

GLOWPOINT, INC.  
Form 10-Q  
November 08, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2012.

or

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 0-25940

GLOWPOINT, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

77-0312442

(I.R.S. Employer Identification No.)

430 Mountain Avenue, Suite 301, Murray Hill, NJ, 07974  
(Address of Principal Executive Offices, including Zip Code)  
(973) 855-3411

(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes  No

The number of shares outstanding of the registrant's common stock as of November 6, 2012 was 28,795,296.

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GLOWPOINT, INC.

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GLOWPOINT, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except par value, stated value and shares)

|   | September 30,<br>2012<br>(Unaudited) | December 31,<br>2011 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Current assets:   |                                      |                      |
| Cash  | \$ 1,650                             | \$ 1,818             |
| Accounts receivable, net of allowance for doubtful accounts of \$183 and \$147, respectively  | 2,896                                | 2,520                |
| Prepaid expenses and other current assets   | 367                                  | 330                  |
| Total current assets  | 4,913                                | 4,668                |
| Property and equipment, net   | 4,080                                | 4,738                |
| Other assets  | 247                                  | 59                   |
| Total assets  | \$9,240                              | \$9,465              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                      |                      |
| Current liabilities:  |                                      |                      |
| Revolving loan facility   | \$ 750                               | \$ 750               |
| Current portion of capital lease  | 221                                  | 177                  |
| Accounts payable  | 1,361                                | 1,382                |
| Accrued expenses  | 569                                  | 1,024                |
| Accrued sales taxes and regulatory fees   | 538                                  | 434                  |
| Customer deposits   | 164                                  | 139                  |
| Net current liabilities of discontinued operations  | —                                    | 50                   |
| Deferred revenue  | 153                                  | 235                  |
| Total current liabilities   | 3,756                                | 4,191                |
| Long term liabilities:  |                                      |                      |
| Capital lease, less current portion   | 261                                  | 334                  |
| Total long term liabilities   | 261                                  | 334                  |
| Total liabilities   | 4,017                                | 4,525                |
| Commitments and contingencies   |                                      |                      |
| Stockholders' equity:   |                                      |                      |
| Preferred stock Series B-1, non-convertible; \$.0001 par value; \$100,000 stated value; 100 shares authorized and 100 and 100 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively, liquidation value of \$10,000  | \$ 10,000                            | \$ 10,000            |
| Preferred stock Series A-2, convertible; \$.0001 par value; \$7,500 stated value; 7,500 shares authorized and 53 and 94 shares issued and outstanding at September 30, 2012 and December 31, 2011 recorded at fair value, respectively, and liquidation value of \$396 and \$704, respectively. | 167                                  | 297                  |
| Common stock, \$.0001 par value; 150,000,000 shares authorized; 25,853,967 and 25,180,000 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively   | 3                                    | 3                    |
| Additional paid-in capital  | 159,924                              | 159,339              |
| Accumulated deficit   | (164,871)                            | (164,699)            |
| Total stockholders' equity  | 5,223                                | 4,940                |
| Total liabilities and stockholders' equity  | \$9,240                              | \$9,465              |

See accompanying notes to condensed consolidated financial statements.

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## GLOWPOINT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

|   | Nine Months Ended |          | Three Months Ended |         |
|---|-------------------|----------|--------------------|---------|
|   | September 30      |          | September 30       |         |
|   | 2012              | 2011     | 2012               | 2011    |
| Revenue   | \$20,107          | \$20,764 | \$6,561            | \$6,829 |
| Operating expenses:                             |                   |          |                    |         |
| Network and infrastructure                      | 6,297             | 7,156    | 2,076              | 2,273   |
| Global managed services                         | 5,262             | 5,671    | 1,801              | 1,798   |
| Sales and marketing                             | 2,954             | 2,627    | 1,090              | 803     |
| General and administrative                      | 4,384             | 4,180    | 1,732              | 1,492   |
| Depreciation and amortization                   | 1,301             | 981      | 436                | 408     |
| Total operating expenses                        | 20,198            | 20,615   | 7,135              | 6,774   |
| Income (loss) from operations                   | (91               | ) 149    | (574               | ) 55    |
| Interest and other expense:                     |                   |          |                    |         |
| Interest expense, net                           | 43                | 47       | 14                 | 15      |
| Amortization of deferred financing costs        | 33                | 46       | 4                  | 15      |
| Total interest and other expense, net           | 76                | 93       | 18                 | 30      |
| Income (loss) from continuing operations        | (167              | ) 56     | (592               | ) 25    |
| Income from discontinued operations             | —                 | 29       | —                  | 11      |
| Income (loss) before provision for income taxes | (167              | ) 85     | (592               | ) 36    |
| Provision for income taxes                      | 5                 | —        | —                  | —       |
| Net (loss) income                               | \$(172            | ) \$85   | \$(592             | ) \$36  |
| Net income (loss) per share:                    |                   |          |                    |         |
| Continuing operations                           | \$(0.01           | ) \$—    | \$(0.02            | ) \$—   |
| Discontinued operations                         | \$—               | \$—      | \$—                | \$—     |
| Basic net income (loss) per share               | \$(0.01           | ) \$—    | \$(0.02            | ) \$—   |
| Continuing operations                           | \$(0.01           | ) \$—    | \$(0.02            | ) \$—   |
| Discontinued operations                         | \$—               | \$—      | \$—                | \$—     |
| Diluted net income (loss) per share             | \$(0.01           | ) \$—    | \$(0.02            | ) \$—   |
| Weighted average number of common shares:       |                   |          |                    |         |
| Basic   | 24,441            | 21,590   | 24,556             | 23,324  |
| Diluted   | 24,441            | 22,643   | 24,556             | 24,396  |

See accompanying notes to condensed consolidated financial statements.

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GLOWPOINT, INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Nine Months Ended September 30, 2012

(In thousands, except shares of Series B-1 and A-2 Preferred Stock)

(Unaudited)

|                                | Series B-1 Preferred Stock |          | Series A-2 Preferred Stock |        | Common Stock |        | Additional Paid In Capital | Accumulated Deficit | Total   |
|--------------------------------|----------------------------|----------|----------------------------|--------|--------------|--------|----------------------------|---------------------|---------|
|                                | Shares                     | Amount   | Shares                     | Amount | Shares       | Amount |                            |                     |         |
| Balance at January 1, 2012     | 100                        | \$10,000 | 94                         | \$297  | 25,180       | \$3    | \$159,339                  | \$(164,699 )        | \$4,940 |
| Net loss                       | —                          | —        | —                          | —      | —            | —      | —                          | (172 )              | (172 )  |
| Stock-based compensation       | —                          | —        | —                          | —      | —            | —      | 448                        | —                   | 448     |
| Issuance of restricted stock   | —                          | —        | —                          | —      | 827          | —      | —                          | —                   | —       |
| Forfeiture of restricted stock | —                          | —        | —                          | —      | (260 )       | —      | —                          | —                   | —       |
| Preferred stock conversion     | —                          | —        | (41 )                      | (130 ) | 102          | —      | 130                        | —                   | —       |
| Exercise of options            | —                          | —        | —                          | —      | 5            | —      | 7                          | —                   | 7       |
| Balance at September 30, 2012  | 100                        | \$10,000 | 53                         | \$167  | 25,854       | \$3    | \$159,924                  | \$(164,871 )        | \$5,223 |

See accompanying notes to condensed consolidated financial statements.

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GLOWPOINT, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)  
 (Unaudited)

|  | Nine Months Ended September 30 |         |
|--|--------------------------------|---------|
|  | 2012                           | 2011    |
| Cash flows from Operating Activities:  |                                |         |
| Net income (loss)  | \$(172                         | ) \$85  |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                                |         |
| Depreciation and amortization  | 1,301                          | 981     |
| Bad debt expense   | 122                            | 44      |
| Amortization of deferred financing costs   | 33                             | 46      |
| Loss on disposal of equipment  | 12                             | 1       |
| Stock-based compensation   | 448                            | 181     |
| Increase (decrease) attributable to changes in assets and liabilities:                             |                                |         |
| Accounts receivable  | (498                           | ) 7     |
| Prepaid expenses and other current assets  | (37                            | ) (20   |
| Other assets   | (22                            | ) (38   |
| Accounts payable   | (21                            | ) (744  |
| Accrued expenses, sales taxes and regulatory fees  | (352                           | ) (423  |
| Customer deposits  | 25                             | (92     |
| Deferred revenue   | (82                            | ) 24    |
| Net cash provided by operating activities – continuing operations                                  | 757                            | 52      |
| Net cash (used in) provided by operating activities - discontinued operations                      | (50                            | ) 65    |
| Net cash provided by operating activities  | 707                            | 117     |
| Cash flows from Investing Activities:  |                                |         |
| Proceeds from sale of equipment  | 11                             | —       |
| Purchases of property and equipment  | (547                           | ) (793  |
| Net cash used in investing activities  | (536                           | ) (793  |
| Cash flows from Financing Activities:  |                                |         |
| Proceeds from exercise of stock options  | 7                              | —       |
| Principal payments for capital lease   | (147                           | ) —     |
| Costs related to debt issuance   | (199                           | ) —     |
| Net cash used in financing activities  | (339                           | ) —     |
| Decrease in cash and cash equivalents  | (168                           | ) (676  |
| Cash at beginning of period  | 1,818                          | 2,035   |
| Cash at end of period  | \$1,650                        | \$1,359 |
| Supplement disclosures of cash flow information:   |                                |         |
| Cash paid during the period for interest   | \$43                           | \$47    |
| Non-cash investing and financing activities:   |                                |         |
| Settlement of liabilities with restricted stock and stock options                                  | \$—                            | \$51    |
| Property and equipment purchased with common stock   | \$—                            | \$1,580 |
| Acquisition of network equipment under capital lease   | \$120                          | \$512   |
| Preferred stock conversion   | \$130                          | \$3,057 |

See accompanying notes to condensed consolidated financial statements.





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GLOWPOINT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(Unaudited)

Note 1 - Basis of Presentation

The Business

Glowpoint, Inc. ("Glowpoint" or "we" or "us" or the "Company") is a provider of cloud and managed visual communication services. Our services, delivered via our cloud-based OpenVideo™ platform, are securely accessible via any network (private or public) and are technology-agnostic. The Company delivers services to more than 500 different enterprises in over 68 countries supporting thousands of video endpoints, immersive telepresence rooms, and infrastructure for business-quality, real-time, two-way visual communications. On October 1, 2012, the Company completed the acquisition of privately held Affinity VideoNet, Inc. ("Affinity"), a provider of public videoconferencing rooms and managed videoconferencing services to professional service organizations globally (as discussed in Note 14).

Glowpoint, a Delaware corporation, was formed in May 2000. The Company operates in one segment and therefore segment information is not presented.

Glowpoint's services are categorized as follows:

Monitoring & Management Services and Collaboration Services ("Managed Services Combined"). We provide end-to-end cloud managed services for telepresence, conference room, desktop, mobile solutions, and video infrastructure. We have a team of video experts utilizing the latest in remote management technologies. These engineering and operational customer support resources operate out of our four Video Network Operations Centers (VNOCs) located in the United States, in California, Colorado, Pennsylvania, and New Jersey. These VNOC facilities provide global 24/7 support to our network and managed service customers, including our wholesale branded partners customers. The primary functions of these operational resources located in these centers are customer service, conference production, network operation monitoring and remediation, and help desk technical support.

The company also maintains Point-of Presence (POP) locations that house the technology and infrastructure along with the servers and database warehousing for the OpenVideo platform and support systems of the business. There are currently three POPs located in the United States (Newark, New Jersey and Chicago, Illinois) and United Kingdom (London), with additional POPs planned as needed. These carrier-neutral data centers are co-location facilities where network equipment that serves our video infrastructure is housed and acts as shared or dedicated infrastructure for our business customers. The POPs provide power redundancy and UPS (Uninterrupted Power Supply) systems, which are constantly monitored and maintained. They also have physical security, flood controls, fire detection and suppression systems and are structurally designed to withstand earthquakes.

We offer a complete portfolio of remote monitoring and management services that can help make video more widely available, improve up-time, drive higher usage, off-load IT teams, or all of the above. Our service packages can be customized to suit the needs of the business, whether for a large enterprise, or small or medium sized business (SMB). Glowpoint provides wholesale programs and private-labeled resale options for hardware manufacturers, network operators and systems integrators seeking to offer video services as a value-added addition to their collaboration and communications offerings. All of Glowpoint's unique features and services have been designed so that the entire suite can be private labeled by other service providers or companies who want to integrate video communications into their existing products quickly and cost effectively. Glowpoint will provide all of the video infrastructure and support, including customer portals and billing applications, as a private label service for a third party. This means that our services are branded with the other company's name, logo and other information, our live operators answer calls using the other company's name, and the other company's end user customers view the service as provided by that other

company even though it is actually “powered by Glowpoint.” Glowpoint has been involved in a number of private label opportunities and currently provides branding of its services to six strategic global partners that serve 165 customers with these services and support from Glowpoint through their unique brands. These services account for approximately 38% of Glowpoint's total revenue for the nine months ended

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September 30, 2012. Many strategic global companies in the unified communications industry have recognized Glowpoint's value to their own sales and marketing efforts. These strategic partnerships are core to the Company's global sales strategy.

Glowpoint's collaboration services, hosted via the OpenVideo™ cloud, are designed to connect video users all over the world whether they are on immersive telepresence, conference room, desktop or mobile devices. Customers that are registered to the OpenVideo™ cloud can connect to any other customer in the OpenVideo™ cloud and get access to Glowpoint's full suite of cloud managed video services, including the OpenVideo™ Room (reservationless video conference bridging service), managed video bridging, and webcasting services. Through our extensive partnerships, OpenVideo™ customers can also have business-to-business connectivity across other service providers platforms.

Network Services. In order to provide customers with access to the OpenVideo™ cloud, Glowpoint maintains a dedicated video overlay network. With our network services, we provide customers with the flexibility to either source the entire network from a single provider, maintain existing network and extend a logical connection to the OpenVideo™ cloud or bring bandwidth to OpenVideo™ datacenters. Although a declining component of our revenue stream, we believe that network services will continue to be an integral part of our revenue mix in the future, driven by new connectivity needs to connect and peer with Glowpoint's OpenVideo™ cloud.

Professional and Other Services. With the growing interest in convergence and the desire by some enterprises to add the transport of video to their enterprise networks, we have provided professional services and believe the market for such services is growing. Additionally, our extensive knowledge of all leading video conferencing vendors' equipment makes our video engineers a valuable resource for manufacturers, partners and end users on an outsourced basis. While our primary focus is generating monthly recurring revenue from our subscription services, our professional services have been a valuable lead for video communication opportunities leading to sales of our managed video services.

We have bundled certain components of our managed services to offer video communication solutions for broadcast/media content acquisition and event services. Customers have used our managed video services during events to cost-effectively acquire video content for broadcasters, cable companies and other media enterprises, especially in the sports, news and entertainment industries. While it includes our core managed video services, IP-based broadcasting and event services require more project management and dedicated operational and engineering personnel than our standard subscription services. Rather than using an expensive satellite feed, companies can acquire broadcast-quality standard or high definition footage at a fraction of the cost from Glowpoint over a dedicated IP connection. Since 2002, we have provided this service to ESPN during the professional football and basketball drafts. ESPN has used our service for interviews from team locations with coaches, players and analysts during their coverage. In 2007, we launched a High Definition (HD) content acquisition solution that we branded TeamCamHD and RemoteCamHD. This offering provides two-way HD video communication for content acquisition from remote locations. Glowpoint now provides a full suite of HD solutions for the broadcast, entertainment and media industry and is considered a high-quality alternative to the traditional means of acquiring content in many applications, including interviews and even full motion video.

### Liquidity

For the nine months ended September 30, 2012, we had a net loss of \$172,000 and a positive cash flow from operations of \$707,000. As of September 30, 2012, we had \$1,650,000 of cash, positive working capital of \$1,157,000 and an accumulated deficit of \$164,871,000. In June 2012, the Company entered into the Second Loan Modification Agreement (as amended, the "Revolving Loan Facility") with Silicon Valley Bank ("SVB") pursuant to which the Company may borrow up to \$5,000,000 for working capital purposes and under which we had unused borrowing availability of approximately \$2,662,000 as of September 30, 2012 (as discussed in Note 10). In October 2012, the Revolving Loan facility with SVB was terminated in connection with repayment of outstanding amounts due and replaced with a revolving line of credit with Comerica Bank (the "Comerica Revolver") which will bear interest at a rate equal to the Prime Rate (as defined in the Comerica Loan Agreement) plus 2.00% and matures on April 1, 2014.

Also in October 2012, Loan and Security Agreements ("Loan Agreement") were entered into with Comerica Bank and Escalate Capital Partners SBIC I, L.P. ("Escalate") in order to finance a portion of the Affinity acquisition (as discussed in Note 14). The Loan Agreement with Comerica Bank provided the Company with a \$2.0 million term loan (the "Comerica Term Loan") and will bear interest at a rate equal to the Prime Rate (as defined in the Comerica Loan Agreement) plus 3.00%. The Comerica Term Loan matures on November 1, 2015. The Loan

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Agreement with Escalate provided the Company with a \$6.5 million term loan (the “Escalate Term Loan”) for a term of 60 months and bears interest at a fixed rate of 12.0% per annum, with interest-only payable monthly for the first 24 months, commencing after such interest-only period, monthly payments of the outstanding principal amount, plus accrued interest, for the remainder of the term. Pursuant to the terms of our Series A-2 Preferred Stock and Series B-1 Preferred Stock, the Company will be obligated to pay dividends commencing on January 1, 2013.

Based primarily on our efforts to manage costs and our Loan Agreements and Comerica Revolver, along with our cash flow projection, the Company believes that it has, and will have, sufficient cash flow to fund its operations through at least November 30, 2013. We have historically been able to raise capital in private placements as needed to fund operations and provide growth capital. There can be no assurances, however, that we will be able to raise additional capital as may be needed or upon acceptable terms, or that current economic conditions will not negatively impact us. If the current economic conditions negatively impact us and we are unable to raise additional capital that may be needed on terms acceptable to us, it could have a material adverse effect on the Company.

### Quarterly Financial Information and Results of Operations

The condensed consolidated financial statements as of September 30, 2012 and for the nine and three months ended September 30, 2012 and 2011 are unaudited and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position as of September 30, 2012, and the results of operations for the nine and three months ended September 30, 2012 and 2011, the statement of stockholders’ equity for the nine months ended September 30, 2012 and the statement of cash flows for the nine months ended September 30, 2012 and 2011. The results for the nine and three months ended September 30, 2012 are not necessarily indicative of the results to be expected for the entire year. While management of the Company believes that the disclosures presented are adequate to make the information not misleading, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the footnotes thereto for the fiscal year ended December 31, 2011 as filed with the Securities and Exchange Commission with our Form 10-K on March 8, 2012 (the “Audited 2011 Financial Statements”).

### Note 2 – Summary of Significant Accounting Policies

#### Principles of Consolidation

The condensed consolidated financial statements include the accounts of Glowpoint and our wholly-owned subsidiary, GP Communications, LLC, whose business function is to provide interstate telecommunications services for regulatory purposes. All material inter-company balances and transactions have been eliminated in consolidation.

#### Use of Estimates

Preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from the estimates made. We continually evaluate estimates used in the preparation of the condensed consolidated financial statements for reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation. The significant areas of estimation include determining the allowance for doubtful accounts, deferred tax valuation allowance, accrued sales taxes, the estimated life of customer relationships and the estimated lives and recoverability of property and equipment.

See “Summary of Significant Accounting Policies” in the Company’s Audited 2011 Financial Statements for a discussion on the estimates and judgments necessary in the Company’s accounting for the allowance for doubtful accounts, financial instruments, concentration of credit risk, property and equipment, income taxes, stock-based compensation,

and accrued sales taxes and regulatory fees.  
Accounting Standards Updates

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There have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended September 30, 2012, as compared to the recent accounting pronouncements described in the Company's Audited 2011 Financial Statements, that are of material significance, or have potential material significance to the Company.

Revenue Recognition

Revenue billed in advance for monitoring and management services is deferred until the revenue has been earned, which is when the related services have been performed. Other service revenue, including amounts passed through based on surcharges from our telecom carriers, related to the network services and collaboration services are recognized as service is provided. As the non-refundable, upfront installation and activation fees charged to the subscribers do not meet the criteria as a separate unit of accounting, they are deferred and recognized over the 12 to 24 month period estimated life of the customer relationship. Revenue related to professional services is recognized at the time the services are performed. Revenues derived from other sources are recognized when services are provided or events occur.

Taxes Billed to Customers and Remitted to Taxing Authorities

We recognize taxes billed to customers in revenues and taxes remitted to taxing authorities in our operating costs, network and infrastructure. For the nine and three months ended September 30, 2012, we included taxes of \$1,143,000 and \$347,000, respectively, in revenues and we included taxes of \$1,122,000 and \$357,000, respectively, in network and infrastructure costs. For the nine and three months ended September 30, 2011, we included taxes of \$1,237,000 and \$391,000, respectively, in revenue and we included taxes of \$1,129,000 and \$328,000, respectively, in network and infrastructure costs.

Long-Lived Assets

We evaluate impairment losses on long-lived assets used in operations, primarily fixed assets, when events and circumstances indicate that the carrying value of the assets might not be recoverable as required by ASC topic 360 "Property, Plant and Equipment." For purposes of evaluating the recoverability of long-lived assets, the undiscounted cash flows estimated to be generated by those assets are compared to the carrying amounts of those assets. If and when the carrying values of the assets exceed their fair values, then the related assets will be written down to fair value. In the nine and three months ended September 30, 2012 and 2011, no impairment losses were recorded.

Capitalized Software Costs

The Company capitalizes certain costs incurred in connection with developing or obtaining internal-use software. All software development costs have been appropriately accounted for as required by ASC Topic 350.40 "Intangible – Goodwill and Other – Internal-Use Software." Capitalized software costs are included in "Property and Equipment" on our consolidated balance sheets and are amortized over three to four years. Software costs that do not meet capitalization criteria are expensed as incurred. For the nine and three months ended September 30, 2012, we capitalized internal use software costs of \$287,000 and \$126,000, respectively, and we amortized \$421,000 and \$142,000, respectively, of total software costs. For the nine and three months ended September 30, 2011, we capitalized internal use software costs of \$284,000 and \$87,000, respectively, and we amortized \$206,000 and \$79,000, respectively, of these costs. During the nine and three months ended September 30, 2012 and 2011, no impairment losses were recorded.

Note 3 – Stock Options

We periodically grant stock options to employees and directors in accordance with the provisions of our stock option plans, with the exercise price of the stock options being set at or above the closing market price of the common stock on the date of grant. The intrinsic value of options outstanding and exercisable at September 30, 2012 and 2011 was \$151,000 and \$185,000, respectively. Options exercised during the nine and three months ended September 30, 2012 were 5,000 and 0, respectively. Options exercised during the nine and three months ended September 30, 2011 were 154,000 and 30,000, respectively.

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The weighted average fair value of each option granted is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions during the nine and three months ended September 30, 2012 and 2011:

|   | Nine Months Ended<br>September 30, |         | Three Months Ended<br>September 30, |         |
|---|------------------------------------|---------|-------------------------------------|---------|
|   | 2012                               | 2011    | 2012                                | 2011    |
| Risk free interest rate                           | 0.9%                               | 2.0%    | 0.6%                                | 1.5%    |
| Expected option lives                             | 5 years                            | 5 years | 5 years                             | 5 years |
| Expected volatility                               | 111.0%                             | 117.3%  | 107.8%                              | 116.1%  |
| Estimated forfeiture rate                         | 10%                                | 10%     | 10%                                 | 10%     |
| Expected dividend yields                          | —                                  | —       | —                                   | —       |
| Weighted average grant date fair value of options | \$2.30                             | \$1.84  | \$1.51                              | \$1.67  |

The Company calculates expected volatility for a stock-based grant based on historic daily stock price observations of its common stock during the period immediately preceding the grant that is equal in length to the expected term of the grant. The expected term of the options and forfeiture rates are estimated based on the Company's exercise and employment termination experience. The risk free interest rate is based on U.S. Treasury yields for securities in effect at the time of grants with terms approximating the expected life of the grants. The assumptions used in the Black-Scholes option valuation model are highly subjective and can materially affect the resulting valuations.

A summary of options granted, exercised, expired and forfeited under our plans and options outstanding as of, and changes made during, the nine months ended September 30, 2012 (in thousands):

|   | Outstanding          |  | Exercisable          |  |
|---|----------------------|--|----------------------|--|
|   | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price |
| Options outstanding, January 1, 2012    | 750                  | \$2.90                                   | 570                  | \$3.12                                   |
| Granted                                 | 1,210                | 3.20                                     |                      |  |
| Exercised                               | (5                   | ) 1.70                                   |                      |  |
| Expired                                 | (11                  | ) 7.61                                   |                      |  |
| Forfeited                               | (180                 | ) 3.03                                   |                      |  |
| Options outstanding, September 30, 2012 | 1,764                | \$3.07                                   | 608                  | \$2.92                                   |

Stock option compensation expense is allocated as follows for the nine and three months ended September 30, 2012 and 2011 (in thousands):

|                            | Nine Months Ended September<br>30, |      | Three Months Ended<br>September 30, |       |
|----------------------------|------------------------------------|------|-------------------------------------|-------|
|                            | 2012                               | 2011 | 2012                                | 2011  |
| Global managed services    | \$8                                | \$35 | \$2                                 | \$(3) |
| Sales and marketing        | 4                                  | 8    | —                                   | (2)   |
| General and administrative | 143                                | 16   | 63                                  | —     |
|                            | \$155                              | \$59 | \$65                                | \$(5) |

The remaining unrecognized stock-based compensation expense for options at September 30, 2012 was \$2,478,000, of which \$2,135,000, representing 850,000 options, will only be expensed upon a "change in control" and the remaining \$343,000 will be amortized over a weighted average period of approximately 1.3 years.



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The tax benefit recognized for stock-based compensation for the nine and three months ended September 30, 2012 was diminimus. There was no tax benefit recognized for stock-based compensation for the nine and three months ended September 30, 2011. No compensation costs were capitalized as part of the cost of an asset.

## Note 4 - Restricted Stock

A summary of restricted stock granted, vested, forfeited and unvested outstanding as of, and changes made during, the nine months ended September 30, 2012, is presented below (in thousands):

|  | Restricted<br>Shares | Weighted<br>Average<br>Grant Price |
|--|----------------------|------------------------------------|
| Unvested restricted shares outstanding, January 1, 2012    | 836                  | \$2.15                             |
| Granted  | 827                  | 2.66                               |
| Vested   | (105                 | ) 2.10                             |
| Forfeited  | (260                 | ) 2.37                             |
| Unvested restricted shares outstanding, September 30, 2012 | 1,298                | \$2.44                             |

Restricted stock compensation expense is allocated as follows for the nine and three months ended September 30, 2012 and 2011 (in thousands):

|                            | Nine Months Ended September<br>30, |       | Three Months Ended<br>September 30, |      |
|----------------------------|------------------------------------|-------|-------------------------------------|------|
|                            | 2012                               | 2011  | 2012                                | 2011 |
| Global managed services    | \$27                               | \$23  | \$11                                | \$5  |
| Sales and marketing        | 47                                 | 16    | 17                                  | 7    |
| General and administrative | 219                                | 83    | 136                                 | 27   |
|                            | \$293                              | \$122 | \$164                               | \$39 |

The remaining unrecognized stock-based compensation expense for restricted stock at September 30, 2012 was \$2,783,000, of which \$330,000, representing 130,000 shares, will only be expensed upon a "change in control" and the remaining \$2,453,000 will be amortized over a weighted average period of 8.3 years.

The tax benefit recognized for stock-based compensation for the nine and three months ended September 30, 2012 was diminimus. There was no tax benefit recognized for stock-based compensation for the nine and three months ended September 30, 2011. No compensation costs were capitalized as part of the cost of an asset.

## Note 5 – Warrants

There were no warrants granted, exercised, exchanged or forfeited during the nine months ended September 30, 2012. There were 33,000 warrants outstanding as of September 30, 2012 with an exercise price of \$1.60 and an expiration date of November 25, 2013.

## Note 6 – Earnings (Loss) Per Share

Loss per share is calculated by dividing net income by the weighted average number of shares of common shares outstanding during the period. Diluted loss per share reflects the potential dilution from the conversion or exercise into common stock of securities such as stock options and warrants. Dilutive loss per share for the nine and three months ended September 30, 2012, is the same as basic loss per share.

For the nine and three months ended September 30, 2011, diluted earnings per share included 90,000 and 82,000, respectively, shares of common stock associated with outstanding options and warrants, 235,000 shares issuable upon conversion of our convertible preferred stock calculated using the treasury stock method, and 804,000 shares of unvested restricted stock.

## Note 7 – Preferred Stock



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Our Certificate of Incorporation authorizes the issuance of up to 5,000,000 shares of preferred stock. As of September 30, 2012, there were: 100 shares of Series B-1 Preferred Stock authorized, issued and outstanding; 7,500 shares of Series A-2 Preferred Stock authorized and 53 shares issued and outstanding; and 4,000 shares of Series D Preferred Stock authorized and no shares issued or outstanding.

Each share of Series B-1 Preferred Stock has a stated value of \$100,000 per share (the “Series B-1 Stated Value”), and a liquidation preference equal to the Series B-1 Stated Value plus all accrued and unpaid dividends (the “Series B-1 Liquidation Preference”). The Series B-1 Preferred Stock is not convertible into common stock. The Series B-1 Preferred Stock is senior to all other classes of equity and, commencing on January 1, 2013, is entitled to cumulative dividends from January 1, 2013, at a rate of 4% per annum, payable quarterly, based on the Series B-1 Stated Value. Commencing January 1, 2014, the cumulative dividend rate increases to 6% per annum, payable quarterly, based on the Series B-1 Stated Value. The Company may, at its option at any time, redeem all or a portion of the outstanding shares of Series B-1 Preferred Stock by paying the Series B-1 Liquidation Preference.

Each share of Series A-2 Preferred Stock has a stated value of \$7,500 per share (the “A-2 Stated Value”), a liquidation preference equal to the Series A-2 Stated Value, and is convertible at the holder’s election into common stock at a conversion price per share of \$3.00. Therefore, each share of Series A-2 Preferred Stock is convertible into 2,500 shares of common stock. The Series A-2 Preferred Stock is subordinate to the Series B-1 Preferred Stock but senior to all other classes of equity, has weighted average anti-dilution protection and, commencing on January 1, 2013, is entitled to cumulative dividends at a rate of 5% per annum, payable quarterly, based on the Series A-2 Stated Value. Once dividend payments commence, all dividends are payable at the option of the holder in cash or through the issuance of a number of additional shares of Series A-2 Preferred Stock with an aggregate liquidation preference equal to the dividend amount payable on the applicable dividend payment date.

In April 2012, a holder of the Company's Series A-2 Preferred Stock elected to convert 41 shares of Series A-2 Preferred Stock into 102,000 shares of common stock of the Company at the original conversion price. Each of the Series A-2 Preferred Stock shares was exchanged for 2,500 shares of common stock, pursuant to the terms of the Series A-2 Preferred Stock Certificate of Designation.

In accordance with ASC Topic 815, we evaluated whether our convertible preferred stock contains provisions that protect holders from declines in our stock price or otherwise could result in modification of the exercise price and/or shares to be issued under the respective preferred stock agreements based on a variable that is not an input to the fair value of a “fixed-for-fixed” option and require a derivative liability. The Company determined no derivative liability is required under ASC Topic 815 with respect to our convertible preferred stock. A contingent beneficial conversion amount is required to be calculated and recognized when and if the adjusted \$3.00 conversion price of the convertible preferred stock is adjusted to reflect a down round stock issuance that reduces the conversion price below the \$1.16 fair value of the common stock on the issuance date of the convertible preferred stock.

Note 8 - Commitments and Contingencies

Operating Leases

We lease several facilities under operating leases expiring through 2017. Certain leases require us to pay increases in real estate taxes, operating costs and repairs over certain base year amounts. Lease payments for the nine and three months ended September 30, 2012 were \$395,000 and \$131,000, respectively. Lease payments for the nine and three months ended September 30, 2011 were \$371,000 and \$124,000, respectively.

Future minimum rental commitments under all non-cancelable operating leases are as follows (in thousands):

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|                          |         |
|--------------------------|---------|
| Year Ending December 31, |         |
| 2012 remaining           | \$ 121  |
| 2013                     | 496     |
| 2014                     | 167     |
| 2015                     | 140     |
| 2016                     | 145     |
| 2017                     | 87      |
|                          | \$1,156 |

**Capital Lease Obligation**

In 2012, the Company entered into two non-cancelable lease agreements for \$90,000 and \$30,000 with interest rates of 9% and 3%, respectively. In 2011, the Company entered into two non-cancelable lease agreements for \$512,000 and \$40,000 with interest rates of 6% and 0%, respectively. These leases are accounted for as capital leases.

Depreciation expense on the equipment under the capital leases for the nine and three months ended September 30, 2012 was \$94,000 and \$36,000, respectively. Depreciation expense on the equipment under capital leases for the nine and three months ended September 30, 2011 was \$25,000. Future minimum commitments under all non-cancelable capital leases are as follows (in thousands):

|                | Total | Interest | Principal |
|----------------|-------|----------|-----------|
| 2012 remaining | 61    | 7        | 54        |
| 2013           | 243   | 18       | 225       |
| 2014           | 194   | 6        | 188       |
| 2015           | 15    | —        | 15        |
|                | \$513 | \$31     | \$482     |

**Commercial Commitments**

We have entered into a number of agreements with telecommunications companies to purchase communications services. Some of the agreements require a minimum amount of services to be purchased over the life of the agreement, or during a specified period of time.

Glowpoint believes that it will meet its commercial commitments. In certain instances where Glowpoint did not meet the minimum commitments, no penalties for minimum commitments have been assessed and the Company has entered into new agreements. It has been our experience that the prices and terms of successor agreements are similar to those offered by other carriers.

Glowpoint does not believe that any loss contingency related to a potential shortfall should be recorded in the condensed consolidated financial statements because it is not probable, from the information available and from prior experience, that Glowpoint has incurred a liability.

**Letter of Credit**

In November 2010, the Company entered into an irrevocable standby letter of credit (the "LOC") for \$115,000 to secure our security deposit for the sublease of our corporate headquarters. The LOC was obtained from Silicon Valley Bank ("SVB") and will be renewed yearly until January 2014, the expiration date of our sublease. In October 2012, the Company entered into another letter of credit for \$115,000 with Comerica Bank to replace the SVB LOC.

**Note 9 – Major Customers**

Major customers are those customers / wholesale partners that account for more than 10% of revenues. For the nine and three months ended September 30, 2012, approximately 38% and 38% of revenues, respectively, were derived from three major wholesale partners and the accounts receivable from these major partners represented approximately 48% of total accounts receivable as of September 30, 2012. For the nine and three months ended

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September 30, 2011, approximately 25% and 24% of revenues, respectively, were derived from two major wholesale partners. The loss of any one of these partners would have a material adverse affect on the Company's operations.

Note 10 – Revolving Loan Facility

On June 12, 2012, the Company entered into the Second Loan Modification Agreement (as amended, the “Revolving Loan Facility”) which amends its existing Loan and Security Agreement with SVB pursuant to which the Company may borrow up to \$5,000,000 for working capital purposes. The Revolving Loan Facility matures June 2014. The amounts that can be borrowed at any given time are equal to the lesser of \$5,000,000 or 80% of the eligible accounts receivable, as defined. As of September 30, 2012, we had unused borrowing availability of \$2,662,000. Outstanding principal amounts under the Revolving Loan Facility were modified to bear interest at a floating Prime rate per annum equal to Prime Rate as announced by Wall Street Journal (“WSJ”) plus one and a quarter percent (1.25%), payable monthly in arrears. The Company is no longer obligated to pay a minimum monthly interest but a fee equal to 0.35% of the unused borrowing amount each year. The WSJ Prime Rate was 3.25% as of September 30, 2012. The Revolving Loan Facility is secured by a first priority security interest in all the Company's assets, including, without limitation, its intellectual property. The Revolving Loan Facility contains a number of financial covenants, including, but not limited to, covenants relating to minimum unrestricted cash balances and minimum monthly Adjusted EBITDA, as defined, in the Revolving Loan Facility. At September 30, 2012, we were in compliance with the covenants, as defined and set forth in the Revolving Loan Facility and there was \$750,000 outstanding.

The Revolving Loan Facility financing costs, net of accumulated amortization, which are included in other assets in the accompanying consolidated balance sheets, were \$29,000 as of September 30, 2012. The financing costs for the Revolving Loan Facility are being amortized over the 12- to 24-month period through the maturity date of the Revolving Loan Facility. During the quarters ended September 30, 2012 and 2011, the amortization of financing costs was \$4,000 and \$15,000 was included as “Amortization of Deferred Financing Costs” in the consolidated statement of operations in Interest and Other Expense.

Note 11 – Discontinued Operations

As our ISDN resale services no longer fit into our overall strategic plan, in September 2010, we entered into an agreement with an independent telecommunications service provider to transfer these services and the related customers, and the Company receives a 15% monthly recurring referral fee for those revenues for as long as the customers maintain service. Such amounts were diminimis for the nine and three months ended September 30, 2012 and 2011. The transfer of the customers was completed in the third quarter of 2011, and the Company has no continuing involvement with the ISDN product line.

The Company accordingly classified these ISDN related revenues and expenses as discontinued operations in accordance with ASC 205.20 “Discontinued Operations.” The accompanying condensed consolidated financial statements reflect the operating results and balance sheet items of the discontinued operations separately from continuing operations.

Revenues from the ISDN resale services, reported as discontinued operations, for the nine and three months ended September 30, 2011 were \$81,000 and \$0, respectively. Net income from the ISDN resale services, reported as discontinued operations for the nine and three months ended September 30, 2011 were \$29,000 and \$11,000, respectively. The assets and liabilities from the ISDN resale services, reported as net current liabilities of discontinued operations, as of September 30, 2011 were \$50,000. No income tax provision was required to be recognized by the Company against income from the ISDN resale services over the related periods.

Note 12 – Related Party Transactions

The Company provides cloud-managed video services (the “Video Services”) to a company in which one of our directors is an officer. Management believes that such transactions contain terms that would have been obtained from unaffiliated third parties. Related party Video Services revenue for the nine months ended September 30, 2012 and

2011 were \$168,000 and \$230,000, respectively, and for the three months ended September 30, 2012 and 2011 were \$43,000 and \$69,000, respectively. As of September 30, 2012, the accounts receivable for this company was \$36,000.

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The Company receives general corporate strategy and management consulting services from a consultant who is a director of Glowpoint. The Consulting Agreement was entered into as of September 1, 2010 and is a month-to-month engagement. The Company pays this individual director \$12,500 per month, plus any pre-authorized expenses incurred in providing services, under the Consulting Agreement. Management believes that such transaction contain terms that would have been obtained from unaffiliated third parties. Related party consulting fees for the nine months ended September 30, 2012 and 2011 were \$112,500 and for the three months ended September 30, 2012 and 2011 were \$37,500. As of September 30, 2012, the accounts payable for this firm was \$12,500.

In addition, the Company receives financial advisory services from a firm in which one of the principals is a shareholder of Glowpoint. Management believes that such transactions contain terms that would have been obtained from unaffiliated third parties. Related party financial advisory fees for the nine months ended September 30, 2012 and 2011 were \$233,000 and \$108,000, respectively, and for the three months ended September 30, 2012 and 2011 were \$161,000 and \$36,000, respectively. As of September 30, 2012, there was \$0 accounts payable for this firm.

### Note 13 – Asset Purchase Agreement

On June 30, 2011, the Company issued 769,000 shares of common stock as consideration for the purchase of assets pursuant to the terms of a purchase agreement. The assets acquired are equipment primarily used in the delivery and management of hosted video bridging and help desk and concierge services and are classified as property and equipment on the accompanying consolidated balance sheet. The total number of shares was based on consideration equal to \$1,581,000 using the common stock's 30-day trailing volume-weighted average price for the period ended June 28, 2011 of \$2.05 (the "VWAP"). This transaction did not meet the requirements of a business combination and therefore was accounted for as an asset purchase with the fair value of the assets purchased equal to the consideration given. The equipment will be depreciated on a straight line basis over five years.

Pursuant to the agreement, if at any time between the first anniversary of the closing date and the date that is 18 months following the closing date (the "repurchase period") the closing price of the Company's common stock shall fall below the VWAP, then the seller has the right to demand that the Company repurchase from it, in a single transaction, not more than 50% of the shares delivered to such seller at closing at a price equal to the VWAP. This will result in a derivative liability and will be accounted for with changes in fair value during the repurchase period recorded in earnings. As of September 30, 2012, there was no derivative liability.

### Note 14 – Subsequent Events

#### Affinity Acquisition

On August 12, 2012, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Affinity VideoNet, Inc., a privately held Delaware corporation ("Affinity"), and GPAV Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Merger Sub"). Pursuant to the Merger Agreement and subject to customary closing conditions, Merger Sub will merge with and into Affinity, and Affinity will become a wholly-owned subsidiary of the Company ("the Merger").

On October 1, 2012, (the "Closing Date") the Company, and Merger Sub completed the Merger of Affinity for approximately \$8.0 million in cash, a \$2.33 million note, subject to adjustment, and approximately 2,650,000 shares of common stock, subject to adjustment, of the Company ("Common Stock"), on the terms previously disclosed in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 13, 2012. The Company had no prior material relationship with any of the parties to the transaction.

The Company and a representative of the prior stockholders of Affinity (the "Stockholder Representative") also entered into an Escrow Agreement on the Closing Date with a third-party escrow agent (the "Escrow Agreement"), whereby the Company made a deposit of \$360,000, a portion of the purchase price, with the escrow agent for the purpose of securing the payment obligations of Affinity, if any, with respect to certain retention bonus agreements entered into with its employees on or before the Closing Date. If any employee does not satisfy the conditions of receipt of the retention bonus, the Company and the Stockholder Representative will jointly direct that such funds on deposit be

released to the Stockholder Representative on behalf of the prior stockholders of Affinity.

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On the Closing Date, in connection with the approximately 2,650,000 shares of Common Stock issued to the prior stockholders of Affinity, the Company entered into a registration rights agreement (the “Registration Rights Agreement”) with the Stockholder Representative requiring the Company to file a Registration Statement on Form S-3 with respect to the resale of such shares as soon as practicable, but in no event more than 90 days after the Closing Date, and to have such resale registration statement declared effective as soon as practicable.

On the Closing Date, in order to assist with the transition, the Company entered into an employment agreement with Peter Holst, the former Chief Executive Officer and a former stockholder of Affinity, for a position as the Senior Vice President of Business Development of the Company. In addition to a base salary, should Affinity achieve certain performance milestones, the Company will be obligated to issue to Mr. Holst up to 150,000 shares of Common Stock, pursuant to the Company’s 2007 Stock Incentive Plan. Mr. Holst is not deemed an executive officer of the Company for Section 16 and proxy reporting purposes.

The Merger will be treated by the Company under the acquisition method of accounting, as prescribed in Accounting Standards Codification 805, “Business Combinations,” for business combinations under GAAP. The Company will be deemed to have acquired the assets and liabilities of Affinity and the results of operations will be consolidated into the results of operations of the Company as of the completion of the Merger. Financial statements in quarterly and annual filings of the new Company issued after the Merger will reflect only the operations of the Company’s business after the Merger and will not be restated retroactively to reflect the historical financial position or results of operations of the Company.

## Financing

In connection with the Merger, on the Closing Date, the Company entered into a Loan and Security Agreement (“Comerica Loan Agreement”) with Comerica Bank, providing the Company with a \$2.0 million term loan (the “Comerica Term Loan”) and a revolving line of credit (the “Comerica Revolver” and, together with the Comerica Term Loan, the “Comerica Loans”), pursuant to which the Company can borrow, for working capital needs, an amount up to the lesser of (i) 80% of eligible accounts receivable and (ii) \$3.0 million. The Company requested and was provided with an advance of \$780,000 from the Comerica Revolver on the Closing Date. The proceeds of the Comerica Term Loan and the Comerica Revolver were used to finance a portion of the Merger and refinance the \$750,000 previously outstanding pursuant to the Revolving Loan Facility, between the Company and SVB (as discussed in Note 10). The SVB Revolving Loan Facility was terminated in connection with the repayment of outstanding amounts thereunder, effective as of the Closing Date. The Comerica Term Loan will bear interest at a rate equal to the Prime Rate (as defined in the Comerica Loan Agreement) plus 3.00%, and borrowings under the Comerica Revolver will bear interest at a rate equal to the Prime Rate (as defined in the Comerica Loan Agreement) plus 2.00%. The Comerica Loans are secured by substantially all of the assets of the Company and secured guarantees executed by GP Communications, LLC, a wholly-owned subsidiary of the Company (“GP Communications”) and Affinity. The Comerica Loan Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. The Comerica Loans are subject to certain customary financial covenants, including, without limitation, covenants that require the Company to maintain a total funded debt to adjusted EBITDA ratio, to maintain a senior funded debt to adjusted EBITDA ratio and to maintain a fixed charge coverage ratio. The Comerica Loan Agreement also provides for customary events of default, with corresponding grace periods, including failure to pay principal or interest when due, failure to pay other obligations within ten days after becoming due, failure to comply with covenants, breaches of representations and warranties, default under certain other indebtedness, certain insolvency events affecting the Company, the occurrence of certain material judgments or if any guaranty of the Company’s obligations ceases to be in full force and effect. The Comerica Term Loan matures on November 1, 2015 and the Comerica Revolver matures on April 1, 2014.

On the Closing Date, the Company also entered into a Loan and Security Agreement (the “Escalate Loan Agreement”) with Escalate Capital Partners SBIC I, L.P. (“Escalate”), providing the Company with a \$6.5 million term loan (the “Escalate Term Loan”) for a term of 60 months. The Escalate Term Loan will bear interest at a fixed rate of 12.0% per annum, with interest-only payable monthly for the first 24 months after the Closing Date and, commencing after such interest-only period, monthly payments of the outstanding principal amount, plus accrued interest, for the remainder of the term. The proceeds of the Escalate Term Loan were used to finance a portion of the Affinity acquisition. The Escalate Term Loan is secured by substantially all of the assets of the Company and secured guarantees executed by GP Communications and Affinity, and is subordinated to the Comerica Loans. The Escalate Loan Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. The Escalate Loan Agreement also provides for customary events of default,

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with corresponding grace periods, including failure to pay principal when due, failure to pay interest within three business days after becoming due, failure to pay other obligations within ten days after becoming due, failure to comply with covenants, breaches of representations and warranties, default under certain other indebtedness, certain insolvency events affecting the Company and its subsidiaries or the occurrence of certain material judgments. The Escalate Loan Agreement also provides for certain management rights for Escalate, including (i) the ability for Escalate to consult with and advise management of the Company on significant business issues, including management's proposed annual operating plans and (ii) the ability for Escalate to examine the books and records of the Company and inspect the Company's facilities during normal business hours with reasonable notice, provided, that access to attorney/client privileged communications and other sensitive information need not be provided. In connection with the Escalate Term Loan, the Company issued to Escalate on the Closing Date, 295,000 shares of Common Stock (the "Escalate Shares") at a purchase price of \$0.01 per share. Escalate received standard piggyback and demand registration rights with respect to the Escalate Shares.

The Comerica Loans and Escalate Term Loans financing costs, net of accumulated amortization, which were included in the other assets in the accompanying balance sheets, were \$199,000 and \$0 as of September 30, 2012 and December 31, 2011, respectively. The financing costs are being amortized over the term of each loan through each maturity date. During the nine and three months ended September 30, 2012 there was no amortization of financing costs.

On the Closing Date, the Company also issued a promissory note (the "Note"), in favor of the Stockholder Representative, in original principal amount of \$2.33 million, due and payable on December 31, 2014. The principal amount of the note will accrue interest at a rate of 8.0% per annum, and such interest shall be payable in arrears in quarterly payments commencing on April 1, 2013. Beginning on April 1, 2013 and on the first day of each month thereafter, if the Company has achieved a minimum EBITDA (as defined the Comerica Loan Agreement), the Company shall make a principal payment in the amount of \$50,000. The Company shall make additional payments on the principal amount on each of June 30, 2013, December 31, 2013, June 30, 2014 and December 31, 2014 in amount equal to 40% of the Company's trailing six month EBITDA (as defined in the Comerica Loan Agreement) less \$3.0 million, provided that the June 30, 2013 principal payment shall only be made if the Company is in compliance with the Modified Fixed Charge Ratio (as defined in the Note).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Certain statements in this Quarterly Report on Form 10-Q (the "Report") are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about the plans, objectives, expectations and intentions of Glowpoint, Inc. ("Glowpoint" or "we" or "us" or the "Company"), a Delaware corporation, and other statements contained in this Report that are not historical facts. Forward-looking statements in this Report or hereafter included in other publicly available documents filed with the Securities and Exchange Commission (the "Commission") reports to our stockholders and other publicly available statements issued or released by us involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Such future results are based upon management's best estimates based upon current conditions and the most recent results of operations. When used in this Report, the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions are generally intended to identify forward-looking statements, because these forward-looking statements involve risks and uncertainties. There are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors that are discussed under the section entitled "Risk Factors," as well as our consolidated financial statements and the footnotes thereto, for the fiscal year ended December 31, 2011 as filed with the Commission with our Annual Report on Form 10-K filed on March 8, 2012.

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this Report.

Overview

Glowpoint, Inc. (“Glowpoint” or “we” or “us” or the “Company”) is a provider of cloud and managed visual communication services. Our services, delivered via our cloud-based OpenVideo™ platform (as discussed in further detail below), are securely accessible via any network (private or public) and are technology-agnostic. The

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Company delivers services to more than 500 different enterprises in over 68 countries supporting thousands of video endpoints, immersive telepresence rooms, and infrastructure for business-quality, real-time, two-way visual communications. Glowpoint's managed services solve the challenges associated with achieving consistent high-quality video experiences and controlling the total cost of ownership related to technology and support, while increasing the return on investment (ROI) of its end users' video equipment by providing seamless access to video equipment outside of their immediate enterprise network. On October 1, 2012, the Company completed the acquisition of privately held Affinity VideoNet, Inc. ("Affinity"), a provider of public videoconferencing rooms and managed videoconferencing services to professional service organizations globally (as discussed in Note 14 to our consolidated financial statements attached hereto).

Glowpoint's solutions are hardware-agnostic, meaning the video equipment may be manufactured by Cisco, Polycom, Avaya, Logitech, StarLeaf, Sony or others and network-neutral, in that connectivity may be via native Internet or network provided by AT&T, Verizon, TATA Communications, British Telecom or others, supporting all recognized video standards across any IP network.

With its carrier-grade, multi-tenant OpenVideo™ platform built in-house, Glowpoint provides a range of remote monitoring and management services that increase the utilization of the video deployment by ensuring all systems are on, all the time, and calls start on time with the highest possible quality.

Glowpoint's core value proposition for customers includes the enablement of integration of their video deployment into the unified communications environment, allowing wide adoption and usage of video communications, increasing ROI and lowering the total cost of ownership. With its multi-tenant infrastructure in the cloud, Glowpoint provides an alternative to capital-intensive, premise-based infrastructure, which customers traditionally have had to purchase for the video environment to function, as well as the tools and services to enable wide adoption of video communications throughout their business. Glowpoint is a leader in managed video and global video exchange services that provide businesses and service providers a way to link together their "islands of video" across third party private networks and enable organizations to drive adoption.

The Company has been recognized in the industry for focusing on providing an innovative customer experience through our use of IP-based video functionality and innovation. Industry awards and recognition over the last few years include: Excellence in Globalization Award (Frost and Sullivan); Top Ten Managed Service Provider (MSP mentor); Best US Managed Conferencing Services Provider (Telepresence and Videoconferencing Insight Newsletter); PACE Award for contributions to the advancement of video communications (Telespan); and Growth Company of the Year, Finalist (New Jersey Technology Council). We are also widely followed and discussed in market research by the leading industry and research analyst firms, including Gartner, Forrester, Frost and Sullivan, and Wainhouse Research.

Glowpoint, a Delaware corporation, was formed in May 2000. The Company operates in one segment and therefore segment information is not presented

### Glowpoint Services and Features

Today's telepresence and video conferencing environments have become a key part of a complete unified business communications strategy. For organizations that are already using video, and for those exploring its benefits for the first time, OpenVideo™ is a unique platform that can help them achieve a successful video collaboration program. Traditionally, video has presented challenges by presenting a complex maze of systems and networks that must be navigated through and closely managed - and although most of the business-quality video systems today are "standards-based," there are inherent interoperability problems between different vendors' video equipment, resulting in communication islands. Glowpoint's suite of cloud managed video services can be accessed and utilized by customers regardless of the technology and network they are using. Customers who purchase a Cisco, Polycom, Avaya, LifeSize (Logitech), StarLeaf or use any other third-party video communications software, may all take advantage of the Glowpoint OpenVideo™ cloud regardless of their choice of network. Glowpoint's core services are offered as part of OpenVideo™ to generate monthly recurring revenue for the Company.

OpenVideo™ is a cloud platform that offers telepresence, video and unified communications and collaboration users a way to meet and communicate across the varying hardware/software platforms and carrier networks in a secure and

seamless fashion. OpenVideo™ combines years of best practices, experience and technology development into video collaboration platform that provides instant connectivity, self-serve and managed help desk resources, and the ease of use that makes video collaboration seamless and effortless. Beyond the technology and

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applications, OpenVideo™ is built around security protocols to ensure that enterprises and organizations of any size can communicate to any other desired video users in a secure, high-quality and reliable fashion.

Glowpoint's services are categorized as follows:

Monitoring & Management Services and Collaboration Services (“Managed Services Combined”)

We provide end-to-end cloud managed services for telepresence, conference room, desktop, mobile solutions, and video infrastructure. We have a team of video experts utilizing the latest in remote management technologies. These engineering and operational customer support resources operate out of our four Video Network Operations Centers (VNOCs) located in the United States, in California, Colorado, Pennsylvania, and New Jersey. These VNOC facilities provide global 24/7 support to our network and managed service customers, including our wholesale branded partners customers. The primary functions of these operational resources located in these centers are customer service, conference production, network operation monitoring and remediation, and help desk technical support.

The company also maintains Point-of Presence (POP) locations that house the technology and infrastructure along with the servers and database warehousing for the OpenVideo platform and support systems of the business. There are currently three POPs located in the United States (Newark, New Jersey and Chicago, Illinois) and United Kingdom (London), with additional POPs planned as needed. These carrier-neutral data centers are co-location facilities where network equipment that serves our video infrastructure is housed and acts as shared or dedicated infrastructure for our business customers. The POPs provide power redundancy and UPS (uninterrupted Power Supply) systems, which are constantly monitored and maintained. They also have physical security, flood controls, fire detection and suppression systems and are structurally designed for protection from earthquakes.

We offer a complete portfolio of remote monitoring and management services that can help make video more widely available, improve up-time, drive higher usage, off-load IT teams, or all of the above. Our service packages can be customized to suit the needs of the business, whether for a large enterprise, or small or medium sized business. Glowpoint provides wholesale programs and private-labeled resale options for hardware manufacturers, network operators and systems integrators seeking to offer video services as a value-added addition to their collaboration and communications offerings. All of Glowpoint's unique features and services have been designed so that the entire suite can be private labeled by other service providers or companies who want to integrate video communications into their existing products quickly and cost effectively. Glowpoint will provide all of the video infrastructure and support, including customer portals and billing applications, as a private label service for a third party. This means that our services are branded with the other company's name, logo and other information, our live operators answer calls using the other company's name, and the other company's end user customers view the service as provided by that other company even though it is actually “powered by Glowpoint.” Glowpoint has been involved in a number of private label opportunities and currently provides branding of its services to six strategic global partners that serve 165 customers with these services and support from Glowpoint through their unique brands. These services account for approximately 38% of Glowpoint's total revenue for the nine months ended September 30, 2012. Many strategic global companies in the unified communications industry have recognized Glowpoint's value to their own sales and marketing efforts. These strategic partnerships are core to the Company's global sales strategy. Glowpoint's collaboration services, hosted via the OpenVideo™ cloud, are designed to connect video users all over the world whether they are on immersive telepresence, conference room, desktop or mobile devices. Customers that are registered to the OpenVideo™ cloud can connect to any other customer in the OpenVideo™ cloud and get access to Glowpoint's full suite of cloud managed video services, including the Virtual Video Room, video bridging, and webcasting services. Through our extensive partnerships, OpenVideo™ customers can also have business-to-business connectivity across other service providers platforms.

## Network Services

In order to provide customers with access to the OpenVideo™ cloud, Glowpoint maintains a dedicated video overlay network. We have partnered with Tier 1 MPLS providers, including Global Crossing, Masergy, XO, Qwest, TATA,

PCCW and Verizon Business, to provide a global access footprint with flexible options to consume our suite of OpenVideo™ services. Our OpenVideo™ cloud is also connected to the Equinix Ethernet Carrier Exchange to provide native Layer 2 Ethernet services to enterprise customers.

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Glowpoint leverages the last mile and network connectivity of carriers and provides an option for businesses to purchase a full overlay network for their video only needs. The network bandwidth that we provide for these dedicated overlay networks ranges from 1.5Mbps to 1Gbps. As a result of this, our network services business carries variable costs associated with the purchasing and reselling of this connectivity.

With our network services, we provide customers with the flexibility to either source the entire network from a single provider, maintain existing network and extend a logical connection to the OpenVideo™ cloud or bring bandwidth to OpenVideo™ datacenters. Although a declining component of our revenue stream, we believe that network services will continue to be an integral part of our revenue mix in the future, driven by new connectivity needs to connect and peer with Glowpoint's OpenVideo™ cloud. However, Glowpoint does not consider this a core driver or measurement of its market share in the cloud managed video service industry.

### Professional and Other Services

With the growing interest in convergence and the desire by some enterprises to add the transport of video to their enterprise networks, we have provided professional services and believe the market for such services is growing. Additionally, our extensive knowledge of all leading video conferencing vendors' equipment makes our video engineers a valuable resource for manufacturers, partners and end users on an outsourced basis. While our primary focus is generating monthly recurring revenue from our subscription services, our professional services have been a valuable lead for video communication opportunities leading to sales of our managed video services. Glowpoint provides professional services to its partners and customers for custom solutions but does not consider this a core driver or measurement of its market share in the cloud managed video service industry.

We have bundled certain components of our managed services to offer video communication solutions for broadcast/media content acquisition and event services. Customers have used our managed video services during events to cost-effectively acquire video content for broadcasters, cable companies and other media enterprises, especially in the sports, news and entertainment industries. While it includes our core managed video services, IP-based broadcasting and event services require more project management and dedicated operational and engineering personnel than our standard subscription services. Rather than using an expensive satellite feed, companies can acquire broadcast-quality standard or high definition footage at a fraction of the cost from Glowpoint over a dedicated IP connection. Since 2002, we have provided this service to ESPN during the professional football and basketball drafts. ESPN has used our service for interviews from team locations with coaches, players and analysts during their coverage. In 2007, we launched a High Definition (HD) content acquisition solution that we branded TeamCamHD and RemoteCamHD. This offering provides two-way HD video communication for content acquisition from remote locations. Glowpoint now provides a full suite of HD solutions for the broadcast, entertainment and media industry and is considered a high-quality alternative to the traditional means of acquiring content in many applications, including interviews and even full motion video.

### Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies in the three months ended September 30, 2012. Critical accounting policies and the significant estimates made in accordance with them are regularly discussed with our audit committee. Those policies are discussed under "Critical Accounting Policies" in our "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7, as well as in our consolidated financial statements and the footnotes thereto for the fiscal year ended December 31, 2011, as filed with the Commission with our Annual Report on Form 10-K filed on March 8, 2012.

### Results of Operations

Nine and Three Months Ended September 30, 2012 ("2012 Period" and the "2012 Quarter," respectively) compared to Nine and Three Months Ended September 30, 2011 ("2011 Period" and the "2011 Quarter," respectively) Revenue. Total revenue decreased \$657,000, or 3.2%, in the 2012 Period to \$20,107,000 from \$20,764,000 in the 2011 Period. Total revenue decreased \$268,000 or 3.9% in the 2012 Quarter to \$6,561,000 from \$6,829,000 in the

2011 Quarter. The following are the changes in the components of our revenue:

- Revenue for Managed Services Combined, which represents subscription (monitoring and management) services generally tied to contracts of 12 months or more and usage based collaboration services, increased

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3.9% to \$9,705,000 and 1.3% to \$3,204,000 in the 2012 Period and 2012 Quarter, respectively. Revenue for Managed Services Combined accounted for 48.3% of our total revenue in the 2012 Period compared to 45.0% for the 2011 Period. The increase in revenue for Managed Services Combined was primarily attributable to new customer acquisitions.

Revenue for network services, which represents network sales and related services generally tied to contracts of 12 months or more, decreased 9.8% to \$9,168,000 and 8.7% to \$2,998,000 in the 2012 Period and 2012 Quarter, respectively. Revenue for network services accounted for 45.6% of total revenue in the 2012 Period compared to 48.9% for the 2011 Period. The decrease in revenue for network services was primarily attributable to customers disconnecting or transitioning to managed service in their portfolio of Glowpoint services. The trends in the economy, the commoditization of IP networking, along with the availability of converged networking services such that end users can purchase one network and use for all their unified communications applications to include video, have all contributed to the decline in these revenues for Glowpoint. We believe our network service revenue will continue to decline in the current year, although at a slower pace than the previous year.

Revenue for professional and other services, which represent non-recurring services, decreased 1.9% to \$1,234,000 in the 2012 Period and increased 6.3% to \$359,000 in the 2012 Quarter. Revenue for professional and other services accounted for 6.1% of revenue in the 2012 Period compared to 6.1% for the 2011 Period. The decrease in revenue for professional and other services in the 2012 Quarter was primarily attributable to a lower number of special projects for our wholesale partners.

|                                 | Nine Months Ended September 30,<br>(in thousands) |          |                        |          | Three Months Ended September 30,<br>(in thousands) |         |                        |          |
|---------------------------------|---|----------|------------------------|----------|--|---------|------------------------|----------|
|                                 | 2012  | 2011     | Increase<br>(Decrease) | % Change | 2012   | 2011    | Increase<br>(Decrease) | % Change |
| Revenue                         |   |          |                        |          |  |         |                        |          |
| Managed Services Combined       | \$9,705   | \$9,344  | \$361                  | 3.9 %    | \$3,204  | \$3,164 | \$40                   | 1.3 %    |
| Network services                | 9,168   | 10,162   | (994)                  | (9.8)    | 2,998  | 3,282   | (284)                  | (8.7)    |
| Professional and other services | 1,234   | 1,258    | (24)                   | (1.9)    | 359  | 383     | (24)                   | (6.3)    |
| Total revenue                   | \$20,107  | \$20,764 | \$(657)                | (3.2)%   | \$6,561  | \$6,829 | \$(268)                | (3.9)%   |

**Network and Infrastructure Expenses.** Network and infrastructure expenses decreased 12.0% to \$6,297,000 in the 2012 Period and 8.7% to \$2,076,000 in the 2012 Quarter. Network and infrastructure expenses include all external costs, exclusive of depreciation and amortization, related to the Glowpoint network and hosting facilities for our cloud-based infrastructure. This operating expense category also includes the cost for taxes which have been billed to customers. The decrease was primarily attributed to customers disconnecting or reducing their portfolio of Glowpoint services and the achievement of cost efficiencies exclusive of the lost customers.

**Global Managed Services Expenses.** Global managed services expenses decreased 7.2% to \$5,262,000 in the 2012 Period and increased 0.2% to \$1,801,000 in the 2012 Quarter. Global managed services expenses include all costs for delivering and servicing our managed services, such as delivering customer service operations, internal costs of maintaining the network and infrastructure, and the development and implementation of operating support systems and associated hardware enhancements. The decrease in the 2012 Period was primarily attributed to automation and efficiencies in use of capacity of platform.

**Sales and Marketing Expenses.** Sales and marketing expenses increased 12.4% to \$2,954,000 in the 2012 Period and increased 35.7% to \$1,090,000 in the 2012 Quarter. The increase in the 2012 Period and Quarter was primarily attributed to investments in expanding the sales force.

**General and Administrative Expenses.** General and administrative expenses, which include direct corporate expenses related to costs of personnel in the various corporate support categories, including executive, finance,



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human resources and information technology, increased 4.9% to \$4,384,000 in the 2012 Period and 16.1% to \$1,732,000 in the 2012 Quarter. The increase in the 2012 Period and 2012 Quarter was primarily due to expenses related with the acquisition of Affinity.

**Depreciation and Amortization Expenses.** Depreciation and amortization expenses increased 32.6% to \$1,301,000 in the 2012 Period and 6.9% to \$436,000 in the 2012 Quarter, due to purchases of property and equipment (as discussed in Note 13 to our consolidated financial statements attached hereto) exceeding the retirement of these assets.

**Income (Loss) from Operations.** Income from operations decreased by \$240,000 in the 2012 Period to a \$91,000 loss and \$629,000 in the 2012 Quarter to a \$574,000 loss. The primary drivers of the decrease were due to acquisition related expenses and a decline in revenue associated with professional services.

**Interest and Other Expense.** Interest and other expense in the 2012 Period was \$76,000, which principally reflected \$43,000 of interest charges from vendors and \$33,000 of the amortization of financing charges related to our Revolving Loan Facility. Interest and other expense in the 2011 Period was \$93,000, which principally reflected \$47,000 of interest charges from vendors and \$46,000 of the amortization of financing charges related to our Revolving Loan Facility.

Interest and other expense in the 2012 Quarter was \$18,000, which principally reflected \$14,000 of interest charges from vendors and \$4,000 of the amortization of financing charges related to our Revolving Loan Facility. Interest and other expenses in the 2011 Quarter was \$30,000, which principally reflected \$15,000 of interest charges from vendors and \$15,000 of the amortization of financing charges related to our Revolving Loan Facility.

**Income Taxes.** As a result of our current taxable income, we recorded a \$5,000 provision for incomes taxes for certain minimum taxes in the 2012 Period. There was no provision recorded in the 2012 Quarter, 2011 Period or 2011 Quarter. Any deferred tax asset that would be related to our losses has been fully reserved under a valuation allowance, reflecting the uncertainties as to realization evidenced by our historical results and restrictions on the usage of the net operating loss carry forwards.

**Income (Loss) from Continuing Operations.** Income from continuing operations decreased by \$223,000 to a \$167,000 loss in the 2012 Period, and by \$617,000 to a \$592,000 loss in the 2012 Quarter. This increase was due to acquisition related expenses and a reduction in revenue as noted above.

**Income from Discontinued Operations.** Income from discontinued operations decreased by \$29,000 to \$0 in the 2012 Period and \$11,000 to \$0 in the 2012 Quarter. This decrease was a result of the transfer of our ISDN resale business completed in the third quarter of 2011.

**Net Income (Loss).** Net Income decreased by \$257,000 to a \$172,000 loss or, or \$(0.01) per basic and diluted share, in the 2012 Period. Net Income decreased by \$628,000 to a \$592,000 loss, or \$(0.02) per basic and diluted share, in the 2012 Quarter. The primary drivers of the decrease were due to acquisition related expenses and a decline in professional services revenue.

#### Liquidity and Capital Resources

For the nine months ended September 30, 2012, we had a net loss of \$172,000 and a positive cash flow from operations of \$707,000. As of September 30, 2012, we had \$1,650,000 of cash, positive working capital of \$1,157,000 and an accumulated deficit of \$164,871,000. In June 2012, the Company entered into the Second Loan Modification Agreement (as amended, the "Revolving Loan Facility") with Silicon Valley Bank ("SVB") pursuant to which the Company may borrow up to \$5,000,000 for working capital purposes and under which we had unused borrowing availability of approximately \$2,662,000 as of September 30, 2012 (as discussed in Note 10 to our consolidated financial statements attached hereto). In October 2012, the Revolving Loan facility with SVB was terminated in connection with repayment of outstanding amounts due and replaced with a revolving line of credit with Comerica Bank (the "Comerica Revolver") which will bear interest at a rate equal to the Prime Rate (as defined in the Comerica Loan Agreement) plus 2.00% and matures on April 1, 2014.

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Also in October 2012, Loan and Security Agreements ("Loan Agreement") were entered into with Comerica Bank and Escalate Capital Partners SBIC I, L.P. ("Escalate") in order to finance a portion of the Affinity acquisition (as discussed in Note 14 to our consolidated financial statements attached hereto). The Loan Agreement with Comerica Bank provided the Company with a \$2.0 million term loan (the "Comerica Term Loan") and will bear interest at a rate equal to the Prime Rate (as defined in the Comerica Loan Agreement) plus 3.00%. The Comerica Term Loan matures on November 1, 2015. The Loan Agreement with Escalate provided the Company with a \$6.5 million term loan (the "Escalate Term Loan") for a term of 60 months and bears interest at a fixed rate of 12.0% per annum, with interest-only payable monthly for the first 24 months, commencing after such interest-only period, monthly payments of the outstanding principal amount, plus accrued interest, for the remainder of the term. Pursuant to the terms of our Series A-2 Preferred Stock and Series B-1 Preferred Stock, the Company will be obligated to pay dividends commencing on January 1, 2013.

Based primarily on our efforts to manage costs and our Loan Agreements and Comerica Revolver, along with our cash flow projection, the Company believes that it has, and will have, sufficient cash flow to fund its operations through at least November 30, 2013. We have historically been able to raise capital in private placements as needed to fund operations and provide growth capital. There can be no assurances, however, that we will be able to raise additional capital as may be needed or upon acceptable terms, or that current economic conditions will not negatively impact us. If the current economic conditions negatively impact us and we are unable to raise additional capital that may be needed on terms acceptable to us, it could have a material adverse effect on the Company.

## Off-Balance Sheet Arrangements

As of September 30, 2012, we had no off-balance sheet arrangements.

## Adjusted EBITDA

Adjusted EBITDA is defined as income (loss) from continuing operations before depreciation, amortization, interest expense, interest income, taxes, severance, acquisition costs and stock-based compensation. Adjusted EBITDA is not intended to replace operating income (loss), net income (loss), cash flow or other measures of financial performance reported in accordance with generally accepted accounting principles. Rather, Adjusted EBITDA is an important measure used by management to assess the operating performance of the Company. Adjusted EBITDA as defined here may not be comparable to similarly titled measures reported by other companies due to differences in accounting policies. A reconciliation of Adjusted EBITDA to net income (loss) from continuing operations is shown below:

|  | Nine Months Ended |         | Three Months Ended |        |
|--|-------------------|---------|--------------------|--------|
|  | September 30,     |         | September 30,      |        |
|  | 2012              | 2011    | 2012               | 2011   |
| Income (loss) from continuing operations | \$(167            | ) \$56  | \$(592             | ) \$25 |
| Depreciation and amortization            | 1,301             | 981     | 436                | 408    |
| Amortization of financing costs          | 33                | 46      | 4                  | 15     |
| Interest expense                         | 43                | 47      | 14                 | 15     |
| EBITDA                                   | 1,210             | 1,130   | (138               | ) 463  |
| Stock-based compensation                 | 448               | 181     | 229                | 34     |
| Severance                                | —                 | 351     | —                  | 340    |
| Acquisition costs                        | 480               | —       | 480                | —      |
| Adjusted EBITDA                          | \$2,138           | \$1,662 | \$571              | \$837  |

## Inflation

Management does not believe inflation had a significant effect on the condensed consolidated financial statements for the periods presented.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.



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Item 4. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by Glowpoint in the reports it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified by the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by Glowpoint in the reports it files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, Glowpoint has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2012, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in providing reasonable assurance of compliance.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the three months ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

A description of the risks associated with our business, financial conditions and results of operations is set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and filed with the Commission on March 8, 2012. There have been no material changes to these risks during the three months ended September 30, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On August 24, 2012, the Company issued 25,000 shares of unregistered common stock to Monarch Capital Group, LLC ("MCG") in consideration of services rendered under the Consulting Agreement dated as of May 22, 2012 between the Company and MCG. In addition, on August 27, 2012, the Company issued 50,000 shares of unregistered common stock to ViewTrade Securities, Inc. ("ViewTrade") in consideration of services rendered under the Consulting Agreement dated as of May 25, 2012 between the Company and ViewTrade. The shares of common stock were issued to both consulting companies in reliance on the exemption from registration set forth in Section 4(2) of the Securities Act of 1933. Other than the foregoing, there have been no unregistered sales of securities during the period covered by this Report that have not been previously reported in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.





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Item 5. Other Information  
None.

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Item 6. Exhibits

- 10.1 Agreement and Plan of Merger dated August 12, 2012 (filed as an exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 13, 2012, and incorporated herein by reference)
- 10.2 Employment Agreement between Glowpoint, Inc. and Steven B. Peri, dated as of August 15, 2012 (filed as an exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 18, 2012, and incorporated herein by reference)
- 10.3 Employment Agreement between Glowpoint, Inc. and Alp Tolga Sakman, dated as of August 22, 2012 (filed as an exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2012, and incorporated herein by reference)
- 31.1\* Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2\* Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1\* Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS\*\* XBRL Instance Document
- 101.SCH\*\* XBRL Taxonomy Extension Schema
- 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase
- 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase
- 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase

\* Filed herewith.

\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 8, 2012

GLOWPOINT, INC.

By: /s/ Joseph Laezza

Joseph Laezza, Chief Executive Officer  
(principal executive officer)

Date: November 8, 2012

By: /s/ Tolga Sakman

Tolga Sakman, Chief Financial Officer  
(principal financial and accounting officer)