INTERNET PICTURES CORP
Form 10-K
March 29, 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 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 EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 00-26363

INTERNET PICTURES CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	52-2213841
State or other jurisdiction incorporation or organization	(IRS Employer Identification No.)

3160 CROW CANYON ROAD, SAN RAMON, CALIFORNIA 94853

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (925) 242-4002

Securities registered pursuant to Section 12(b) of the Act: NONE.

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, $.001 PAR VALUE

(Title of Class)

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 such 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 this

Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 1, 2002 was $13,533,520 (based on the average bid and ask price of $2.05).

The number of shares outstanding of the registrant's common stock, $.001 par value, as of March 1, 2002 was 6,780,317. On August 22, 2001 our shareholders approved a ten-for-one reverse stock split. All share and per share data is presented to give effect to the retroactive application of the reverse stock split.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Stockholders' Meeting to be held on or about May 30, 2002, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, are incorporated by reference into Part III of this report on Form 10-K. Such Proxy Statement, except for the portions thereof which are specifically incorporated herein by reference, shall not be deemed "filed" for purposes of this report on Form 10-K.

PART I

ITEM 1. BUSINESS.

OVERVIEW

Internet Pictures Corporation, or iPIX, is a technology provider and the leader in the delivery of mission-critical imaging. The Company's open imaging platform and immersive imaging technologies allow businesses to harness the power of imaging to increase revenues, improve operations and enhance the overall Internet user experience.

Our robust and reliable imaging infrastructure manages in excess of 200 million image views and 1.5 million image submissions every 24 hours, facilitating millions of dollars in commerce each and every day.

iPIX combines its people, technology, processes and partnerships to deliver an extensive range of full and self-service imaging solutions worldwide. Our end-to-end solutions include the capture, processing, hosting and distribution of immersive, still and video images. We deliver the necessary imaging solutions to facilitate commerce, communication and security so customers can outsource their imaging needs and focus on their core competencies.

iPIX is organized in two primary business units: Transaction Services and Immersive Solutions. The Transaction Services unit focuses on the sale of iPIX solutions to customers who rely on images to complete business transactions such as real estate, auctions and classifieds. The Immersive Solutions business unit focuses on the sale of immersive technology licenses into the observation and security, travel and hospitality and visual documentation markets.

THE IPIX SOLUTION

iPIX Rimfire(R) Imaging Platform

iPIX's open imaging platform, Rimfire, allows business and consumer sites to quickly and easily capture, manage and distribute media from site viewers to live Web pages. Rimfire is an end-to-end, fully automated imaging management solution that addresses the preparation, submission and management of digital media. With Rimfire, users can easily publish still photos and other digital media to the Web with simple drag-and-drop image submission. Through processes that are nearly instantaneous and invisible to the user, Rimfire automatically sizes the images to the target Web site's specifications. At the same time, on behalf of the target Web site, Rimfire can handle all of the data and image management, storage and serving requirements associated with that image. The iPIX open imaging platform solves the most common problems associated with user-supplied digital media by automating the tasks and simplifying the process for the user and the Web site.

Digital Media Preparation

Rimfire allows Web sites to attract and retain users regardless of their technical skill. Rimfire's drag-and-drop technology allows users to quickly and easily submit their own media content to the Web without the need to prepare it with desktop software ahead of time. Challenging tasks such as formatting, sizing and cropping, are easily and automatically accomplished through Rimfire's integrated and intuitive tools. Instant previews of the media supplied prevent incorrect submissions.

Digital Media Submission

Rimfire accepts a wide and growing variety of file formats and converts the files to customer specifications automatically, without user intervention. Rimfire's smart-sizing feature allows the user to supply files of any size without worry about upload times for submission, or viewing times. Like file formats, Rimfire automatically prepares the media for transmission by optimizing its size to the requirements of the site. In addition, Rimfire supports the submission of multiple files and associated data.

Media Deployment

Once media is received by Rimfire, it is processed to customer specifications. This includes database management, further processing such as creating multiple files of varying sizes or quality and distribution to the appropriate storage facility. Rimfire's "layered" architecture enables services such as the transformation of still images into interactive advertisements, slide shows, images watermarked with text or graphics or new capabilities created by iPIX or our third party developers. Rimfire technology was designed to be scalable and fault tolerant to handle high volumes of user submissions and our clients' rapid pace of growth. Built on industry standard hardware and software platforms, Rimfire allows for rapid expansion of rich media acquisition, processing, transformation and delivery.

Rimfire generates direct and indirect revenue opportunities for our customer's Web sites by incorporating imaging into their e-commerce and community offerings. Rimfire's media processing capabilities include the mechanism to take different media items supplied from users such as text, audio and images and transform them into one new rich media item. iPIX can then serve the media directly from iPIX servers or send the media to a remote database to be served directly from the customer's Web site.

By offering an outsourced infrastructure solution, we offer our customers an alternative to building costly infrastructure, enabling them to utilize scarce technical resources in other mission critical capacities. Our solution eliminates expensive media processing tasks and decreases customers' support expenses. Further, our solution optimizes storage and bandwidth resources for our customers.

iPIX Immersive Imaging

iPIX patented technology creates iPIX immersive images from film or digital photographs taken with a fisheye lens. Our technology automatically compensates for any minor error in camera placement and corrects the distortion inherent in these photographs. The resulting immersive image can be viewed in any direction, up-down, left-right and horizon to horizon. The viewer can easily navigate the image by moving a cursor inside the image or using the iPIX navigation bar. iPIX immersive imaging provides maximum field of view with a single image.

Previously priced only on a per image basis, iPIX now offers a new image key pricing model that allows users to purchase an annual, unlimited subscription to create iPIX immersive images. These iPIX licenses make iPIX technology easier to use, cost effective and more accessible to a larger audience.

Current iPIX immersive imaging solutions and applications include:

iPIX Immersive Images and Virtual Tours

iPIX provides the leading immersive, 360-degree virtual tours for real estate, e-commerce, travel and hospitality and entertainment Web sites. In addition, iPIX immersive imaging is designed for documentation, project management and facilities planning applications. iPIX immersive images offer viewers the opportunity to navigate a scene on their own terms, looking in any direction, and zooming in and out as they choose. This interactive imaging experience helps to increase buyer confidence and immerses the viewer in the photographed scene so everything is viewed in context of its complete surroundings.

iPIX Camera Solutions

Partnering with leading camera manufacturers, iPIX offers complete camera solutions for the self-service capture of iPIX immersive images. Photographers, Web developers and other businesses may purchase complete camera solutions including a digital camera, fisheye lens, iPIX software, camera rotator and tripod. Users may also purchase partial kits to use with their existing digital camera equipment.

iPIX Immersive Imaging Software & Keys

iPIX offers complete immersive imaging software to allow users the ability to create their own 360-degree by 360-degree immersive images. The software offers automatic de-warping of fisheye images and seamless generation of 360-degree by 360-degree immersive images from two 185-degree images. iPIX software creates an iPIX immersive image that has a small file size, typically between 25 and 160 kilobytes, and can be quickly delivered, even across low bandwidth systems.

An iPIX Image Key is an encryption tool that enables the user to save a single iPIX immersive image captured using iPIX software. One iPIX Image Key enables the user to save one iPIX image, just as one film negative enables the creation of one film photograph. Customers can purchase additional keys through our online store or through our toll-free order system. iPIX Image Keys are sold on a pay-per-use or unlimited use subscription basis.

iPIX Immersive Video

iPIX immersive video is a revolutionary development in security and surveillance imaging that provides the most expansive view of live and archival video from a single camera without requiring pan/tilt/zoom hardware. iPIX-enabled cameras capture immersive wide-angle views up to 200-degrees that can be navigated in any direction with zoom in and out capabilities.

The iPIX Viewer Software Development Kit (SDK) offers security system designers and integrators an immersive enhancement for expansive wide-field viewing without the need for pan/tilt/zoom hardware.

THE IPIX STRATEGY

Establish iPIX as the Standard for Mission-Critical Imaging

We believe iPIX imaging solutions deliver the most interactive, reliable, high-quality and expansive imaging available on and offline. Because iPIX offers end-to-end imaging solutions, we are able to deliver multi-dimensional and exponential value to businesses. As a result, we believe we are poised to be the standard for mission-critical imaging technology. We will focus our business, sales and marketing strategies to support this position. We will continue research and development efforts so that our technology remains at the forefront of innovation, yet open for easy integration with other technologies. We will concentrate on developing partnerships to make iPIX imaging a standard component of every security solution and the preferred technology for online image management.

With these combined efforts, we believe the value proposition of iPIX imaging solutions will become well known and we will earn the reputation as the standard and extensible platform for mission-critical imaging.

Build Indirect Sales & Marketing Channels

iPIX has adopted a strategy that will leverage relationships with business partners and major market leaders in order to increase market penetration and revenue while reducing operating expenses. This strategy will develop multiple sales and marketing channels for iPIX products and services including:

Vertical Market Leaders

iPIX has partnered with major customers such as eBay, Clairol, LA Times and Homestore.com to leverage their leading sales channels to our target markets with iPIX products and services. Through these relationships, our customers market and sell imaging products and services, powered by iPIX, along with their existing services directly to their customers. iPIX benefits from the brand equity and buying recommendation provided by the customer's sales channel to increase sales and market penetration while maintaining the ability to focus on iPIX technology support and enhancements. We will continue to partner with additional vertical market leaders to serve as direct and indirect channels for the promotion and sale of iPIX products and services.

Integrators and Resellers

iPIX has partnered with established security system resellers and integrators to help penetrate the security and observation markets. Resellers and integrators such as ADT Security Services, Public Safety Systems, LLC and Visual Security offer iPIX the opportunity to be integrated into full security systems sold and marketed by vendors well-known and respected in the industry. Through relationships, we believe iPIX technology will be incorporated in NetCams, digital and analog CCTV cameras, security applications and other embedded security solutions.

Partner with Web Developers

We will leverage the community of Web developers currently building and designing Web sites to drive the use and adoption of iPIX dynamic imaging. We will also generate revenue through the purchase of camera kits and Keys by Web developers and their customers. We will continue to support iPIX Web Developers through the iPIX Developer Network program. This dedicated program was specifically designed to

increase iPIX-to-developer and developer-to-developer interactivity and will provide Web developers a competitive advantage through availability of increased resources, technical support and special pricing for iPIX offerings.

Partner Internationally

We intend to capitalize on what we believe to be significant revenue opportunities in international markets. International licensing and distribution agreements with partners in a wide range of countries spanning Europe, the Middle East and Asia. Relationships with companies such as Emirates Venture Group in the United Arab Emirates and LAC in Japan allow us to deploy iPIX technology into regions of the world that would normally require significant time and effort for marketing and development.

Business Development and Strategic Direct Sales

In addition to our existing sales channels, iPIX employs a team of senior sales professionals focused on new business development opportunities and strategic direct sales across our target markets.

New Initiatives

In the year 2002, iPIX intends to execute several new initiatives to support our overall business strategies. These new initiatives will include:

Indirect Channel Support

iPIX will institute sales and marketing programs to support our indirect channel partners. These programs will be designed to educate our partners on how to sell our solutions and provide them with the tools to do so. We will also work together with our partners to jointly develop tools and materials in support of the channel.

iPIX is also committed to support indirect channels through technology development and enhancement that meet channel-specific business requirements, including partnering with complementary technologies.

Third Party Solution Integration

Leveraging our open imaging platform, we intend to enhance the iPIX solutions offering through the integration of third party solutions. These initiatives will be pursued based upon value to our customers and potential long-term revenue opportunity.

Government Imaging Projects and Technology Grants

iPIX is proactively researching and pursuing government projects and technology grants that will allow iPIX technology to be incorporated into major US government imaging initiatives. We believe these projects offer iPIX the opportunity to drive revenue and advance iPIX technology through government-funded projects and grants.

MARKETS

We have directed our sales efforts and channel strategies toward the industry leaders within the following markets.

Auctions and Classifieds: As the primary mechanism for ecommerce, auction and classified sites and portals such as eBay rely heavily upon imaging to drive sales of new and used consumer items. Sellers require an easy to use method for uploading images to accompany their item listing and buyers desire confidence in items they can view and inspect online. In our experience, listings with images result in more bids and higher final sale amounts. With Rimfire, auction and classified sites can offer photo services that make adding images to Web sites easy, affordable and efficient.

Consumer Product Manufacturers: Traditional businesses and consumer product manufacturers rely on imaging to help sell, market and enhance their current products. They often capture and distribute images using systems that have been developed internally and typically require manual and time-consuming processes. With Rimfire, these companies can outsource their imaging infrastructure and automate imaging processes saving time and operational expenses. Rimfire technology makes it cost-effective, fast and easy for businesses to leverage imaging for online and offline catalogs, operational directories, new interactive marketing tools and personalized, image-enhanced consumer products. For example, Clairol uses Rimfire services to allow consumers to upload personal photos into Clairol's "Try It On Studio" tool and test different hair colors and styles.

Real estate: Residential and commercial real estate companies and professionals use our solutions to provide online iPIX immersive images of properties including existing homes, new homes, rental apartments, time-share units and office buildings and their surrounding areas. Our imaging solutions allow real estate companies and professionals offering real estate for sale or lease to use the Internet to provide more visual information about the property to prospective buyers. Our solutions enable real estate professionals to cost-effectively market properties to a wide audience, thereby providing a value-added service to both buyers and sellers.

Observation and Security: Businesses, facilities, airlines and airports can use iPIX immersive technology to monitor and secure buildings, people and property. Whether observing department store activity through a security camera, or offering airline pilots a full-cabin view from the cockpit, iPIX immersive imaging offers the best way to capture the most data in a single image. Unlike traditional cameras that capture only what is directly in front of the camera, iPIX-enabled cameras capture 180(degree) by 360(degree) scenes that can be navigated in any direction with zoom in and out capabilities without additional hardware. The unique features of iPIX immersive imaging offer the most cost-effective solutions to capture the maximum field of view.

Travel and Hospitality: Hotel chains, vacation resorts, cruise lines, golf courses, restaurants, theme parks, major tourist attractions and tourism bureaus use our digital media content solutions to enhance their online marketing. iPIX immersive images provide a prospective visitor the opportunity to take online tours of rooms, meeting and conference facilities and attractions. Our visual content and digital media solutions enable consumers to more effectively research, plan and reserve travel arrangements over the Internet. Further, online tours allow destination operators to feature premier packages as well as showcase specific destinations. We distribute our customer's digital media content to their own Web sites and to selected travel destination affiliate Web sites.

Visual Documentation: Because iPIX immersive technology allows customers to capture a full 360-degree by 360-degree environment, iPIX is simply the best way to photographically document facilities, public buildings, schools and other spaces for emergency and tactical preparedness, project management, historical archival image database, facilities planning and design, training vulnerability and disaster assessments. iPIX visual documentation is also proven to be effective in presenting locations that would otherwise be inaccessible or entail a risk of exposure to hazardous materials or situations.

SALES AND MARKETING

Our marketing efforts focus on supporting our sales force with marketing materials and sales tools that help generate and close new business for iPIX. Using this strategy, we intend to acquire new customers for our end-to-end solutions, increase purchases of iPIX kits and iPIX keys and develop new sales opportunities. We also intend to continue utilizing distributors and resellers to penetrate indirect markets. Our marketing efforts include traditional and Internet advertising as well as direct mailings, participation in trade shows, co-marketing with strategic partners and public relations campaigns.

Our sales and marketing groups focus on direct and indirect sales. Located in Oak Ridge, TN, San Ramon, CA and London, England, our sales teams focus on developing strategic relationships and opening sales channels with potential partners and customers in our targeted vertical markets. We also employ a telesales team that targets additional business customers, provides support for the direct sales teams and fields inquiries from our Web site and toll-free customer service number.

We also maintain a customer relations department to answer inquiries regarding our offerings and respond to technical questions. Our service personnel also perform quality assurance checks on each component included in an iPIX kit prior to shipping and process customer service inquiries concerning order status, shipping information, returns and exchanges.

COMPETITION

We currently compete with several providers of immersive imaging technology. However, we do not believe any of our competitors are dominant in this industry. We compete with these companies on the basis of ease of use, reliability, end user experience and price.

In the security markets, our immersive video solutions compete with traditional pan/tilt/zoom cameras. iPIX technology, however, can deliver the pan/tilt/zoom functionality at a lower cost and without the need for additional hardware that requires maintenance and repair over the life of the camera. Our navigable solution also captures a larger field of view with fewer cameras.

When selling our imaging platform and image management services, we often find that potential customers are considering internal development of an imaging system. The time, cost and imaging expertise required to build their own imaging system typically leads them to the conclusion that they should outsource. There are other companies marketing image servers and interactive imaging services to our target markets. However, they offer only components or layers of the iPIX comprehensive imaging solution and do not currently address how their technology successfully integrates with others to deliver an end-to-end solution (capture, process, host and distribute) to compete with iPIX.

While these companies may offer only components of the end-to-end solution iPIX imaging solution, they may have greater financial, marketing, distribution and technical resources with which to target our markets. Our success will be dependent on our ability to compete on the cost-effectiveness and quality of our solutions, the success of our indirect channel partners, and the tangible value our solutions offer.

INTELLECTUAL PROPERTY

We rely on a combination of patent, copyright, trade secret and trademark laws and contractual restrictions to establish and protect proprietary rights in our products. Our patents are intended to protect and support current and future development of our technology. We currently have 16 U.S. patents. In addition, we hold international counterparts to many of our U.S. patents in selected countries covering various aspects of our products. We have numerous patent applications pending in the United States as well as international counterparts to many of these applications. There can be no assurance that our current and future patent applications will be granted, or, if granted, that the claims covered by the patents will not be reduced from those included in our applications.

Our success and ability to compete are dependent on our ability to develop and maintain the proprietary aspects of our technology and operate without infringing on the proprietary rights of others. We seek to limit disclosure of our intellectual property by requiring employees, suppliers and customers with access to our proprietary information to execute confidentiality agreements with us and by restricting access to our source code. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our services or software or to obtain and use information that we regard as proprietary. We have experienced wrongful use in the past, and although we have taken steps to stop that use, we expect to experience more attempts in the future. The laws of many countries do not protect our proprietary rights to as great an extent as to the laws of the United States. Litigation may be necessary in the future to enforce our intellectual property rights to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. There can be no assurance that the statutory and contractual arrangements we currently depend upon will provide sufficient protection to prevent misappropriation of our technology or deter independent third-party development of competing technologies.

Claims by third parties that our current or future products infringe upon their intellectual property rights may have a material adverse effect on us. Intellectual property litigation is complex and expensive, and the outcome of this litigation is difficult to predict. We have been involved in litigation relating to the protection of our intellectual property rights. We are currently subject to a third party infringement claim that is in litigation. This litigation, and any future litigation, regardless of outcome, may result in substantial expense to us and significant diversion of our management and technical personnel. An adverse determination in any litigation may subject us to significant liabilities to third parties, require us to license disputed rights from other parties, if licenses to these rights could be obtained, or require us to cease using the technology.

EMPLOYEES

As of March 1, 2002, we employed 87 full-time employees. Our employees are not represented by any collective bargaining unit. We believe our relations with our employees are good.

ITEM 2. PROPERTIES.

We lease approximately 13,000 square feet of space in Oak Ridge, Tennessee for our corporate office and operations and approximately 19,000 square feet in San Ramon, California for our co-headquarters. We also maintain an office in London, England from which we direct our European operations. We also lease 34,489 square feet of office space in Toronto, Canada. We have sublet approximately 18,000 square feet of our Toronto, Canada space to a wholly-owned subsidiary of Homestore.com, Inc. In February 2002, we exited the remaining space in Toronto, Canada, and we are actively marketing this space to potential sub-tenants. We have also exited approximately 31,000 square feet of office space in Oak Ridge for which we are actively marketing to potential sub-tenants. We have also exited approximately 6,500 square feet of office space in San Ramon for which we are actively marketing to potential sub-tenants. If we are unable to successfully sublease our vacated and unoccupied office space, or if any of our current sub-tenants fail to make required lease payments, our business, financial condition, results of operations and cash flows may be adversely affected. (See Note 13 to our consolidated financial statements included elsewhere in this Annual Report on From 10-K).

ITEM 3. LEGAL PROCEEDINGS.

On October 28, 1998, Minds-Eye-View, Inc. and Mr. Ford Oxaal filed a lawsuit against us in the United States District Court for the Northern District of New York. Minds-Eye alleged in its lawsuit that we breached a duty of confidence to them, made misrepresentations and misappropriated trade secrets. The plaintiffs alleged that our technology wrongfully incorporated trade secrets and other know-how gained from them in breach of various duties. The court removed this action to arbitration upon our motion, and we cross-claimed alleging various affirmative claims, including trade secret theft. Minds-Eye and Mr. Oxaal filed a motion to dismiss the suit, and the court dismissed the lawsuit on May 19, 1999. Although the lawsuit was dismissed, we intend to proceed with the arbitration in Knoxville, Tennessee. The arbitration has been stayed pending resolution of the following lawsuit.

On May 20, 1999, Mr. Oxaal filed a lawsuit against us and certain of our customers in the same court alleging that our technology infringes upon a patent claim for 360 degree spherical visual technology held by him. Mr. Oxaal claims that this alleged infringement is deliberate and willful and is seeking treble damages against us in an unspecified amount plus interest, an accounting by us, costs and attorney's fees, in addition to a permanent injunction prohibiting the alleged infringement of his patent by us. Mr. Oxaal filed an additional complaint on December 5, 2000 in the United States District Court for the Northern District of New York, naming us as the sole defendant. The complaint states a single claim for relief, alleging infringement of U.S. Patent No. 6,157,385, which issued on December 5, 2000. This patent encompasses a method of seamlessly combining at least two images into a spherical image.

We have asserted defenses to Mr. Oxaal's claims as we believe we did not infringe any valid claims of his patents. We believe that Mr. Oxaal's claims are without merit, and we intend to vigorously defend against his claims. However, if Mr. Oxaal were to prevail in either of these lawsuits, our financial condition, results of operations and cash flows could be materially adversely affected.

On May 10, 2001, Stanley Fry, Woodhaven Venture Partners, L.P., Cyrus Greg, Patrick Oliver and related entities, all of whom are former stockholders of PictureWorks Technology, Inc. (which we acquired in April 2000) filed a lawsuit in the Delaware Chancery Court alleging causes of action for failure to timely issue stock certificates and breach of contract. An unspecified amount of damages is sought. Discovery proceedings in the case are on-going. We believe that the plaintiffs' claims are without merit, and we intend to vigorously defend against

these claims. If the plaintiffs were to prevail in their action, however, our financial condition, result of operations in cash flows could be materially adversely affected.

We are not currently a party to any other legal proceedings the adverse outcome of which, individually or in the aggregate, we believe could have a material adverse effect on our business, financial condition, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters where submitted to a vote of the Company's stockholders during the fourth quarter of fiscal year 2001.

ITEM 4A. EXECUTIVE OFFICERS OF REGISTRANT

The following sets forth information with respect to our executive officers as of March 1, 2002:

NAME	AGE	TITLE
Donald W. Strickland...........................	52	President and Chief Executive
Paul A. Farmer.................................	43	Chief Financial Officer, Execu Vice President and Treasurer
Matthew S. Heiter..............................	41	Executive Vice President, Gene Counsel and Secretary

DONALD W. STRICKLAND has been the chief executive officer of iPIX since May 2001 and has been president and chief operating officer since October 2000. Mr. Strickland joined iPIX in April 2000 and served as executive vice president until his appointment as president and chief operating officer in October 2000. Prior to joining us, Mr. Strickland was president and chief executive officer of PictureWorks Technology, Inc. from March 1996 until March 2000. From June 1993 until March 1996, Mr. Strickland held the position of vice president, Imaging and Publishing at Apple Computer. Prior to joining Apple in June 1993, Mr. Strickland spent twenty years at Eastman Kodak Company where he held a succession of positions in engineering, sales, marketing and executive management. Mr. Strickland holds several degrees including a bachelor's degree in physics from Virginia Tech, a master's degree in physics from the University of Notre Dame, a master's degree in optics from the University of Rochester, a master's degree in management from the Stanford Sloan School of Management and a law degree from George Washington University.

PAUL A. FARMER has been the chief financial officer, executive vice president and treasurer of iPIX since June 2001. Prior to joining us, Mr. Farmer was the chief financial officer of Buzzsaw.com from June 2000 to June 2001. Prior to Buzzsaw, Mr. Farmer was chief financial officer, chief administrative officer and executive vice president of CCAi Consulting from June 1998 to June 2000. Prior to CCAi, Mr. Farmer was chief financial officer of TCSI, Inc. from June 1994 to June 1998 and vice president and corporate controller of Technology Solutions Company from November 1990 to June 1994. Mr. Farmer is a CPA and was with PricewaterhouseCoopers LLP from January 1982 through November 1990. Mr. Farmer holds a bachelor's degree in accounting from the University of Illinois and a masters in business administration from the University of Chicago.

MATTHEW S. HEITER has been the executive vice president, general counsel and secretary of iPIX since January 2000. Mr. Heiter served as vice president, secretary and general counsel of Interactive Pictures from October 1999 until January 2000. Prior to joining us, Mr. Heiter was a shareholder in the law firm of Baker, Donelson, Bearman & Caldwell, P.C. Mr. Heiter holds a bachelor's degree in political science from the University of Mississippi and a juris doctor from Vanderbilt University Law School.

PART II

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

Our common stock is traded on the Nasdaq National Market (symbol: IPIX). Prior to August 26, 1999, there was no public market for our common stock. As of March 1, 2002, there were 955 stockholders of record.

The following table reflects the range of the high and low bid information for our common stock for the periods indicated and takes into account the ten-for-one reverse stock split in August 2001.

	HIGH
FISCAL 2001	
Fourth Quarter	$3.33
Third Quarter	3.60
Second Quarter	11.50
First Quarter	14.69
FISCAL 2000	
Fourth Quarter	56.25
Third Quarter	171.25
Second Quarter	288.75
First Quarter	450.00

We currently intend to retain all future earnings to finance the continuing development of our business and do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends in the future will depend upon our financial condition, future loan covenants, capital spending requirements and earnings, as well as other factors the board of directors may deem relevant.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED HISTORICAL FINANCIAL INFORMATION

The statement of operations data presented below for the years ended December 31, 1999, 2000 and 2001 and the balance sheet data as of December 31, 2000 and 2001 have been derived from our consolidated financial statements audited by PricewaterhouseCoopers LLP, independent accountants, that are included elsewhere in this report. The statement of operations data for the years ended December 31, 1997 and 1998 and the balance sheet data as of December 31, 1997, 1998 and 1999 are derived from audited consolidated financial statements that are not included in this report. These results are not necessarily indicative of results to be expected for any future period. You should read the data presented below together with our consolidated financial statements and related notes to those statements and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this report.

	FISCAL YEARS ENDED DECEMBER 31,			
	1997	1998	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
STATEMENT OF OPERATIONS DATA				
Revenues:				
Products	$2,174	$2,789	$12,523	$48,943
Services	318	329	--	4,730
	2,492	3,118	12,523	53,673
Cost of revenues:				
Products	461	1,274	7,262	25,442
Services	316	241	--	2,464
	777	1,515	7,262	27,906
Gross profit	1,715	1,603	5,261	25,767
Operating expenses:				
Sales and marketing	$2,839	$8,783	$37,785	$80,026
Research and development	1,213	2,885	5,359	13,202
General and administrative	2,720	3,939	13,906	22,306
Amortization of product development and patent costs	858	--	--	--
Stock based compensation expense	--	1,162	20,675	5,127
Impairment and amortization of intangibles	--	--	--	234,024
Merger expenses	--	--	--	15,175
Loss on disposal of assets	--	--	--	--
Restructuring charges	--	--	--	4,161
Total operating expenses	7,630	16,769	77,725	374,021
Loss from operations	(5,915)	(15,166)	(72,464)	(348,254)
Interest expense	(42)	(202)	(6,684)	(436)
Other income (expense), net	236	303	2,545	2,095
Net loss before extraordinary gain....`	(5,721)	(15,065)	(76,603)	(346,595)
Extraordinary gain	--	--	--	--
Net loss	(5,721)	(15,065)	(76,603)	(346,595)
Dividend relative to beneficial conversion feature of Series B convertible preferred stock	--	--	1,000	--
Net loss attributable to common stockholders	$(5,721)	$(15,065)	$(77,603)	$(346,595)
Net loss per common share - basic and diluted	$ (5.01)	$ (12.22)	$ (30.13)	$ (61.55)
Weighted average common shares - basic and diluted	1,143	1,233	2,576	5,631

	AS OF DECEMBER 31,			
	1997	1998	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
BALANCE SHEET DATA:				
Cash, cash equivalents and securities available for sale.......	$2,830	$1,494	$73,366	$11,035
Working capital (deficit).............	(157)	(371)	58,617	1,174
Total assets..........................	4,599	4,769	95,803	60,614
Long-term liabilities.................	29	21	387	957
Total stockholders' equity............	510	1,310	81,041	28,213

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist in the understanding and assessment of significant changes and trends related to our results of operations and our financial condition together with our consolidated subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. Historical results and percentage relationships set forth in the statement of operations, including trends which might appear, are not necessarily indicative of future operations.

OVERVIEW

In 2001, we restructured our Company around our higher gross margin businesses. The result is that we are focused on two businesses: (1) providing outsourced imaging services to facilitate online transactions in the auction, classifieds and real estate markets and (2) providing imaging solutions for the real estate, security and observation and visual documentation markets. Our products and services include the capture, processing, management and distribution of images and related data. Revenues from online auctions and classifieds are primarily transactions based. Our transaction services involve designing, building and managing an image management infrastructure as well as leasing spaces from state-of-the-art co-location facilities with access to bandwidth. Since these services are capital intensive, a high percentage of the costs associated with transaction services are fixed and accordingly the margins from transaction services are highly dependent upon asset utilization.

Our immersive technology primarily generates revenues in two ways: licenses of software and re-sale of camera equipment. We utilize iPIX keys to license our still immersive technology to capture and save a single immersive image. We also offer time-based seat or user licenses which permit an unlimited number of immersive images to be captured and saved within a specific time period, usually a year. Our video immersive technology, which may be off-line or online, may be purchased on a per-unit basis or a per-year license. We sell our immersive products and services primarily into the real estate, security and observation and visual documentation markets. The cost of sales for our licenses is very low. The cost of sales for the re-sale of camera equipment can be 50 to 75% of revenues.

We also provide professional services to customers that request specific customizations or integrations of our products and services. Providing professional services is labor intensive, and our cost of sales for professional service tends to be 50 to 60% of revenues.

Our real estate business has changed over the past few years. In 2000, our real estate focused revenues were generated from four primary sources: full service virtual tours; image management services; camera kits and immersive keys; and professional services. We offered full service virtual tours through January 2001. A full service tour includes the capture, processing, management and distribution of real estate images and related data for one price. As part of the sale of assets to a subsidiary of Homestore.com in January 2001, we no longer directly sell full service virtual tours to customers in the US residential real estate market.

Throughout 2001, our real estate focused revenues were generated from three primary sources: image management services; camera kits and immersive keys; and other services. Our image management products and services were used in the real estate industry primarily to associate online still images with for-sale listings. This service is offered to customers under license

agreements, transaction based agreements and revenue share agreements for real estate properties around the world. Through January 12, 2002, we provided Homestore.com with processing, hosting and distribution services and received transaction fees.

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was recently issued by the Securities and Exchange Commission ("SEC"), requires all registrants to discuss critical accounting policies or methods used in the preparation of the financial statements. The notes to the consolidated financial statements include a summary of the significant accounting policies and methods used in the preparation of our Company's consolidated financial statements. Further, we have made a number of estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and actual results may differ from those estimates. Those areas that require the greatest degree of management judgment include adequacy of the allowance for doubtful accounts, reserves for obsolete inventory, valuations of intangible assets and the estimated costs for excess facilities related to lease terminations and non-cancelable lease costs utilized in satisfaction of outstanding lease obligations.

We believe that full consideration has been given to all relevant circumstances that we may be subject to, and our financial statements accurately reflect management's best estimate of the results of operations, financial position and cash flows for the years presented.

We believe the following represent our critical accounting policies:

Revenue Recognition.

We recognize revenue in accordance with SOP 97-2, Software Revenue Recognition and SAB No. 101, Revenue Recognition in Financial Statements.

Transaction hosting revenues are recognized ratably as transactions are performed provided there was persuasive evidence of an arrangement, the fee was fixed and determinable and collection of the resulting receivable was probable.

Initial license fees are recognized when a contract exists, the fee is fixed and determinable, software delivery has occurred and collection of the receivable is deemed probable. If there are continuing obligations, then we recognize revenue ratably over the life of the contract.

Product revenue is recognized upon shipment or delivery provided there are no uncertainties surrounding product acceptance or significant vendor obligations, the fees are fixed and determinable and collection is considered probable.

Royalties derived from desktop imaging products are recognized as revenues upon receipt of the royalty sell-through reports from customers, which are generally in the quarter following the quarter in which the sale by the customer took place.

Revenue from the sale of the Company's virtual tour product are recognized upon distribution to the Website designated by the customer.

We provide an allowance for returns upon recognizing revenue as deemed necessary based on historical experience. Returns were insignificant for all years presented. Payments received in

advance were initially recorded as deferred revenue and recognized ratably as obligations are fulfilled.

Revenues generated from professional services are recognized as the related services are performed. When such professional services are combined with on-going transaction services or are deemed to be essential to the functionality of the delivered software product, revenue from the entire arrangement is recognized while the transaction services are performed, on a percentage of completion method or not until the contract is completed in accordance with SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, and ARB No. 45, Long-Term Construction-Type Contracts.

Our operating expenses are primarily based on anticipated revenue levels. Since a high percentage of those expenses are relatively fixed, a delay in revenue from licenses or transactions could cause significant variations in operating results from quarter to quarter, and we may sustain losses as a result.

Allowances for Doubtful Accounts.

Significant management judgments and estimates must be made and used in connection with establishing the doubtful account allowances in any accounting period. Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Material differences could result in the amount and timing of expense recorded if management made different judgment or utilized different estimates.

RECENT DEVELOPMENTS

During 2001 and into 2002, we introduced new products, formed new international partnerships and entered into new markets.

New product introductions include the NetCam technology for Internet based immersive video. New international partnerships include an exclusive agreement for distribution of NetCam technology in Japan and an exclusive distribution agreement for all product lines (including immersive stills, immersive video and Rimfire content management solutions) in the United Arab Emirates and some neighboring Middle Eastern countries. Our entry into new markets included online classifieds and security. During the last six months, several new classified customers have entered into agreements to utilize our image management services for their online sites. In addition, in early 2002, the Utah Olympic Public Safety Command, made up of more than 60 law enforcement agencies including the FBI and Secret Service, used our immersive imagery for surveillance and emergency response planning at the Salt Lake City Winter Olympic Games.

In January 2001, we sold assets to a subsidiary of Homestore.com. The Homestore.com subsidiary purchased computers, furniture, fixtures and equipment with a recorded book value of $0.3 million. The Homestore.com subsidiary also assumed certain obligations for undelivered virtual tours under assigned sales contracts with residential real estate brokers and agents. The accounts receivable and deferred revenue associated with these tours was $7.5 million. As part of the acquisition, Homestore.com's subsidiary hired a number of our sales force and customer service personnel. The purchase price for these assets was $12 million. We also granted Homestore.com's subsidiary an exclusive license of iPIX's virtual tour technology for the US residential real estate market. The assets that were sold were related to the pooling of Interactive

Pictures Corporation and bamboo.com; accordingly, the gain on the sale of these assets was recorded as an extraordinary gain in 2001.

In August 2001, our shareholders approved a ten-for-one reverse stock split of all of our outstanding $0.001 par value common stock and our $0.0001 Class B common stock. All share and per share data is presented to give effect to the retroactive application of the reverse stock split.

During September 2001, we completed the final stage of our 2001 financing. We issued 1,115,080 shares of the Company's Series B Preferred Stock for total consideration of $22 million. Each share of Series B Preferred Stock is convertible into approximately 9.2 shares of the Company's common stock.

RESTRUCTURING ACTIONS AND IMPAIRMENT CHARGES

We executed several restructuring actions throughout 2001. These actions and the charges relating to them are described below.

On March 1, 2001, we had 552 employees, but by the end of the second quarter we had reduced our workforce by approximately 440 positions. The reductions were primarily in the full-service virtual real estate business. The first quarter reductions resulted in a restructuring charge of $3.0 million. In the second quarter of 2001, we reorganized our management personnel, closed our sales offices throughout the USA and made further reductions in our workforce. As a result of these actions, we recorded a $7.2 million restructuring charge in the second quarter of 2001.

Included in the third quarter of 2001 is a $1.5 million impairment charge related to the write off of the unamortized portion of our directors' and officers' insurance policy. We were required to obtain a new policy due to the change in control related to our 2001 financing which culminated in the third quarter.

In summary, we recorded a total of $11.7 million in restructuring charges for the year ended December 31, 2001, of which $1.4 million was primarily for lease obligations, $3.0 million was for write-offs of equipment and leasehold improvements and $6.7 million was for separation agreements. We expect to realize significant savings annually beginning in 2002 as a result of these restructuring actions. The savings are expected to be realized primarily in cost of sales but also in selling, general and administrative expenses and research and development expenses.

OUTLOOK

The Company is subject to generally prevailing economic conditions and, as such, believes that 2002 will be a challenging year. With the elimination of $7.5 million of 2001 full service real estate revenue and other lower margin businesses, the Company believes revenue in 2002 will be less than 2001 but that due to the restructuring actions described above, our gross margins will be improved. Additionally, the Company expects to make significant capital investments in its image management infrastructure, which is expected to consume some of the Company's cash reserves.

Management believes we have sufficient cash resources to meet our funding needs for 2002. We finished the year with $11.1 million in cash and short-term investments. Management's focus in 2002 will be to reduce our cash requirements to manageable levels and focus our operations on profitability. Our long-term strategy remains unchanged. We will continue to make significant investments in research and development for all segments and will invest in the expansion of the

online auction and classified businesses and in the development of new security and observation products and services during this economic downturn.

	FISCAL YEARS ENDED DECEMBER 3	
	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE	
STATEMENT OF OPERATIONS DATA:		
Revenues		
Products...	$ 12,523	$ 48,943
Services...	--	4,730
	12,523	53,673
Cost of revenues		
Products...	7,262	25,442
Services...	--	2,464
	7,262	27,906
Gross profit...	5,261	25,767

Operating expenses:		
Sales and marketing	37,785	80,026
Research and development	5,359	13,202
General and administrative	13,906	22,306
Stock-based compensation expense	20,675	5,127
Impairment and amortization of intangibles	--	234,024
Merger expenses	--	15,175
Loss on disposal of assets	--	--
Restructuring and impairment	--	4,161
Total operating expenses	77,725	374,021
Loss from operations	(72,464)	(348,254)
Interest expense	(6,684)	(436)
Interest income and other, net	2,545	2,095
Net loss before extraordinary gain	(76,603)	(346,595)
Extraordinary gain	--	--
Net loss	(76,603)	(346,595)
Dividend relative to beneficial conversion feature of Series B convertible preferred stock	1,000	--
Net loss attributable to common stockholders	$(77,603)	$(346,595)
Net loss per common share - basic and diluted	$ (30.13)	$ (61.55)
Weighted average common shares - basic and diluted	2,576	5,631

The following table presents for the periods indicated, the percent relationship to total revenues of select items of our statement of operations:

	FISCAL YEARS ENDED DECEMBER 3		
	1999	2000	2
Revenues			
Products	100.0%	91.2%	
Services	--	8.8	
	100.0	100.0	
Cost of revenues			
Products	58.0	47.4	
Services	--	4.6	
	58.0	52.0	
Gross profit	42.0	48.0	

Operating expenses:

Sales and marketing	301.7	149.1	
Research and development	42.8	24.6	
General and administrative	111.0	41.6	
Stock-based compensation expense	165.1	9.6	
Impairment and amortization of intangibles	--	436.0	
Merger expenses	--	28.3	
Loss on disposal of assets	--	--	
Restructuring and impairment	--	7.7	
Total operating expenses	620.6	696.9	
Loss from operations	(578.6)	(648.9)	(
Interest expense	(53.4)	(0.8)	
Interest income and other, net	20.3	3.9	
Net loss before extraordinary gain	(611.7)	(645.8)	(
Extraordinary gain	--	--	
Net loss	(611.7)	(645.8)	(
Beneficial conversion of Series B convertible preferred stock	(8.0)	--	
Net loss attributable to common stockholders	(619.7)%	(645.8)%	(

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

Revenues. Total revenues decreased to $28.9 million in 2001, compared to $53.7 million in 2000, a decrease of $24.8 million or 46%. This decrease was due primarily to a decrease of $27.9 million in sales of full service virtual tours to the residential real estate market, which was off-set by an increase of $3.1 million in technology products and services revenues.

As part of the sale of assets to Homestore.com during the first quarter of 2001, we no longer directly sell full service virtual tours or iPIX keys to customers in the U.S. residential real estate market. Instead, through January 12, 2002, we provided Homstore.com certain processing, hosting and distribution services and received transaction fees and royalties. Throughout 2001, other than full service virtual tours, our real estate focused revenues were generated from three primary sources: image management services; camera kits and immersive keys; and other services.

The 2001 revenues of $28.9 million included $21.4 million from the sale of our technology products and services and $7.5 million related to full service virtual real estate tours. The 2000 revenues of $53.7 million included $18.3 million from the sale of our technology products and services and $35.4 million related to full service virtual real estate tours. We expect to generate

minimal future revenues from the sale of full service virtual real estate tours in the U.S. residential markets. The increase in 2001 technology products and services revenues was primarily related to image management solutions for the auction industry.

Product revenues decreased to $14.8 million in 2001, compared to $48.9 million in 2000, a decrease of $34.1 million. This decrease was due primarily to the reduction in sales of virtual tours. Services revenues from our professional services and Rimfire technology were $14.1 million in 2001, compared to $4.7 million in 2000. The increase in professional service revenues related primarily to integrations of our technology with new customers.

Cost of Revenues. Cost of revenues consists of our direct expenses associated with the processing, hosting and distribution of digital content and the costs of the digital camera and related components included in an iPIX kit. Cost of revenues decreased to $12.1 million in 2001, compared to $27.9 million in 2000, a decrease of $15.7 million or 56%. Cost of revenues as a percentage of total revenues decreased to 42% in 2001 from 52% in 2000. This decrease was primarily the result of a lower volume of virtual tour deliveries and an increase in higher margin Rimfire based revenue.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries for marketing, sales and business development personnel. Sales and marketing expenses also include commissions and related benefits for sales personnel and consultants, traditional advertising and promotional expenses. Sales and marketing expenses decreased to $19.6 million in 2001, compared to $80.0 million in 2000, a decrease of $60.4 million or 75%. This decrease was due primarily to our decision to sell more of our products and services through third parties and become less reliant upon a worldwide direct sales force. As a result, we significantly reduced our sales force and eliminated our field operations personnel. In addition, we eliminated costs relating to technology access and sponsorship fees and decreased advertising and branding expenses.

Research and Development. Research and development expenses consist primarily of personnel costs related to building and enhancing our digital media infrastructure and immersive imaging technology. Research and development expenses decreased to $7.0 million in 2001, compared to $13.2 million in 2000, a decrease of $6.2 million or 47%. This decrease was due primarily to decreased personnel and related costs as a result of our reduction in work force and our exit from the full service virtual tour real estate business.

General and Administrative. General and administrative expenses consist primarily of salaries and related benefits for administrative and executive staff, fees for outside professional services, bad debt expenses and other costs associated with being a public company. General and administrative expenses decreased to $13.7 million in 2001, compared to $22.3 million in the third quarter of 2000, a decrease of $8.6 million or 39%. This decrease was due primarily to a decrease in personnel and related costs and fees related to professional services. Bad debt expense was $4.4 million 2001, compared to $4.0 million in 2000, an increase of $0.4 million.

Stock-based Compensation. Stock-based compensation expense consists of the amortization of deferred compensation related to stock options granted to employees and others prior to our initial public offering with an exercise price below the deemed fair market value of our common stock on the date of grant. In addition, it also includes the amortization of the fair value of warrants and options issued to non-employees and restricted stock granted to employees. The related compensation is amortized over the vesting period of the options or stock grants. Expenses related to the warrants are amortized over the term of the agreements to which they relate. Stock-

based compensation expense decreased to $4.5 million in 2001, compared to $5.1 million in 2000, a decrease of $0.6 million or 12%. This decrease was due to a decrease in expense related to stock options and warrants which were issued prior to 2001. In 2001, we did not issue any additional warrants or stock options priced below the deemed fair market value of our common stock on the date of grant.

Impairment and amortization of intangibles. The amortization consists of goodwill associated with corporate acquisitions during the second quarter of 2000. Amortization of goodwill was $2.4 million in 2001, compared to $234.0 million in 2000, a decrease of $231.6 million or 99%. The decrease is related to the impairment charge taken in the fourth quarter of 2000 of $176.8 million.

Merger Expenses. Merger expenses consist of costs incurred as a result of the merger of Interactive Pictures and bamboo.com that occurred on January 19, 2000. Merger expense was $0.0 million in 2001, compared to $15.2 million in 2000, a decrease of 100%.

Restructuring and Impairment. Restructuring and Impairment charges were $11.7 million in 2001, compared to $4.2 million in 2000, an increase of $7.5 million or 180%. Restructuring charges are primarily associated with reductions of our workforce, outstanding obligations under non-productive leases resulting from the consolidation of certain offices and write-offs of abandoned computers and office furniture and equipment. Included in the 2001 impairment expense is $1.5 million related to the write off of the unamortized portion of our directors' and officers' insurance policy. We were required to obtain a new policy due to the change in control related to our 2001 financing which culminated in the third quarter.

Interest Expense. Interest expense was $10.7 million 2001, compared to $0.4 million in 2000, an increase of $10.3 million. In 2001, we recorded non-cash interest expense of $10.0 million related to the accretion of the second quarter 2001 promissory note issued in the second quarter to its face value when converted to preferred stock during the third quarter of 2001.

Interest Income and Other. Interest income and other consists primarily of interest earned on cash and investments. Interest income and other decreased to $(0.1) million in 2001, compared to $2.1 million in 2000. This decrease was due primarily to decreased earnings on our cash investments related to lower average cash balances throughout the years.

Extraordinary Gain. Extraordinary gain was $0.9 million 2001, compared to $0.0 million in 2000. We recorded an extraordinary gain from the cash received from the sale of assets to Homestore.com in January, 2001. The assets were used to provide tours of residential real estate properties that were related to the pooling of Interactive Pictures Corporation and bamboo.com.

Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

Revenues. Total revenues increased to $53.6 million in 2000, compared to $12.5 million in 1999, an increase of $41.2 million. Product revenues increased to $48.9 million in 2000, compared to $12.5 million in 1999, an increase of $36.4 million. This increase was due primarily to an increase of $20.1 million in sales of virtual tours and an increase of $3.9 million in sales of iPIX kits and iPIX keys, primarily to e-commerce and real estate customers. Services revenues from our professional services and Rimfire technology were $4.7 million in 2000.

We did not have services revenues in 1999.

Cost of Revenues. Cost of product revenues increased to $25.4 million in 2000, compared to $7.2 million in 1999, an increase of $18.1 million. This increase was due primarily to the sale of a higher volume of virtual tours. Cost of product revenues as a percentage of product revenues decreased from 58% in 1999 to 47% in 2000. This decrease was primarily related to productivity improvements in the virtual tours and a favorable product mix toward higher margin products.

Cost of service revenues was $2.5 million in 2000, or 53% of service revenues. We did not incur any cost of services revenues in 1999.

Sales and Marketing. Sales and marketing expenses increased to $80.0 million in 2000, compared to $37.8 million in 1999, an increase of $42.2 million, or 112%. This increase was due primarily to a significant increase in our sales force, increased costs relating to technology access and sponsorship fees and increased advertising and branding expenses. Sales and marketing expenses also increased due to the acquisitions in the second quarter of 2000.

Research and Development. Research and development expenses increased to $13.2 million in 2000, compared to $5.4 million in 1999, an increase of $7.8 million, or 146%. This increase was due primarily to increased staffing associated with expanding our research and development efforts to build and enhance our digital media infrastructure.

General and Administrative Expenses. General and administrative expenses increased to $22.3 million in 2000, compared to $13.9 million in 1999, an increase of $8.4 million, or 60%. This increase was due primarily to an increase in personnel and related expenses required to support our growth, professional services, expansion of our leased facilities, bad debt expense and other costs associated with being a public company. Bad debt expense was $4.0 million 2000, compared to $0.4 million in 1999, an increase of $3.6 million.

Stock-based Compensation Expense. Stock-based compensation expense decreased to $5.1 million in 2000, compared to $20.7 million in 1999. This change is due to a decrease in expense related to stock options issued in previous years offset by an increase in expense related to warrants issued during 2000.

Impairment and amortization of intangibles. Amortization of intangible assets was $57.2 million in 2000 and $0.0 million in 1999. The amortization was a result of acquisitions during the second quarter of 2000. During the fourth quarter of 2000, we recorded an impairment of goodwill of $176.8 million. Certain events occurred during the fourth quarter including the decline of our stock price and market capitalization that led us to reevaluate expected future cash flows from acquired businesses which indicated a need to record the impairment charge.

Merger Expenses. Merger expenses consist of costs incurred as a result of the merger of Interactive Pictures and bamboo.com that occurred on January 19, 2000. Merger expense was $15.2 million in 2000, compared to $0.0 million in 1999. These merger costs consisted primarily of investment banking fees and costs of attorneys, accountants and other directly related external costs.

Restructuring and Impairment. Restructuring expense was $4.2 million in 2000, compared to $0.0 million in 1999. During the fourth quarter of 2000, we recorded a restructuring charge of $4.2 million primarily associated with a reduction of our workforce, the consolidation of certain offices and a write-off of abandoned computer equipment.

Interest Expense. Interest expense was $0.4 million 2000, compared to $6.7 million in 1999, a decrease of $6.3 million. In June 1999, we entered into an agreement to sell 1,100 shares of our Series C mandatorily redeemable preferred stock and 12,518 shares of our common stock for total gross proceeds of $11 million. The $11 million of proceeds was allocated $4.4 million to the Series C mandatorily redeemable preferred stock and $6.6 million to the common stock, based on their relative fair values. The shares of the Series C mandatorily redeemable preferred stock were redeemed in accordance with their original terms after completion of our initial public offering by payment of their face value of $11 million. Consequently, we recorded interest expense of $6.6 million in 1999, which represented primarily the original discount on the Series C mandatorily redeemable preferred stock.

Interest Income and Other. Interest income and other decreased to $2.1 million in 2000 from $2.5 million in 1999. This decrease was due primarily to relatively higher average cash and investment balances in 1999. The decrease was also due to the write-off of investments during 2000.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, we have financed our operations through our registered public offerings, the private placements of capital stock, a convertible debenture, a convertible promissory note and warrant and option exercises. At December 31, 2001, we had $11.1 million of cash and cash equivalents.

On May 14, 2001, we executed definitive agreements with Paradigm Capital Partners and Memphis Angels, LLC for an investment by the parties into the Company. The agreement called for the investment to occur in two tranches. Tranche A consisted of the sale of $10.0 million in convertible notes and warrants to purchase Series B preferred stock. On September 26, 2001, we completed Tranche B of the investment. At the close of Tranche B, we issued 1,115,080 shares of our Series B Preferred Stock represented by the conversion of the $10.0 million note, the conversion of $0.3 million of interest on the note and $12.0 million in cash through the exercise of warrants from Tranche A.

Net cash used in operating activities was $26.5 million for year ended December 31, 2001 and $99.9 million for the year ended December 31, 2000. Net cash used for operating activities in each of these periods is primarily a result of net losses offset by changes in net operating assets. Our net loss for the years ended December 31, 2001 and 2000 included non-cash charges for $5.9 million and $239.9 million, respectively, of depreciation and amortization, $6.7 million and $5.1 million, respectively, of non-cash stock based compensation and $10.0 million and $0.0 million, respectively, of non-cash interest related to debt and warrants.

Net cash provided by investment activities was $16.1 million for the year ended December 31, 2001 and $24.6 million for the year ended December 31, 2000. Net cash provided by investing activities was related to the net purchases and maturities of short-term investments, the acquisition of computer software and hardware and other equipment and the proceeds from the sale of assets.

Net cash provided by financing activities was $17.1 million for the year ended December 31, 2001 and $61.7 million for the year ended December 31, 2000. The net cash provided by financing activities for these periods was due primarily to the sale of shares of our common and preferred stock, the exercise of stock options and the issuance of a convertible promissory note, off-set by the repayment of capital lease obligations and other notes payable.

Management believes we have sufficient cash resources to meet our funding needs for 2002. We finished the year with $11.1 million in cash and short-term investments. Management's focus in 2002 will be to reduce our cash requirements to manageable levels and focus our operations on profitability. Our long-term strategy remains unchanged. We will continue to make significant capital investments as well as investments in research and development for all segments and will invest in the expansion of the online auction and classified businesses and in the development of new security and observation products and services during this economic downturn.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statement No. 141 (FAS 141), "Business Combinations" and Statement No. 142 (FAS 142), "Goodwill and Other Intangible Assets". FAS 141 supercedes APB 16, Business Combinations and primarily addresses the accounting for the cost of an acquired business (i.e., the purchase price allocation), including any subsequent adjustments to its cost.

The most significant changes made by FAS 141 involve the requirement to use the purchase method of accounting for all business combinations, thereby eliminating use of the pooling-of-interests method along with the establishment of new criteria for determining whether intangible assets acquired in a business combination should be recognized separately from goodwill. FAS 141 is effective for all business combinations (as defined in the statement) initiated after September 30, 2001 and for all business combinations accounted for by the purchase method that are completed after September 30, 2001 (that is, the date of the acquisition is July 1, 2001 or later). We do not expect adoption of FAS 141 to have a material impact on our reported results of operations, financial position or cash flows.

The Company also adopted FAS No 142, for fiscal years beginning after December 31, 2001. Under FAS No. 142, goodwill is no longer amortized but reviewed for impairment annually, or more frequently if certain indicators arise. The Company completed its transitional impairment test in the quarter ended December 31, 2001 and no impairment loss resulted.

In August 2001, the FASB issued Statement No. 144 (FAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS 144 replaces FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The FASB issued FAS 144 to establish a single accounting model, based on the framework established in FAS 121, as FAS 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under 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." FAS 144 also resolves significant implementation issues related to FAS 121. Companies are required to adopt FAS 144 for fiscal years beginning after December 15, 2001, but early adoption is permitted. We do not expect adoption of FAS 144 to have a material impact on our reported results of operations, financial position or cash flows.

In November 2001, the FASB's Emerging Issues Task Force reached a consensus on EITF Issue 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products," which is a codification of EITF 00-14, 00-22 and 00-25. This issue presumes that consideration from a vendor to a customer or reseller of the vendor's products to be a reduction in the selling prices of the vendor's product and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement and could lead to negative revenue under certain circumstances. Revenue reduction is required unless consideration related to a separate identifiable benefit and the benefit's fair value can be established. This issue is to be applied retroactively in the first fiscal quarter beginning after December 15, 2001. We have not yet evaluated the effects of this consensus on our consolidated financial statements.

INFLATION

Inflation has not had a significant impact on our operations to date.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

None.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of the Company, together with the report thereon of PricewaterhouseCoopers, LLP, independent accountants, are set forth on the pages indicated in item 14(a) below of this Annual Report on Form 10-K.

This Form 10-K contains certain forward-looking statements regarding, among other things, the anticipated financial and operating results of the Company. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to publicly release any modifications or revisions to these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we caution investors that future financial and operating results may differ materially from those projected in forward-looking statements made by, or on behalf of, us. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different form any future results, performance, or achievements expressed or implied by such forward-looking statements.

RISK FACTORS

Our limited operating history and recent restructuring efforts makes it difficult to evaluate our business

During the quarter ended March 31, 2001, we sold our full-service, residential real estate business and completed a significant restructuring of our Company. We focused our business on generating higher margin revenue from our Rimfire and iPIX immersive solutions and significantly reduced our operating expenses and number of employees. As a result, we have a limited operating history on which you can base an evaluation of our business and prospects. Our prospects must be considered in the light of the risks, uncertainties, expenses and difficulties frequently encountered by companies that have undertaken a substantial business restructuring. To address these risks and uncertainties, we must, among other things:

- increase our customer base for Rimfire services;
- maintain and enhance our brand and expand our immersive product and service offerings;
- attract, integrate, retain and motivate qualified personnel;

and

- adapt to meet changes in our markets and competitive developments.

We may not be successful in accomplishing these objectives.

Failure to increase our revenues or increases in expenses would prevent us from achieving and maintaining profitability

We have never been profitable. We have incurred significant losses and expect to continue to incur losses in the future. A substantial portion of our revenues for 2001 and our future revenues will be derived from transaction fees and license fees from our Rimfire customers, particularly eBay Inc. In the future, we may introduce new products and services and enhancements and improvements to our current product and service offerings. We may have to increase our operating expenses in order to increase our customer base, enhance our brand image and support our growing infrastructure. In order for us to become profitable, we must increase our revenues and gross profit margins sufficiently to cover current and future operating expenses. If we fail to do so, we may never achieve profitability.

Our quarterly results may fluctuate, which could make financial forecasting difficult and increase volatility in our common stock

Our revenues and operating results may vary significantly from quarter-to-quarter. As a result, quarter-to-quarter comparisons of our revenues and operating results may not be meaningful. In addition, due to our limited operating history and restructuring, it may be difficult to predict our future revenues and results of operations accurately. It is likely that, in one or more future quarters, our operating results will fall below the expectations of investors. If this happens, the trading price of our common stock is likely to be materially and adversely affected.

We rely on third party systems to provide our Rimfire service

We rely on certain third-party computer systems and third-party service providers, including a third party Internet service provider, to host and maintain our production services for all of our Rimfire customers. The performance and availability of our Internet systems is critical to our business and reputation. Any system failure, including network, software or hardware failure that interrupts the delivery of Rimfire services or decreases our responsiveness to our customers could be disruptive to our business. Our Internet service provider does not guarantee that its Internet access will be uninterrupted, error free or secure. Because our revenue from our Rimfire service is transaction based, any interruption in Internet access will result in a loss of revenue for the period that Internet access is unavailable.

Our operating results are highly dependent on generating recurring revenue from our existing Rimfire service customers, and we must be successful in adding new Rimfire service customers and generating revenue from new markets

Substantially all of our recurring revenue is derived from transaction fees generated by our Rimfire service. In particular, eBay and Homestore.com, Inc. are our largest Rimfire customers. eBay represented approximately 21% of total revenue and 43% of total Rimfire service revenue for 2001. Homestore.com represented approximately 23% of total revenue and 44% of total Rimfire service revenue for 2001. The loss of either of these customers would have a material adverse effect on our business. We believe that transaction fees from eBay will continue to increase as a percentage of revenue as more eBay customers utilize our service on the eBay auction Website. Because we are dependent on these two customers, we must continue to add new Rimfire customers in order to increase revenues and diversify our sources of revenue. We must also be successful in developing our product and service offerings for new markets, such as

security and observation and classified advertising. In order to achieve and maintain profitability, we must be successful in generating revenue from sales of our product and service offerings into existing and new markets. In addition, any significant decrease in demand for our picture services on the eBay auction site could have a material adverse effect on our revenue and our ability to achieve profitability. We must also continue to improve and enhance our Rimfire service. If we fail to do so in a timely manner, or if we suffer a decrease in demand for our products and services, our revenue will decrease.

Our success depends on our ability to protect our intellectual property

We rely on trademark, copyright and patent law, trade secret protection and confidentiality and/or license agreements with our employees, customers, partners and others to protect our proprietary rights. If we are not successful in protecting our intellectual property, there could be a material adverse effect on our business.

While we believe that our issued patents and pending patent applications help to protect our business, there can be no assurance that:

- any patent can be successfully defended against challenges by third parties;

- pending patent applications will result in the issuance of patents;

- our competitors or potential competitors will not devise new methods of competing with us that are not covered by our patents or patent applications;

- new prior art will not be discovered which may diminish the value of or invalidate an issued patent; or

- a third party will not have or obtain one or more patents that prevent us from practicing features of our business or will require us to pay for a license to use those features.

Also, our patents, service marks or trademarks may be challenged and invalidated or circumvented. In addition, we are exposed to infringement of our intellectual property in foreign markets because our intellectual property is protected under United States laws that may not extend to foreign uses.

We have been involved in litigation relating to the protection of intellectual property rights and could be involved in future litigation as third parties develop products that we believe infringe on our patents and other intellectual property rights. We have experienced attempts to misappropriate our technology, and we expect those attempts may continue. We are currently involved in litigation in which our rights to technology have been challenged. The cost of such litigation, or the determination against us in this type of lawsuit, could have a material adverse effect on our business.

If we lose key members of our personnel, our future success could be limited

Our future success depends on our ability to attract and retain key management, engineering, technical and other personnel. In addition, we must recruit additional qualified management, engineering, technical and marketing and sales and support personnel for our operations. Competition for this type of personnel is intense, and we may not be successful in attracting or retaining personnel. The loss of the services of one or more members of our management group or other key employees or the inability to hire additional qualified personnel will limit our ability to grow our business.

Our success is dependent upon our ability to adapt to technological changes, and if we fail to do so, our offerings may become obsolete

We compete in a market characterized by rapidly changing technology, evolving industry standards, frequent new service and product announcements, introductions and enhancements and changing customer demands. These market characteristics are intensified by the emerging nature of the Internet and the multitude of companies offering Internet-based products and services. Thus, our success depends on our ability to adapt to rapidly changing technologies, to adapt our offerings to evolving industry standards and to continually improve the performance, features and reliability of our offerings in response to competitive products and shifting demands of the marketplace. In addition, widespread changes in Internet, networking or telecommunications technologies or other technological alterations could require substantial expenditures to modify our products, services or infrastructure. Failure to adapt to new technology in any of these areas could have a material adverse effect on our business, results of operations and financial condition.

We may not be successful in expanding our business into international markets

A part of our long-term strategy has been to expand into international markets. The success of any additional foreign operations will be substantially dependent upon our entering and succeeding in those markets. We may experience difficulty in managing international operations as a result of competition, technical problems, distance, language or cultural differences.

As we manage our international efforts, we will be subject to a number of risks, including the following:

- failure of foreign countries to rapidly adopt the Internet, digital imaging or other required technologies;

- unexpected changes in regulatory requirements, especially regarding the Internet;

- slower payment and collection of accounts receivable than in our domestic market; and

- political and economic instability.

We cannot assure you that we will be able to successfully market our products in foreign markets.

We are susceptible to breaches of online commerce security

A party able to circumvent our security measures could misappropriate proprietary database information or cause interruptions in operations. As a result, we may need to expend significant capital and other resources to protect against security breaches or to alleviate problems caused by security breaches. This additional expense could harm our business, financial condition and results of operation.

Our certificate of incorporation and bylaws contain anti-takeover provisions that may make it more difficult or expensive to acquire us in the future, which could negatively affect our stock price

Our amended and restated certificate of incorporation and amended and restated bylaws and applicable provisions of Delaware law contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. In addition, in October of 2000, our board of directors approved a shareholder rights plan that has the effect of making an acquisition of us prohibitively expensive unless our board of directors

approves of the acquisition. The provisions of our certificate and bylaws and the Delaware General Corporation Law may make it more difficult or expensive for a third party to acquire a majority of our outstanding voting common stock or delay, prevent or deter a merger, acquisition, tender offer or proxy contest, which may negatively affect our stock price.

Because our product and service offerings are intended to enhance internet commercial transactions, the success of our business will be dependent upon continued growth of internet commerce

Our products and services are intended to enhance and facilitate commercial transactions over the Internet. Our future revenues are substantially dependent upon the widespread acceptance and use of the Internet and other online services as a medium for commerce by consumers and sellers. If continued acceptance and growth of Internet use does not occur, it could have a material adverse effect on our business.

The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and in the amount of traffic. Continued development and maintenance of the Internet's infrastructure to handle this increased traffic must continue. In addition, timely development of complimentary products, such as high-speed modems, providing reliable Internet access and services will also be required.

The Internet has experienced a variety of outages and other delays as a result of computer viruses and other damages to portions of its infrastructure. Outages and delays and infections by computer viruses are likely to continue and affect the level of Internet usage generally. Such outages and delays will affect processing of transactions on Rimfire integrated Websites. We will experience a reduction in revenues and increased expenses as a result of such outages and delays. We will be required to continually make capital investments to enhance our infrastructure and protect our services from computer viruses and other outages and delays on the Internet. The cost of such improvements could have a material adverse effect on our business.

Our market is highly competitive, and our business may suffer if we are unable to compete successfully

The market for our immersive products and our Rimfire products and services are new and rapidly evolving. We currently compete with other providers of image management services, such as Kodak and MGI Software. The market for immersive products and services is intensely competitive. We compete with other providers of immersive imaging technology, such as Apple and BeHere Corporation. Each of these companies develops and markets products and services similar to ours. We expect additional competition from other emerging and established companies. There can be no assurance that the Company's current and potential competitors will not develop products that are more effective than our current or future products, or that our products and technology will not be rendered obsolete by such developments. Some of our competitors have longer operating histories, greater name recognition and significantly greater financial, technical and marketing resources. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to promotion and sale of their products than us. Our business will suffer if we are unable to compete effectively.

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Concentrated control over our voting stock could adversely affect stockholders

As of December 31, 2001, the holders of our Series B Preferred Stock beneficially owned approximately 62% of our outstanding voting stock. As a result, these stockholders are able to exercise control over certain matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such control could discourage others from initiating potential merger, takeover or other change of control transactions. As a result, the market price of our common stock could be adversely affected.

Recent terrorist activities and resulting military and other actions could adversely affect our business

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 continued military action and heightened security measures, may cost significant disruptions to global commerce. Such disruptions could result in the delay or cancellation of customer orders, a general decrease in corporate spending on information technology or our ability to effectively market and sell our products and services. Such events could have material adverse affect on our business.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information called for by this item is incorporated herein by reference to iPIX's Proxy Statement for its Annual Meeting of Stockholders to be held on or about May 30, 2002, to be filed with the SEC pursuant to Regulations 14A under the Securities Exchange Act of 1934, as amended.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is incorporated herein by reference to iPIX's Proxy Statement for its Annual Meeting of Stockholders to be held on or about May 30, 2002, to be filed with the SEC pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information called for by this item is incorporated herein by reference to iPIX's Proxy Statement for its Annual Meeting of Stockholders to be held on or about May 30, 2002, to be filed with the SEC pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by this item is incorporated herein by reference to iPIX's Proxy Statement for its Annual Meeting of Stockholder to be held on or about May 30, 2002, to be filed with the SEC pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

All schedules have been omitted because they are not required or because the required information is contained in the financial statements or notes thereto.

(b) Reports on Form 8-K.

1. October 3, 2001; Item 5

(c) Exhibits.

The following exhibits are filed herewith or incorporated by reference:

EXHIBIT NUMBER	DESCRIPTION
3.1	Form of Amended and Restated Certificate of Incorporation of the Registrant (incorporated herein by reference to Form S-1 as declared effective on August (File No. 333-80639)).
3.1(a)	Form of Amendment to the Amended and Restated Certificate of Incorporation of Registrant (incorporated herein by reference to Form S-1 as filed with the Com March 17, 2000).
3.2	Form of Amended and Restated Bylaws of the Registrant (incorporated herein by to Form 10-Q as filed with the Commission on November 14, 2000).
3.3	Certificate of Designations of Series A Junior Participating Preferred Stock (incorporated herein by reference to Form 8-A as filed with the Commission on 2, 2000).
3.3	Amended Certificate of Designations of Series B Preferred Stock (incorporated herein by reference to Form 8-K as filed with the Commission on October 3, 2001).
4.1	Form of certificate representing the common stock, $.001 par value per share o Pictures Corporation (incorporated herein by reference to Form 10-K as filed w Commission on March 30, 2000).
4.2	Rights Agreement dated October 31, 2000 between Internet Pictures Corporation EquiServe (incorporated herein by reference to Form 8-A as filed with the Comm November 2, 2000).
4.3	Registration Rights Agreement dated May 14, 2001 between Internet Pictures Cor and Image Investors Portfolio, a separate series of Memphis Angels, LLC (incor herein by reference to Form 8-K as filed with the Commission on May 29, 2001).
10.1*	Executive Employment Agreement dated January 24, 1997, between Interactive Pictures Corporation and James M. Phillips, as amended (incorporated herein by reference to Form S-1 as declared effective on August 4, 1999 (File No. 333-78983)) as further amended by amendment number 3 on February 22, 2001 (incorporated herein by reference to Form 10-K as filed with the Commission on March 30, 2000).

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10.2*	Separation of Employment and Consulting Agreement between Internet Pictures Co and James M. Phillips dated as of May 14, 2001 (incorporated herein by referen 8-K as filed with the Commission on May 29, 2001)
10.3*	Employment Agreement dated July 1, 2001, between Internet Pictures Corporation Donald W. Strickland (incorporated herein by reference to Form 10-Q as filed w Commission on August 14, 2001).
10.4#*	Employment Agreement dated May 31, 2001, between Internet Pictures Corporation Matthew S. Heiter, as amended.
10.5*	Employment Agreement dated July 1, 2001, between Internet Pictures Corporation and Paul A. Farmer (incorporated herein by reference to Form 10-Q as filed with the Commission on August 14, 2001).
10.6	Amended and Restated Internet Pictures Corporation 2001 Equity Incentive Plan (incorporated herein by reference to Form S-8 as filed with the Commission on 16, 2002).
10.7	Amended and Restated 1997 Equity Compensation Plan (incorporated herein by ref Form S-4 as declared effective on December 16, 1999 (File No. 91139))
10.8	Amended and Restated 1998 Employee, Director and Consultant Stock Plan (incorp herein by reference to Form S-4 as declared effective on December 16, 1999 (Fi 91139)).
10.9	1999 Employee Stock Purchase Plan (incorporated herein by reference to Form S- declared effective on December 16, 1999 (File No. 91139)
10.10	2000 Equity Incentive Plan (incorporated herein by reference to Form S-8 as de effective on June 27, 2000 (File No. 333-40160).
10.11	PictureWorks Technology, Inc. 1994 Stock Option Plan (incorporated herein by r to Form S-8 as declared effective on May 2, 2000 (File No. 333-36068))
10.12	PictureWorks Technology, Inc. 1996 Stock Option Plan (incorporated herein by r to Form S-8 as declared effective on May 2, 2000 (File No. 333-36068))
10.13	PictureWorks Technology, Inc. 1997 Stock Option Plan (incorporated herein by r to Form S-8 as declared effective on May 2, 2000 (File No. 333-36068))
10.14	Form of Indemnification Agreement between the Registrant and each of its direc officers (incorporated herein by reference to Form S-1 as declared effective o 25, 1999 (File No. 333-80639)).
10.15	Acquisition Agreement dated January 12, 2001 between Internet Pictures Corpora Homestore Virtual Tours, Inc. (incorporated herein by reference to Form 8-K as with the Commission on January 29, 2001).

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10.16**	License Agreement dated January 12, 2001 between Internet Pictures Corporation Homestore Virtual Tours, Inc. (incorporated herein by reference to Form 10-K a with the Commission on April 2, 2001).
10.17**	Visual Content Service Agreement, as amended, between Internet Pictures Corpor eBay Inc. (incorporated herein by reference to Form 10-Q filed with the Commis October 31, 2001).
10.18	Purchase Agreement between Internet Pictures Corporation and eBay Inc. dated S 26, 2001 (incorporated herein by reference to Form 10-Q filed with the Commiss October 31, 2001).
10.19	Master Lease Agreement between Internet Pictures Corporation and eBay Inc. dat September 26, 2001 (incorporated herein by reference to Form 10-Q filed with t Commission on October 31, 2001).
10.20#	Purchase Agreement between Internet Pictures Corporation and eBay Inc. dated D 2001.
21.1#	Subsidiaries of the Registrant.
23.1#	Consent of PricewaterhouseCoopers LLP
24.1	Power of Attorney (included on page 28)

*Executive Compensation Plan or Agreement
**Portions of the exhibit have been omitted pursuant to a request for confiden treatment.
Filed Herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNET PICTURES CORPORATION

By: /s/ Donald W. Strickland

Donald W. Strickland
President and Chief Executive Officer

Date: March 29, 2002

POWER OF ATTORNEY

Each person whose signature appears below hereby appoints Donald W. Strickland, Paul A. Farmer and Matthew S. Heiter, or any of them, as such person's true and lawful attorney-in-fact, with full power of substitution or resubstitution for such person and in such person's name, place and stead, in any and all capacities, to sign on such person's behalf, individually and in each capacity stated below, any and all amendments to this Report on Form 10-K, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Donald W. Strickland Donald W. Strickland	President, Chief Executive Officer and Director	March 2
/s/Paul A. Farmer Paul A. Farmer	Chief Financial Officer (Chief Accounting Officer)	March 2
/s/ David M. Wilds David M. Wilds	Chairman of the Board of Directors	March 2
/s/ Gregory S. Daily Gregory S. Daily	Director	March 2
/s/ Michael D. Easterly Michael D. Easterly	Director	March 2
/s/ Thomas M. Garrott Thomas M. Garrott	Director	March 2
/s/ Laban P. Jackson, Jr. Laban P. Jackson, Jr	Director	March 2
/s/ Andrew P. Seamons Andrew P. Seamons	Director	March 2

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REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholders of
Internet Pictures Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Internet Pictures Corporation and its subsidiaries (the "Company") at December 31, 2000 and 2001 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Knoxville, Tennessee
February 1, 2002

INTERNET PICTURES CORPORATION
CONSOLIDATED BALANCE SHEETS

	200
	(In tho
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 5
Securities available-for-sale	5
Accounts receivable, net of allowance for doubtful accounts of $4,617 in 2000 and $2,171 in 2001	13
Inventory, net of reserve for obsolescence of $203 in 2000 and $493 in 2001	1
Prepaid expenses and other current assets	6
Total current assets	32
Property and equipment, net	20
Other assets	1
Goodwill	5
Total assets	$ 60

LIABILITIES AND STOCKHOLDERS' EQUITY
CURRENT LIABILITIES:

Accounts payable	$ 4
Accrued liabilities	16
Deferred revenue	9
Current portion of promissory note and obligations under capital leases	1
Total current liabilities	31
Promissory note and obligations under capital leases, net of current portion	