Basic and diluted pro forma	$ (0.13)	$ (0.13)	$ (0.47)	$ (0.57)

The effects of applying SFAS No. 123, as amended by SFAS No. 148, in this pro forma disclosure are not indicative of future amounts. The Company anticipates grants of additional awards in the future.

On April 14, 2003, the Company granted 2,300,000 nonstatutory stock options to acquire Company common stock, to certain executives of the Company at an exercise price equal to the fair market value of the Company s common stock on the date of grant. Twenty-five percent of the options vest on the first anniversary of the date of grant and the remaining options vest at the rate of 1/36th per month thereafter. On July 1, 2003, the Company modified the terms to accelerate the vesting of a grant to one executive. In accordance with FIN 44, no compensation charge has been recorded through September 30, 2003 since the Company believes that this executive will not derive any benefit from the acceleration. If the executive s employment ends during the original vesting period (prior to modification) then the modification to accelerate vesting would be determined to be beneficial to the executive and a non-cash compensation charge of up to $360,000 would be charged to operations.

In November 2003, the Company will modify the terms of five stock option grants to certain employees and officers to reduce the vesting period from four years to two years. The Company will record a non-cash stock-based compensation charge based upon the difference between the closing price on the day of the modification and the closing price on the date of the grant for any of the 1,125,000 options modified. The weighted average grant price for these options is $0.76. Such charge would be recorded if the executives are expected to derive a benefit from the acceleration. If any executive ceased employment during the original vesting period then the modification to accelerate would be determined to be beneficial.

Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is computed using the weighted average number of common shares outstanding and diluted net loss per common share is computed using the weighted average number of common shares and common equivalent shares outstanding. Common equivalent shares related to stock options and warrants totaling 5,175,000 and 4,491,000 for the three months ended September 30, 2003 and 2002, respectively, and 5,175,000 and 7,540,000 for the nine months ending September 30, 2003 and 2002, respectively, are excluded from the

computation of diluted net loss per common share because their effect was antidilutive.

Derivatives

Table of Contents

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company accounts for the fair values of the warrants to purchase common stock and conversion options of its convertible notes in accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, and EITF Issue No. 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock, which requires the Company to bifurcate and separately account for its embedded derivatives contained in the Company s convertible notes. The Company is required to carry these embedded derivatives on its balance sheet at fair value and the unrealized changes in the value of these embedded derivatives are reflected in net income as changes in fair values of warrants to purchase common stock and conversion options of convertible notes.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46 Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46). FIN 46 provides a new framework for identifying VIEs and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements. FIN 46 was effective immediately for VIEs created after January 31, 2003. In October 2003, the FASB directed the FASB staff to issue FASB Staff Position No. FIN 46-6 (FSP FIN 46-6). FSP FIN 46-6 defers the effective date of FIN 46 for interests held by public entities in VIEs or potential VIEs dating from before February 1, 2003. The consolidation requirements of FIN 46 for these interests are now scheduled to be effective on December 31, 2003. The consolidation requirements of FIN 46 remain applicable to VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. The adoption of FIN 46 is not expected to have a material effect on the Company s financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on the Company s financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to the Company s existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The Company adopted the provisions of SFAS No. 150, which became effective on June 1, 2003. The adoption of this statement did not have a material effect on the Company s financial statements. On November 7, 2003, the FASB issued a FASB Staff Position No. FAS 150-3, Effective Date for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FAS 150, which deferred the effective date of certain provisions of FAS 150 related to Mandatorily Redeemable Noncontrolling Interests. The deferral did not effect the Company s financial statements.

In November 2002, the Emerging Issues Task Force (EITF) issued EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, which addresses revenue recognition accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. EITF 00-21 does not apply to deliverables in arrangements to the extent the accounting for such deliverables is within the scope of other existing higher-level authoritative literature including SOP 97-2. EITF 00-21 is effective for revenue arrangements entered into beginning on July 1, 2003. The adoption of EITF 00-21 did not have an impact on our financial statements.

Table of Contents

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. 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. When evaluating goodwill for potential impairment, the Company first compares the fair value of the reporting unit, based on market values of the reporting unit or on the present value of estimated future cash flows, with its carrying amount. If the estimated fair value of the reporting unit is less than its carrying amount, an impairment loss calculation is prepared. The impairment loss calculation compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. 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. The fair value of the Viewpoint Digital reporting unit was determined to exceed its carrying value using the expected present value of future cash flows, a discount rate of 15% and a terminal value based on a multiple of EBITDA. The fair value of the Company was determined to exceed its carrying value by comparison to its market capitalization on that date, less the fair value of the Viewpoint Digital reporting unit.

The Company recorded $2,928,000 of additional goodwill during the first quarter of 2002 in connection with a contingent promissory note due Computer Associates on April 30, 2002 for the acquisition of Viewpoint Digital. As of March 31, 2002, due to the persistence of unfavorable economic conditions along with lower-than-expected revenues generated to date and reduced estimates of future performance of the Viewpoint Digital reporting unit, the Company performed an additional impairment analysis on the goodwill and other intangible asset balances recorded upon the acquisition of Viewpoint Digital. In accordance with the provisions of SFAS No. 142 and SFAS No. 144, the Company recorded impairment charges totaling $6,275,000 for the three months ended March 31, 2002. The fair value of the Viewpoint Digital reporting unit was estimated using the expected present value of future cash flows. The assumptions supporting the cash flows, including the discount rate of 20%, were determined using the Company s best estimates as of the date the impairment was recorded.

In accordance with the provisions of SFAS No. 142, the Company completed a goodwill impairment review as of January 1, 2003 and found no impairment on that date. The fair value of the Company was determined to exceed its carrying value by comparison to its market capitalization on that date.

During the three months ended March 31, 2003, the market value of the Company s equity securities declined below the Company s carrying value indicating the existence of a potential goodwill impairment. In accordance with SFAS No. 142, the Company performed the first step of the goodwill impairment test as of March 31, 2003. The fair value of the Company was determined to exceed its carrying value using a market-based approach with selected multiples ranging from 1.5 to 2.0 times revenues and 1.8 to 2.5 times gross profit. In accordance with SFAS No. 142, the second step of the impairment test was unnecessary, and no goodwill impairment charges were recorded. Subsequent to March 31, 2003, the market value of the Company recovered and did not decline below the Company s carrying value, therefore, no impairment existed through September 30, 2003.

Table of Contents

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The changes in the carrying amounts of goodwill and intangible assets during the nine months ended September 30, 2003, are as follows (in thousands):

	Goodwill	Intangible Assets	Total
Balance as of January 1, 2003	$31,276	$ 165	$31,441
Additions during period		11	11
Amortization		(1)	(1)
Balance as of March 31, 2003	31,276	175	31,451
Additions & adjustments during period		(8)	(8)
Amortization		(7)	(7)
Balance as of June 30, 2003	31,276	160	31,436
Additions during period		28	28
Amortization		(1)	(1)
Balance as of September 30, 2003	$31,276	$ 187	$31,463

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

	Goodwill	Intangible Assets	Total
Balance as of January 1, 2002	$33,042	$ 2,361	$35,403
Additions during period	2,928	24	2,952
Impairment losses	(4,694)	(1,581)	(6,275)
Amortization		(661)	(661)
Balance as of March 31, 2002	31,276	143	31,419
Additions during period		3	3
Amortization		(2)	(2)
Balance as of June 30, 2002	31,276	144	31,420
Additions during period		20	20
Amortization		(1)	(1)
Balance as of September 30, 2002	$31,276	$ 163	$31,439

As of September 30, 2003 and December 31, 2002, the Company s intangible assets and related accumulated amortization consisted of the following (in thousands):

	September 30, 2003	December 31, 2002
	Accumulated	Accumulated

	Gross	Amortization	Net	Gross	Amortization	Net
Patents and Trademarks	$199	$ (12)	$ 187	$168	$ (3)	$165
Total Intangible Assets	$199	$ (12)	$ 187	$168	$ (3)	$165

Amortization of patents and trademarks is estimated to be $3,000 a year for the next five years.

3. Long Term Debt

On December 31, 2002, the Company completed a private placement of convertible notes and warrants in which it issued to three institutional investors, 4.95% convertible notes having an aggregate principal amount of $7,000,000, and warrants to purchase 726,330 shares of Company common stock. Interest on the convertible notes was payable quarterly in arrears in cash or, at the option of the Company, in shares of Company common stock, provided the Company satisfied certain financial and other conditions. The convertible notes were to mature on December 31, 2007, unless earlier converted into shares of Company common stock at a price of $2.26 per share. The warrants expire on December 31, 2006, and are exercisable at a price of $2.26 per share.

The Company was required to provide registration rights under the Securities Act of 1933 for shares of Company common stock covering (i) the conversion of $7,000,000 in principal, (ii) 726,330 warrants, and (iii) any potential payment of interest in the form of common stock.

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The convertible notes defined several events of default, including but not limited to: (i) failure of the Company s registration statement to be declared effective by the Securities and Exchange Commission (SEC), (ii) delisting from The NASDAQ National Market or other national exchange, (iii) change in control, (iv) event of conversion default such as lack of authorized capital, (v) event of bankruptcy, (vi) failure to pay principal and interest on the convertible notes when payments become due, (vii) judgments against the Company in excess of $1,000,000 and (viii) material breach of any representation, warranty, covenant or other term. Upon an event of default, the convertible notes would immediately become due and payable, after a grace period to cure the default lapsed.

Pursuant to SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, the Company bifurcated the fair value of the conversion options from the convertible notes since the conversion options were determined to not be clearly and closely related to the debt host. In addition, since the effective registration of the securities underlying the conversion options and warrants was an event outside of the control of the Company, pursuant to EITF Issue No. 00-19, the Company recorded the fair value of conversion options and warrants as long-term liabilities, as it was assumed that the Company will be required to net-cash settle the underlying securities. The fair values of the convertible notes, conversion options, and warrants of $5,535,000, $1,177,000, and $288,000, respectively, were determined by the Company using the following assumptions: a 20% discount on the Company s common stock price at December 31, 2002, a credit spread of 20% over LIBOR rates at December 31, 2002, and an annualized stock volatility of 46%. The aggregate value of the convertible notes and conversion options of $6,712,000, and the warrants of $288,000 are recorded as long-term liabilities in the Company s consolidated balance sheets at December 31, 2002. Debt issuance costs, which amounted to $668,000, were recorded as other assets in the Company s consolidated balance sheets, in accordance with APB Opinion No. 21 Interest on Receivables and Payables. The amortization of discount on the convertible notes and debt issue costs totaling $72,000 were accounted for in accordance with the provisions of APB Opinion No. 21, which requires amortization of the discount and debt issue costs using the interest method.

On February 28, 2003, the Company received notices of default from two of the three investors. The notices alleged that the Company was in default of the notes because it had breached certain representations and warranties in the Securities Purchase Agreement.

On March 25, 2003, the Company entered into Redemption, Amendment and Exchange Agreements with the three institutional investors with whom it had completed the private placement of convertible notes and warrants on December 31, 2002. Pursuant to these agreements, the notice of default was withdrawn and Viewpoint redeemed an aggregate of $3,300,000 principal amount of the outstanding convertible notes, exchanged an aggregate of $1,000,000 principal amount of the outstanding convertible notes for shares of Viewpoint common stock at $0.74 per share, and exchanged the remaining $2,700,000 principal amount of outstanding convertible notes for $2,700,000 principal amount of new convertible notes. The convertible notes were issued in three tranches of $900,000 each and are scheduled to mature December 31, 2007. The warrants to purchase 726,330 shares of Company common stock, which were issued to these investors on December 31, 2002, remain outstanding.

Based on the provisions of SFAS No. 133 and EITF Issue No. 00-19, the Company recorded income based on the change in the fair value of the conversion options of the original convertible notes as of March 24, 2003, which amounted to $1,122,000, in the Company s consolidated statements of operations for the three months ended March 31, 2003.

In accordance with the provisions of APB Opinion No. 26 Early Extinguishment of Debt, and EITF Issue No. 96-19 Debtor s Accounting for a Modification or Exchange of Debt Instruments , the Company recorded a loss on the early extinguishment of the original convertible notes in the amount of $1,682,000 of which $650,000 related to the write-off of deferred loan costs. The carrying value of the convertible notes at the time of the exchange was $5,643,000, inclusive of $55,000, which represented the fair value of the conversion options. In conjunction with the extinguishment, the Company paid $3,300,000, issued new convertible notes in the principal amount of $2,700,000 and issued 1,351,351 shares of its common stock with a market value of $675,000. The difference between (i) the carrying value of the outstanding convertible notes exchanged and (ii) cash paid and the fair value of the common stock and new convertible notes issued, amounted to $1,032,000 and was included in the loss on early extinguishment of debt.

Table of Contents

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company charged the loss on early extinguishment of debt to operations as such loss did not qualify for classification as extraordinary based on the provisions of SFAS No. 145 Rescission of FASB Statements No. 4, 44, and 64, Amendment of , and Technical Corrections , and APB 30 Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.

Interest on the new convertible notes is payable quarterly in arrears in cash or, at the option of the Company, in shares of Company common stock, provided the Company satisfies certain financial and other conditions. If interest is paid in shares of Company common stock, the number of shares to be issued shall be calculated by dividing the interest payable by 95% of the arithmetic average of the dollar volume-weighted average price of Company common stock on each of the five consecutive trading days immediately preceding the interest payment date. The new convertible notes mature on December 31, 2007, unless earlier converted into shares of Company common stock. Each tranche of the new convertible notes were initially convertible into Company common stock at a price of $2.26 per share. However, pursuant to the Redemption, Amendment and Exchange Agreements, the conversion price of the first, second, and third tranche became adjustable on the basis of the arithmetic average of the dollar volume-weighted average price of Company common stock for the ten trading days following May 16, 2003, August 16, 2003, and November 16, 2003, respectively, in each case subject to a minimum conversion price of $1.00 and a maximum conversion price of $2.26. The conversion price of the first $900,000 tranche of notes is $1.10. The conversion price of the second $900,000 tranche of notes is $1.00.

At the noteholders option, up to 20% of the net proceeds from any new capital raises by the Company may be used to redeem outstanding notes at par plus accrued interest. On November 12, 2003, the Company sold 3,125,000 shares of common stock in a private placement to Federal Partners, L.P., an affiliate of The Clarke Estates, Inc. for $2,500,000, or $0.80 per share. To exercise their right to redeem their notes in an amount up to 20% of the $2,500,000 received by the Company, the noteholders must notify the Company within 10 days of the Company s public announcement of the closing of the private placement. The Company publicly announced the closing of the private placement on November 13, 2003 by way of a filing on SEC Form 8-K.

Each tranche of the notes is redeemable by the investors at any time on or after June 30, 2004 in cash at par plus accrued and unpaid interest if the dollar volume-weighted average price of Company common stock is less than the conversion price applicable to the notes for any 25 consecutive trading days. Each tranche of the notes is redeemable by the investors at any time after December 31, 2005, in cash at 83% of par plus accrued and unpaid interest if the dollar volume-weighted average price of Company common stock is less than the conversion price applicable to the notes for any 25 consecutive trading days following December 31, 2005. If the investors redeem their convertible notes, up to 20% of the amount to be redeemed may, at the Company s option, be paid in shares of Company common stock, and said payment would be at 95% of the dollar volume-weighted average price of Company common stock for the 20 consecutive trading days immediately preceding payment.

The Company has the right at any time to redeem up to all of the outstanding notes at par plus accrued and unpaid interest. Concurrently with any such redemption, the Company is required to deliver to the investors warrants, with an exercise price of $1.00 and a term equal to the remaining term of the notes being redeemed, to subscribe for a number of shares of common stock equal to 100% of the principal amount being redeemed divided by the conversion price of the notes then in effect.

Each tranche of the notes is convertible at the Company s election at any time after April 15, 2004 if the dollar volume-weighted average price of Company common stock exceeds 150% of the conversion price applicable to the notes for any 25 consecutive trading days following April 15, 2004.

The investors may require the Company to sell to the investors an additional 4.95% convertible notes having an aggregate principal amount of up to $2,800,000, and warrants to purchase up to 290,533 shares of Company common stock prior to January 14, 2004.

The Company had the right to sell additional 4.95% convertible notes having an aggregate principal amount of up to $7,000,000 and warrants to purchase up to 726,330 shares of Company common stock prior to June 30, 2003, if the dollar volume-weighted average price of Company common stock exceeded $3.25 on each of not less than 15 trading days in any 20 consecutive trading-day period. This right expired unexercised on June 30, 2003.

The Company was required to file a registration statement by April 14, 2003, covering the resale of the shares of common stock issued to the investors in exchange for the $1,000,000 principal of convertible notes, the shares of common stock issuable to the investors upon the conversion of the notes, the shares of common stock underlying the warrants issued and to be issued, and any shares of common stock that may be issued as payment of interest on the

Table of Contents

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

notes. The Company was required to pay cash penalties if the registration statement was not declared effective by June 30, 2003. The registration statement was declared effective July 14, 2003, and the Company was required to pay penalties of $183,000, of which $127,000 was charged to interest expense in the second quarter of 2003 and $56,000 was charged to interest expense in the third quarter of 2003.

Under the terms of the amended agreements, certain covenants and events of default were restructured as follows: the requirement to have its registration statement declared effective by the SEC and the requirement to remain listed on The NASDAQ National Market or other national exchange, were waived through March 2004, unless the Company receives a going concern or qualified opinion from its auditors. If such a report is received from the Company s auditors through March 2004, the original events of default remain effective.

Pursuant to SFAS No. 133, the Company bifurcated the fair value of the conversion options from the new convertible notes since the conversion options were determined to not be clearly and closely related to the debt host. In addition, since the effective registration of the securities underlying the conversion options is an event outside of the control of the Company, pursuant to EITF Issue No. 00-19, the Company recorded the fair value of the conversion options as long-term liabilities, as it is assumed that the Company will be required to net-cash settle the underlying securities. The fair values of the new convertible notes and conversion options of $2,361,000 and $339,000, respectively, were determined by the Company using the following assumptions: the Company s Common stock price at March 25, 2003, a credit spread of 30% over LIBOR rates at March 25, 2003, and an annualized stock volatility of 65%. The value of the new convertible notes and conversion options of $2,392,000 and $609,000, respectively are recorded as long-term liabilities in the Company s consolidated balance sheets at September 30, 2003. Debt issuance costs, which amounted to $75,000, were recorded as other assets in the Company s consolidated balance sheets, in accordance with APB Opinion No. 21.

Based on the provisions of SFAS No. 133 and EITF Issue No. 00-19, the Company recorded income based on the changes in the fair values of the new conversion options and original warrants of $61,000 and $241,000, respectively, in the Company s consolidated statements of operations for the three months ended March 31, 2003, and a loss based on the changes in the fair values of the new conversion options and original warrants of $886,000 and $195,000, respectively, in the Company s consolidated statements of operations for the three months ended June 30, 2003. For the three months ended September 30, 2003, the Company recorded income based on the changes in the fair values of the new conversion options and original warrants of $555,000 and $112,000, respectively. The amortization of discount on the new convertible notes and debt issue costs totaling $37,000 were accounted for using the interest method, in accordance with the provisions of APB Opinion No. 21.

On March 26, 2003, Viewpoint Corporation entered into a Securities Purchase Agreement with three other accredited investors, pursuant to which it received $3,500,000 in exchange for an aggregate of $3,500,000 principal amount of 4.95% subordinated notes and 3,614,756 shares of Viewpoint common stock. The subordinated notes are scheduled to mature on March 31, 2006.

Interest on these notes is payable quarterly in arrears in cash. The notes contain certain events of default, including, but not limited to: (i) failure to pay principal and interest on the notes when payments become due, (ii) judgments against the Company in excess of $1,000,000, (iii) event of bankruptcy, and (iv) material breach of representations, covenants or other terms. Upon an event of default, the notes will become immediately due and payable.

The Company filed a registration statement covering the resale of the issued shares on May 9, 2003, which was declared effective by the SEC on July 30, 2003.

The Company has the right at any time to redeem up to all of the outstanding notes at par plus accrued and unpaid interest.

The $3,500,000 of proceeds was allocated to subordinated notes, common stock, and additional paid in capital based on the market value of the Company s common stock on March 26, 2003. In accordance with the provisions of APB Opinion No. 21, the Company recorded a debt discount of $2,024,000. Debt issuance costs, which amounted to $194,000, were recorded as other assets in the Company s consolidated balance sheets in accordance

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

with APB Opinion No. 21. The amortization of the discount on the subordinated notes and debt issue costs totaling $211,000 were accounted for using the interest method, in accordance with the provisions of APB Opinion No. 21.

4. Related Party Transactions

During the three and nine months ended September 30, 2003, the Company recorded revenues totaling $693,000 and $5,146,000, respectively, related to agreements with America Online, Inc. (AOL). As of September 30, 2003, the Company has $286,000 in accounts receivable and $687,000 in deferred revenues relating to transactions entered into with AOL and Computer Associates, Inc. (Computer Associates), both of whom have representatives on the Company s Board of Directors. During the three and nine months ended September 30, 2002, the Company recorded revenues totaling $3,088,000 and $8,686,000, respectively, related to agreements, including reseller arrangements, with AOL and Computer Associates. At December 31, 2002 the Company had $838,000 in accounts receivable and $500,000 in deferred revenues relating to transactions entered into with AOL and Computer Associates.

5. Restructuring and Impairment Charges

In fiscal 2003, the Company implemented two restructuring plans. The first plan, implemented in February 2003, reduced operating expenses by closing the Company s Utah office and related to the termination of 28 employees in that office who were primarily engaged in sales and marketing activities. In accordance with SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities, the Company recorded restructuring charges of $1,211,000. The restructuring charges represent the fair value of remaining lease commitments reduced by estimated sublease rentals, employee severance and termination benefits, the write-off of the net book value of certain fixed assets used in the Utah office, and other miscellaneous charges. In September 2003, the Company re-evaluated market conditions surrounding its efforts to sub-lease the Utah office space and adjusted the restructuring charge by $211,000 related to the reduction of estimated sublease rentals as of September 30, 2003. The Company believes that it may be necessary to adjust our estimate of sublease income in the future as our ability to sublease the property in Utah is contingent upon real estate and other market conditions in Utah.

The restructuring reserve activity for the first plan for the three and nine months ended September 30, 2003 was as follows (in thousands):

	Lease Costs	Employee Severance and Termination Benefits	Asset Write-offs	Miscellaneous Charges	Restructuring Accrual
Restructuring and impairment charges	$ 459	$ 367	$ 361	$ 24	$ 1,211
Cash paid	(36)	(350)		(24)	(410)
Non-cash charges			(361)		(361)
Balance at March 31, 2003	423	17			440
Cash paid	(53)	(17)			(70)
Balance as of June 30, 2003	370				370
Restructuring charge	211				211
Cash paid	(56)				(56)
Balance as of September 30, 2003	$ 525	$	$	$	$ 525

The second plan was implemented in September 2003, and was designed to streamline the business. Under the plan the Company eliminated 24 sales and marketing, research and development, and general and administrative positions. The Company incurred a restructuring charge of $463,000 related to one-time severance arrangements. The charge is recorded on our income statement as a restructuring and impairment charge. The second restructuring plan was completed by September 30, 2003.

The restructuring activity for the second restructuring plan is as follows (in thousands):

Table of Contents

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Employee Severance and Termination Benefits	Restructuring Accrual
Restructuring charges	$ 463	$ 463
Cash paid	(256)	(256)
Balance as of September 30, 2003	$ 207	$ 207

6. Comprehensive Loss

Total comprehensive loss for the three and nine months ended September 30, 2003 and 2002 consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002