GLOWPOINT, INC.
Form 10-K
April 01, 2013

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)
x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended December 31, 2012
OR
.. TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to __________
Commission file number: 0-25940

GLOWPOINT, INC.
(Exact name of registrant as specified in its Charter)

| | |
|---|---|
| Delaware | 77-0312442 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 430 Mountain Avenue, Suite 301 Murray Hill, NJ | 07974 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (973) 855-3411

Securities registered under Section 12(b) of the Exchange Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $0.0001 par value (Title of Class) | NYSE MKT |

Securities registered under Section 12(g) of the Exchange Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in the Rule 405 of the Securities Act of 1933. Yes ¨No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ¨Noý

Indicate by check mark whether the Registrant: (1) 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 ý 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | ý |
| (Do not check if a smaller reporting company) | | | |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨No ý

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2012, the last business day of the Registrant’s most recently completed second fiscal quarter, was approximately $32,430,000.

The number of shares of the Registrant’s common stock outstanding as of March 29, 2013 was approximately 28,654,639.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2013 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K.

GLOWPOINT, INC.
Index

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains statements that are considered forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements give Glowpoint's current expectations and forecasts of future events. All statements other than statements of current or historical fact contained in this annual report, including statements regarding Glowpoint's future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," and similar expressions, as they relate to Glowpoint, are intended to identify forward-looking statements. These statements are based on Glowpoint's current plans, and Glowpoint's actual future activities and results of operations may be materially different from those set forth in the forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements made. Any or all of the forward-looking statements in this annual report may turn out to be inaccurate. Glowpoint has based these forward-looking statements largely on its current expectations and projections about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs. The forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and assumptions. Glowpoint undertakes no obligation to publicly revise these forward-looking statements to reflect events occurring after the date hereof. All subsequent written and oral forward-looking statements attributable to Glowpoint or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements contained in this annual report on Form 10-K.

PART I
Item 1. Business

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 Company delivers services to more than 600 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 3 to our consolidated financial statements attached hereto).

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 provider of 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.

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

Traditionally, video has presented challenges by presenting a complex maze of systems and networks that must be navigated through and closely managed. 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 and 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) or StarLeaf system 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 a 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 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 and 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, two of which are located in the United States (Newark, New Jersey and Chicago, Illinois) and one in the 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.

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 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.

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 and managed video service industry.

Affinity Public Video Suites

Affinity public video suites provide remote access to video communication services for everyday business meetings and events. Virtually all of Affinity's services are based on commonly used architecture that integrates traditional video technology with real-time, proprietary interactive web tools for scheduling and managing a customer's meeting experience. Our primary service includes scheduling and management of a highly orchestrated business-class meeting for users wishing to rent video conference centers across the world for a professional meeting experience. As part of the extended offering beyond the physical office suite, we also enable participants who elect to use a mobile device to join a video conference from anywhere in the world through the Affinity Anywhere service. These services are sold to businesses in various markets as well as to resellers of communications services, through direct and indirect sales channels. The services are largely usage-based, which generally means that our customers only pay for the services that they use. We also offer our customers monthly subscription rates based on a fixed number of concurrent users. In addition, through our distribution partners, we may also offer our services on a software license basis.

Professional and Other 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. 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.

Intellectual Property

Glowpoint has invested in research and development, engineering and application development in the process of building our managed service and cloud platforms. Some of this development has led to awarded patents and a number of patent applications, as described below, along with ongoing recognition in the industry as having unique tools and applications to enable their video applications.

Cloud Architecture

Glowpoint's OpenVideo® cloud is based on a Service Oriented Architecture (SOA) that enables us to create unique unified communication service offerings. SOA is a foundation framework that abstracts the physical layer from the service application to enable the virtualization of resources. Glowpoint's cloud based video services can be delivered as a software and infrastructure service in a hosted environment or can support a hybrid with a mix of public and private clouds.

Applications and Development

Built on top of our core cloud architecture, Glowpoint has a portfolio of applications that include conference scheduling, customer care and billing. Glowpoint has built its OpenVideo® cloud to support SIP, H.323 and Integrated Services Digital Network (ISDN) protocols using infrastructure from a variety of manufacturers.

Patents and Patents-Pending

The development of our "video as a service" applications and network architecture has resulted in a significant amount of intellectual property – from real-time metering and billing for video calls to intelligent call routing. We have also abandoned certain patent applications, determining that the likelihood of an award and the cost to obtain it versus the value of the potential award did not justify proceeding any further. While there can be no assurance that a patent will be awarded, we believe that our patented and patent-pending proprietary technology provides an important barrier for competitive offerings of similar video communications services.

We have been awarded four patents:

- U.S. Patent No. 7,200,213 was awarded in April 2007 for our live video operator assistance feature.  Our "Live Operator" technology provides customers the ability to obtain live, face-to-face assistance and has widespread application, from general video call assistance to "video concierge" services. This patent is an essential component of providing "expert on demand" and telepresence "white glove" (our VNOC) services.

- U.S. Patent No. 7,664,098 was awarded in February 2010 for our real-time metering and billing for IP-based calls. Our "Call Detail Records" (CDR) patent for IP-based calls provides the ability to meter and bill an end-user on a transactional basis, just as traditional telephone calls are billed. This unique capability is a vital development as more and more telepresence and video conferencing calling traffic is distributed over disparate IP-based networks – rather than ISDN – as B2B calling is becoming much more common for video users.
- U.S. Patent No. 7,916,717 was awarded in March 2011 for our Systems and Method for Automated Routing of Incoming and Outgoing Video Calls between IP and ISDN networks. This technology ensures the simple and seamless migration from ISDN to IP for the purpose of connecting IP users with ISDN systems around the

world. This automated call routing capability has been leveraged to provide a least cost routing and gateway method to customers.

- U.S. Patent No. 8,259,152 was awarded in September 2012 for our Video Call Distributor, which includes systems and methods for distributing high quality real time video calls over an IP Packet-Based Wide Area Network, leveraging existing routing rules and logic of a call management system.

Sales and Marketing

We currently sell our services through a direct sales force and indirect sales channels. As of December 31, 2012, we had 26 full-time employees engaged in sales and marketing. Our direct sales/account management team is responsible for developing relationships and expanding opportunities within our existing customer base as well as targeting our services to other large and medium-sized corporations. We also partner with agents to expand the size and reach of these efforts. The customers we target have a proven need for business communication services in diverse vertical markets, such as computer software, professional services, business services, manufacturing and financial services. Our indirect sales initiatives allow us to extend our reach to businesses of all sizes by developing alternative distribution channels. The efforts of our indirect sales group focus on partnering with resellers, such as system integrators and communications providers, to leverage their customer bases and distribution channels. We private label or co-brand our services for these partners depending on their requirements.

We primarily focus our marketing efforts on direct marketing programs aimed at our target customers. We seek to generate qualified leads for our sales team, educate and retain existing customers, generate brand awareness through proactive public relations and drive service enhancements using research and customer feedback.

Customers

We have an enterprise customer base of more than 600 customers ranging from Fortune 100 companies, to federal, state and municipal governmental entities, to businesses and service professionals (e.g., accountants and lawyers) and non-profit organizations. Our top market segments at the end of 2012, listed in order of approximate contribution to revenue, were: consulting, 12%; banking and finance, 10%; engineering and construction, 10%; broadcast/media, 7%; manufacturing, 7%; and telecommunication providers, 6%. Two major customers / wholesale partners represented approximately 25% of our revenue for the fiscal year ended December 31, 2012. A substantial reduction in use of our services or business failure by either of our major customers / wholesale partners could have a material adverse effect on us.

Employees

As of December 31, 2012, we had approximately 130 full-time employees. Of these employees, nine are involved in engineering and development, 75 in customer support and operations, 26 in sales and marketing, and 20 in corporate functions. None of our employees are represented by a labor union. We believe that our employee relations are good.

Strategy and Competitive Conditions

Industry

The video communications industry continues to transform. When Glowpoint was initially launched, videoconferencing was a niche industry with unproven technology and questionable quality. We set out to capitalize on that by offering a high-quality, IP-based, reliable service. Today, video communications, especially in the form of telepresence, is becoming a more mainstream, mission-critical technology. “Telepresence” (sometimes referred to as “immersive video”) provides an experience that represents what Glowpoint has been delivering since soon after its launch: high quality, easy to use video communications where the technology does not interfere with the purpose of the meeting. The most popular representation of telepresence is a specially designed room configured to support a “true to life” meeting environment. Everything from multiple monitors, special furniture, strategic camera placement and sound panels are deployed to create an immersive experience so that participants feel as though they are all sitting in the same physical room even though they may be continents apart. Entrance into the telepresence market by high-profile vendors with vast marketing budgets like Cisco Systems, and the consolidation of some traditional videoconferencing equipment manufacturers (e.g., Cisco’s acquisition of Tandberg, Logitech’s acquisition of LifeSize Communications and Polycom’s acquisition of HP’s video business) have, we believe, validated our business plan and brought new energy and interest to the video communications industry.

Currently, we view the video communications industry as being segregated into multiple categories, each of which represents a potential partner and/or customer for Glowpoint’s portfolio of services:

- Unified Communications Equipment Manufacturers;
- Network Operators and Service Providers;
- Managed Service/Conferencing Services Providers; and
- Systems Integrators.

Unified Communications Equipment Manufacturers: Manufacturers of videoconferencing and telepresence equipment focus on selling video endpoint, room, and infrastructure equipment. With the introduction of HD and telepresence, the manufacturers are recognizing that, as part of offering these more complex solutions, there is increased demand for services to not only enable adoption, but to expand the use and applications beyond internal use. Additionally, alternatives to purchasing one's own infrastructure and using a cloud based hosted model are becoming increasingly popular among businesses that are interested in managing total cost of ownership (TCO) and allowing the service providers to deal with interoperability and technology advancements for them. Therefore there is an inherent need to partner with experienced service providers like Glowpoint, who make it seamless for customers to buy and use the manufacturer's products on their own terms. Glowpoint's managed services and cloud based OpenVideo® platform provide purchasers of this equipment these critical options.

Network Operators and Service Providers: Network operators and service providers play a critical role in video communications because of the need to transport video calls over high-quality IP networks. With the emergence of more scalable and sophisticated IP network capabilities for videoconferencing and telepresence, the network operators are now aggressively offering services that include intelligent virtual private networks (VPNs) on which customers may support data, voice and video applications simultaneously. This is often referred to as a "converged network" or "convergence." Recently, more IP-based video communications applications and managed services have emerged as an integral part of converged network offerings. Glowpoint services and hosted cloud infrastructure are accessible across any provider's network. So, carriers can be a trusted and comprehensive provider for their video communications customers by partnering and peering with Glowpoint, offering the Glowpoint service cloud as part of their network service offerings. This strategy has the added benefit of increasing the demand for network bandwidth, thereby increasing the carrier's network sale.

Managed Service/Conferencing Services Providers: A number of companies, including some equipment resellers, network providers and audio conferencing service providers, offer videoconferencing services almost exclusively focused on multipoint conferencing (i.e., bringing multiple locations into one video call). Glowpoint offers a full suite of cloud and managed video services and is competitive with other providers in this space.

Systems Integrators: Systems integrators in the unified communications space vary from traditional audio visual integrators to market focused solution providers. This community is driven by technology and integration sales and have historically driven most of their business through one-time equipment and integration sales. This industry has expanded and evolved and more global integration players, such as IBM, HP and others, are heavily involved in the video conferencing and telepresence industry now. As a result, traditional audio visual integrators are facing growing margin pressures as well as increased competition related to videoconferencing equipment sales. We believe that the global integrators are a logical fit for partnering with Glowpoint as they seek to enhance their solution portfolios with a cloud service that is in high demand. As for the AV integration community, we believe they may need to transform their business models, possibly to generate recurring revenue to offset margin pressure and heavier competition. To do so, these providers may attempt to either reproduce the features, experience and services provided by Glowpoint or to become a reseller or wholesale partner of Glowpoint's services themselves. While some videoconferencing equipment resellers have chosen to compete with a subset of Glowpoint's offerings, mostly on multipoint bridging front, others have chosen to partner with and resell Glowpoint's services to increase their speed to market and transform their businesses.

Market Need

The complexity of video communications is increasing, while usage of video is becoming more critical in the mix of unified communications. Many enterprises have become dependent on video communications for increased productivity while also reducing operating costs, and have made it part of their core business practices. These same enterprises have difficulty (and incur considerable cost) in effectively maintaining and managing their existing video communication deployments because of the shortage of experienced information technology (IT) and network personnel. Many enterprises also recognize that supporting video communications inside their organization distracts their core support organization from other critical business applications and requires a different skill set than normal business IT support. As a result, businesses are increasingly seeking out managed services and hosted, cloud-based infrastructure to support and power their user community and their video technologies. In fact, isolating and extending the video applications from other business applications and existing communications infrastructure has become an increasingly important capability for larger organizations. With the rapid advancements in video technologies, it has become increasingly expensive and difficult for enterprises to maintain the infrastructure required to power these technologies. We believe that many customers cannot fully support quality video communications on their existing infrastructure and network.

An "evergreen" video infrastructure in the cloud enables the enterprises to get the best possible video experience from their endpoints, while avoiding overcapacity issues by providing a flexible usage model. It also removes one of the traditional barriers for video adoption in small and medium business (SMB) segment: the cost of premise-based infrastructure per endpoint is prohibitively high for video deployments of less than 10. By moving them from a capital expenditure model to a recurring operating expense model, Glowpoint eases the path for faster video adoption among SMBs.

Glowpoint provides enterprises with the ability to simplify the video experience with a full suite of open video services largely unavailable from anyone else at this time. Glowpoint's unique features and services, such as seamless and secure business-to-business video calling, a comprehensive video exchange directory of businesses, live on-demand video operator services, on demand virtual video rooms, video mailboxes, seamless video calling to off-net locations anywhere in the world and other video application services, are available to customers by simply "plugging" their video systems into the Glowpoint service cloud.

Competition

For the sale of our managed services, we mainly compete against select telecommunications carriers and videoconferencing equipment resellers and integrators. These carrier competitors, which include British Telecom (BT)/BT Conferencing, AT&T, Verizon and Telus, mainly compete on the basis of offering network and a converged solution of data, voice and video. Other competitors have evolved from the audio/visual integration industry or videoconferencing equipment resale industry, including York Telecom, Providea, BCS Global and AVI-SPL. Additionally, the market has attracted some VC-backed or other private start-ups that offer hosted bridging solutions, including Blue Jeans Networks and Vidtel. We view the entry of new players into the market as a net positive, validating the industry, while creating awareness around managed services and viral adoption of video communications.

It is important to note that our competition offers a subset of what we offer from a managed services perspective, through our OpenVideo® cloud. Glowpoint differentiates itself based on its full suite of superior cloud and managed video services delivered with a primary focus on video and resulting superior expertise, flexibility, and responsiveness to customer demands. These services are unique based on our intellectual property, user interfaces and capabilities that Glowpoint has built over the years. Glowpoint has partnered with a number of would-be competitors with the intent of selling our managed video services to be delivered over their networks or as a complement to their offerings.

Available Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and its rules and regulations (the "Exchange Act"). The Exchange Act requires us to file periodic reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Copies of these periodic reports, proxy statements and other information can be inspected and copied at:

SEC Public Reference Room
100 F Street, N.E.
Washington, D.C. 20549

You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of any material we have filed with the SEC by mail at prescribed rates from:

Public Reference Section
Securities and Exchange Commission
Washington, D.C. 20549

You may obtain these materials electronically by accessing the SEC's website on the Internet at www.sec.gov.

In addition, we make available, free of charge, on our Internet website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC. You may review these documents on our website at www.glowpoint.com.

Item 1A. Risk Factors

Glowpoint's business faces numerous risks, including those set forth below or those described elsewhere in this Form 10-K Annual Report or in our other filings with the SEC. The risks described below are not the only risks that we face, nor are they necessarily listed in order of significance. Other risks and uncertainties may also affect our business. Any of these risks may have a material adverse effect on Glowpoint's business, financial condition, results of operations and cash flow.

Risks Related to Our Business

Our business activities may require additional financing that might not be obtainable on acceptable terms, if at all, which could have a material adverse effect on our financial condition, liquidity and our ability to operate going forward.

Although there can be no assurance, our management believes that based on our current plan there are sufficient capital resources from existing levels of cash and operations, including our revolving loan facility, to finance our operational requirements through at least March 31, 2014. Our capital requirements continue to depend on numerous factors, including the timing of revenues, the expense involved in development of our systems and products, realizing cost reductions on our technology, capital improvements and the cost involved in protecting our proprietary rights. If we are unable to maintain profitability, or if unforeseen events occur that would require additional funding, we may need to raise capital or incur debt to fund our operations. We would expect to seek such capital through sales of additional equity or debt securities and/or loans from financial institutions, but there can be no assurance that funds will be available to us on acceptable terms, if at all, and any sales of such securities may be dilutive to investors. Failure to obtain financing or obtaining financing on unfavorable terms could result in a decrease in our stock price and could have a material adverse effect on future operating prospects, or require us to significantly reduce operations.

We may fail to comply with covenants contained in our agreements with our Lenders.

The Company is currently in compliance with all of its financial covenants under its October 1, 2012 loan agreements with Comerica Bank and Escalate Capital Partners SBIC I, L.P, as amended. The company recently amended its covenants under such loan agreements to more accurately reflect the Company's financial capabilities and anticipated operations. In the future, if the Company were to violate any of its covenants under its loan agreements, and it were unable to further amend its loan agreements, any such violations could cause an acceleration of the indebtedness under the loan agreements. An acceleration of the indebtedness under the loan agreements would have a material adverse effect on the Company's financial condition and results of operations.

We have a history of substantial net losses and we may incur future net losses, which may cause a decrease in our stock price.

While we generated net income for fiscal year 2012 and 2011, we reported a substantial loss from operations in all prior years since 2000. We cannot assure you that we will achieve revenue growth or profitability or generate positive cash flow on a quarterly or annual basis in the future. If we do not remain profitable in the future, the value of our common stock may be adversely impacted and we could have difficulty obtaining funds to continue our operations.

Our success is highly dependent on the evolution of our overall market and on general economic conditions.

The market for video communication services is evolving rapidly. Although certain industry analysts project significant growth for this market, their projections may not be realized. Our future growth depends on acceptance and adoption of video communications. There can be no assurance that the market for our services will grow, that our services will be adopted, that customers will desire higher quality or that businesses will purchase our suite of managed video services. If we are unable to react quickly to changes in the market, if the market fails to develop or develops more slowly than expected, or if our services do not achieve market acceptance, then we are unlikely to remain profitable. Additionally, current economic conditions may cause a decline in business and consumer spending which could adversely affect our business and financial performance.

We are exposed to the credit and other counterparty risk of our customers in the ordinary course of our business.

Our customers have varying degrees of creditworthiness and we may not always be able to fully anticipate or detect deterioration in their creditworthiness and overall financial condition, which could expose us to an increased risk of nonpayment under our contracts with them. In the event that a material customer or customers default on their payment obligations to us, discontinue buying services from us or use their buying power with us to lower our revenue, this could materially adversely affect our financial condition, results of operations or cash flows.

Our future plans could be adversely affected if we are unable to attract or retain key personnel.

We have attracted a highly skilled management team and specialized workforce. Our future success is dependent in part on attracting and retaining qualified management and technical personnel. Our inability to hire qualified personnel on a timely basis, or the departure of key employees, could materially and adversely affect our business development and therefore, our business, prospects, results of operations and financial condition.

We may have difficulty managing our growth.

If we successfully increase our sales substantially, we expect to hire more employees and expand our operations. This growth may place a strain on our management, our operations and our systems. Our ability to manage this growth will depend upon our ability to broaden our management team and our ability to attract, hire and retain skilled employees. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational, financial and other systems, to manage multiple customer relationships concurrently, and to hire, train and manage our employees. Our future success is dependent upon growth. If we cannot scale our business appropriately or otherwise adapt to this growth, this could adversely affect our results of operations.

If our actual liability for sales and use taxes and regulatory fees is different from our accrued liability, it could have a material impact on our financial condition.

Sales and use taxes and regulatory fees are supposed to be, or are routinely, collected from customers and remitted to the applicable authorities in certain circumstances. All of our tax positions are subject to audit. While we believe all of our estimates and assumptions are reasonable and will be sustained upon audit, actual liabilities and credits may differ. If so, it may impact our financial condition negatively if we underestimated our liability.

Our failure to obtain or maintain the right to use certain intellectual property may negatively affect our business.

Our future success and competitive position depends in part upon our ability to obtain and maintain certain proprietary intellectual property to be used in connection with our services. While we are not currently engaged in any intellectual property litigation, we could become subject to lawsuits in which it is alleged that we have infringed the intellectual property rights of others or we could commence lawsuits against others who we believe are infringing upon our rights. Our involvement in intellectual property litigation could result in significant expense to us, adversely affecting the development of sales of the challenged product and diverting the efforts of our technical and management personnel, whether or not such litigation is resolved in our favor.

In the event of an adverse outcome as a defendant in any such litigation, we may, among other things, be required to: pay substantial damages; cease the development, use or sale of services that infringe upon other patented intellectual property; expend significant resources to develop or acquire non-infringing intellectual property; discontinue the use or incorporation of infringing technology; or obtain licenses to the infringing intellectual property. We cannot ensure that we would be successful in such development or acquisition or that such licenses would be available upon reasonable terms. Any such development, acquisition or license could require the expenditure of substantial time and other resources and could have a negative effect on our business and financial results.

An adverse outcome as plaintiff, in addition to the costs involved, may, among other things, result in the loss of the intellectual property (such as a patent) that was the subject of the lawsuit by a determination of invalidity or unenforceability, significantly increase competition as a result of such determination, and require the payment of penalties resulting from counterclaims by the defendant.

We may not be able to protect the rights to our intellectual property.

Failure to protect our existing intellectual property rights may result in the loss of our exclusivity or the right to use our technologies. If we do not adequately ensure our freedom to use certain technology, we may have to pay others for rights to use their intellectual property, pay damages for infringement or misappropriation and/or be enjoined from using such intellectual property. We rely on patent, trade secret, trademark and copyright law to protect our intellectual property. Some of our intellectual property is not covered by any patent or patent application. As we further develop our services and related intellectual property, we expect to seek additional patent protection. Our patent position is subject to complex factual and legal issues that may give rise to uncertainty as to the validity, scope and enforceability of a particular patent. Accordingly, we cannot assure you that: any of the patents owned by us or other patents that other parties license to us in the future will not be invalidated, circumvented, challenged, rendered unenforceable or licensed to others; any of our pending or future patent applications will be issued with the breadth of claim coverage sought by us, if issued at all; or any patents owned by or licensed to us, although valid, will not be dominated by a patent or patents to others having broader claims. Additionally, effective patent, trademark, copyright and trade secret protection may be unavailable, limited or not applied for in certain foreign countries.

We also seek to protect our proprietary intellectual property, including intellectual property that may not be patented or patentable, in part by confidentiality agreements. We cannot ensure that these agreements will not be breached, that we will have adequate remedies for any breach or that such persons will not assert rights to intellectual property arising out of these relationships.

We depend upon our network providers and facilities infrastructure.

Our success depends upon our ability to implement, expand and adapt our network infrastructure and support services to accommodate an increasing amount of video traffic and evolving customer requirements at an acceptable cost. This has required and will continue to require that we enter into agreements with providers of infrastructure capacity, equipment, facilities and support services on an ongoing basis. We cannot ensure that any of these agreements can be obtained on satisfactory terms and conditions. We also anticipate that future expansions and adaptations of our network infrastructure facilities may be necessary in order to respond to growth in the number of customers served.

We depend upon suppliers and have limited sources for some services.

We rely on other companies to supply some components of our network infrastructure and the means to access our network. Some of the products and services that we resell and certain components that we require for our network are available only from limited sources. We could be adversely affected if such sources were to become unavailable to us on commercially reasonable terms. We cannot ensure that, on an ongoing basis, we will be able to obtain third-party services cost-effectively and on the scale and within the time frames that we require, if at all. Failure to obtain or to continue to make use of such third-party services would have a material adverse effect on our business, financial condition and results of operations.

Our network could fail, which could negatively impact our revenues.

To an extent, our success depends upon our ability to deliver reliable, high-speed access to our channels' and customers' data centers and upon the ability and willingness of our telecommunications providers to deliver reliable, high-speed telecommunications service through their networks. Our network and facilities, and other networks and facilities providing services to us, are vulnerable to damage, unauthorized accessor cessation of operations from human error and tampering, breaches of security, fires, earthquakes, severe storms, power losses, telecommunications failures, software defects, intentional acts of vandalism including computer viruses, and similar events. The occurrence of a natural disaster or other unanticipated problems at the network operations center, key sites at which we locate routers, switches and other computer equipment that make up the backbone of our service offering and hosted infrastructure, or at one or more of our partners’ data centers, could substantially and adversely impact our business. We cannot ensure that we will not experience failures or shutdowns relating to individual facilities or even catastrophic failure of the entire network or hosted infrastructure. Any damage to, or failure of, our systems or service providers could result in reductions in, or terminations of, services supplied to our customers, which could have a material adverse effect on our business.

Our network depends upon telecommunications carriers who could limit or deny us access to their network or fail to perform, which would have a material adverse effect on our business.

We rely upon the ability and willingness of certain telecommunications carriers and other corporations to provide us with reliable high-speed telecommunications service through their networks. If these telecommunications carriers and other corporations decide not to continue to provide service to us through their networks on substantially the same terms and conditions (including, without limitation, price, early termination liability, and installation interval), if at all, it would have a material adverse effect on our business, financial condition and results of operations. Additionally, many of our service level objectives are dependent upon satisfactory performance by our telecommunications carriers. If they fail to so perform, it may have a material adverse effect on our business.

We operate in a highly competitive market and many of our competitors have greater financial resources and established relationships with major corporate customers.

The video communications industry is highly competitive. A number of telecommunications carriers and other corporations, including AT&T, Verizon, British Telecom/BT Conferencing, Level 3 Communications, Cisco and Hewlett-Packard, have entered into the video communications market. Many of these organizations have substantially greater financial and other resources than us, furnish some of the same services provided by us, and have established relationships with major corporate customers that have policies of purchasing directly from them. We believe that as the demand for video communications systems continues to increase, additional competitors, many of which may have greater resources than us, will continue to enter the video communications market.

There is limited market awareness of our Glowpoint services.

Our future success will be dependent in significant part on our ability to generate demand for our Glowpoint managed video services. To this end, our direct marketing and indirect sales operations must increase market awareness of our service offering to generate increased revenue. Our products and services require a sophisticated sales effort targeted at the senior management of our prospective customers. All new hires will require training and take time to achieve full productivity. We cannot be certain that our new hires will become as productive as necessary or that we will be able to hire enough qualified individuals or retain existing employees in the future. We cannot be certain that we will be successful in our efforts to market and sell our products and services, and if we are not successful in building market awareness and generating increased sales, future results of operations will be adversely affected.

As we expand our Glowpoint managed services, any system failures or interruptions may cause loss of customers.

Our success depends, in part, on the seamless, uninterrupted operation of our Glowpoint managed service offering. As we continue to expand these services, and as the complexity and volume continue to increase, we will face increasing demands and challenges in managing them. Any prolonged failure of these services or other systems or hardware that cause significant interruptions to our operations could seriously damage our reputation and result in customer attrition and financial loss.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of providing video communications services, we transmit sensitive and proprietary information of our customers. The secure transmission of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information being transmitted could be accessed, publicly disclosed or stolen. Any such disclosure or other loss of information could result in legal claims or proceedings, disrupt our operations and damage our reputation, which could adversely affect our business.

We may be unable to adequately respond to rapid changes in technology.

The market for our Glowpoint managed video services is characterized by rapidly changing technology, evolving industry standards and frequent product introductions. The introduction of products and services embodying new technology and the emergence of new industry standards may render our existing managed video services obsolete and unmarketable if we are unable to adapt to change. A significant factor in our ability to grow and to remain competitive is our ability to successfully introduce new products and services that embody new technology, anticipate and incorporate evolving industry standards and achieve levels of functionality and price acceptable to the market. If our managed video services are unable to meet expectations or unable to keep pace with technological changes in the video communication industry, our managed video services could eventually become obsolete. We may be unable to allocate the funds necessary to upgrade our managed video services as improvements in video communication technologies are introduced. In the event that other companies develop more advanced service offerings, our competitive position relative to such companies would be harmed.

We incur significant accounting and other control costs that impact our financial condition.

As a publicly traded corporation, we incur certain costs to comply with regulatory requirements. If regulatory requirements were to become more stringent or if controls thought to be effective later fail, we may be forced to make additional expenditures, the amounts of which could be material. Some of our competitors are privately owned so their comparatively lower accounting and control costs can be a competitive disadvantage for us. Should our sales decline or if we are unsuccessful at increasing prices to cover higher expenditures for internal controls and audits, our costs associated with regulatory compliance will rise as a percentage of sales.

We rely on a limited number of customers for a significant portion of our revenue, and the loss of any one of those customers, or several of our smaller customers, could materially harm our business.

A significant portion of our revenue is generated from a limited number of customers. For the year ended December 31, 2012, two major customer / wholesale partners represented approximately 25% of our revenue. Although the composition of our significant customers will vary from period to period, we expect that most of our revenue will continue, for the foreseeable future, to come from a relatively small number of customers. Consequently, our financial results may fluctuate significantly from period-to-period based on the actions of one or more significant customers. A customer may take actions that affect us for reasons that we cannot anticipate or control, such as reasons related to the customer's financial condition, changes in the customer's business strategy or operations, the introduction of alternative competing products, or as the result of the perceived quality or cost-effectiveness of our products. Our agreements with these customers may be canceled if we materially breach the agreement or for other reasons outside of our control such as insolvency or financial hardship that may result in a customer filling for chapter 11 bankruptcy court protection against unsecured creditors. In addition, our customers may seek to renegotiate the terms of current agreements or renewals. The loss of or a reduction in sales or anticipated sales to our most significant or several of our smaller customers could have a material adverse effect on our business, financial condition and results of operations.

We experience material disconnections of our services and may not be able to replace the lost revenue by sales to our current customers or by adding significant new customers.

Historically, we have experienced both significant disconnections of services and also reductions in the prices of our services. In order to realize anticipated revenues and cash flows, we endeavor to obtain long-term commitments from new customers, as well as expand our relationships with current customers. This need is made more critical as the company experiences disconnections of services, which may occur if we materially breach the agreement or for other reasons outside of our control such as insolvency or financial hardship that may result in a customer filing for chapter 11 bankruptcy court protection against unsecured creditors. The disconnection of services by our significant customers or by several of our smaller customers could have a material adverse effect on our business, financial condition and results of operations. Service contract durations and termination liabilities are defined within the terms and conditions of our services to our customers. The average contract term length for our current customers that are under contract is approximately 21 months and changes as we add, remove, or renew contracts with customers. Termination of services in our existing agreements require a minimum of 30 days notice and are subject to early termination penalties equal to the amount of accrued and unpaid charges including the remaining term length multiplied by any fixed monthly fees. The standard form of service agreement with Glowpoint includes an auto-renewal clause for a minimum of 12 months at the end of each term if the customer does not choose to terminate service at that time. Certain customers and partners negotiate master agreements with custom termination liabilities that differ from our standard form of service agreement. Approximately 36% of our current revenues are subject to master agreements with termination rights and liabilities that range from a minimum of 3 to 12 months early termination penalties in the event of early termination prior to contract expiration.

Our failure to properly manage the distribution of our services could result in a loss of revenues.

We currently sell our services both directly to customers and through channel partners. Successfully managing the interaction of our direct and indirect sales channels to reach various potential customers for our services is a complex process. Each sales channel has distinct risks and costs, and therefore, our failure to implement the most advantageous balance in the sales model for our services could adversely affect our revenue and profitability.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders may not be confident in our financial reporting, which would harm our business and the price of our common stock.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in our annual report on Form 10-K our assessment of the effectiveness of our internal controls over financial reporting. Although we believe that we currently have adequate internal control procedures in place, we cannot be certain that our internal controls over financial reporting will remain effective. If we cannot adequately maintain the effectiveness of our internal controls over financial reporting, we may be subject to liability and/or sanctions or investigation by regulatory authorities, such as the SEC. Any such action could adversely affect our financial results and the market price of our common stock.

Risks Relating To Our Securities

Our common stock is thinly traded and subject to volatile price fluctuations.

Our common stock is thinly traded, and it is therefore susceptible to wide price swings. Our common stock is traded on the NYSE MKT under the symbol “GLOW.” Thinly traded stocks are more susceptible to significant and sudden price changes and the liquidity of our common stock depends upon the presence in the marketplace of willing buyers and sellers. We cannot ensure that you will be able to find a buyer for your shares. We cannot ensure that an organized public market for our securities will develop or that there will be any private demand for the common stock. We could also fail to satisfy the standards for continued exchange listing, such as standards having to do with a minimum share price, the minimum number of public shareholders or the aggregate market value of publicly held shares. Any holder of our securities should regard them as a long-term investment and should be prepared to bear the economic risk of an investment in our securities for an indefinite period.

Penny stock regulations may impose certain restrictions on the marketability of our securities.

The SEC has adopted regulations which generally define “penny stock” to be any equity security that has a market price (as defined) less than $5.00 per share, subject to certain exceptions. Our common stock is presently subject to these regulations which impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser’s written consent to the transaction prior to the purchase. Additionally, for any transaction involving a “penny stock,” unless exempt, the rules require the delivery, prior to the transaction, of a risk disclosure document mandated by the SEC relating to the “penny stock” market. The broker-dealer must also disclose the commission payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer’s presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the “penny stock” held in the account and information on the limited market in “penny stocks.” Consequently, the “penny stock” rules may restrict the ability of broker-dealers to sell our securities and may negatively affect the ability of purchasers of our shares of common stock to sell such securities.

Future operating results may vary from quarter to quarter, and we may fail to meet the expectations of securities analysts and investors at any given time.

We have experienced, and may continue to experience, significant quarterly fluctuations in operating results. Factors that cause fluctuation in our results of operations include our services mix, development time line and the rate at which customers accept our services offerings. Accordingly, it is possible that in one or more future quarters our operating results will be adversely affected and fall below the expectations of securities analysts and investors. If this happens, the trading price of our common stock may decline.

Sales of substantial amounts of common stock in the public market could reduce the market price of our common stock and make it more difficult for us and our stockholders to sell our equity securities in the future.

Resale into the public market of a significant number of shares issued in prior financings could depress the trading price of our common stock and make it more difficult for our stockholders to sell equity securities in the future. In addition, to the extent other restricted shares become freely available for sale, whether through an effective registration statement or under Rule 144 of the Securities Act of 1933, as amended (the “Securities Act”), or if we issue additional shares that might be or become freely available for sale, our stock price could decrease.

Although the sale of these additional shares to the public might increase the liquidity of our stockholders’ investments, the increase in the number of shares available for public sale could drive the price of our common stock down, thus reducing the value of your investment and perhaps hindering our ability to raise additional funds in the future.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters are located at 430 Mountain Avenue, Murray Hill, New Jersey 07974. These premises consist of approximately 22,000 square feet of leased office space. Our lease expires on January 31, 2014. The base rent for the premises is approximately $366,000 per annum. In addition, we are obligated to pay our share of the landlord’s operating expenses. The Murray Hill premises house our corporate functions and our network operations center. In addition to our headquarters, we lease technical facilities (i) in Ventura, California that house our bridging services group, help desk and technical personnel in approximately 5,000 square feet, the base rent of which is approximately

$101,000 per annum plus our share of the landlord's operating expenses, (ii) in Conshohocken, Pennsylvania that house our dedicated support services group in approximately 5,000 square feet, the base rent of which is approximately $134,000 per annum, and (iii) as a result of our acquisition of Affinity we have a facility in Denver, Colorado that houses additional support service, the base rent of which is $14,000 on a month to month basis. We are currently negotiating a lease for a new office location in Denver.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not Applicable.

## PART II

### Item 5. Market for Registrant’s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

On December 15, 2011, Glowpoint’s securities began trading on the NYSE MKT (formerly Amex) under the symbol “GLOW.”

On January 10, 2011, the Company filed with the Secretary of State of the State of Delaware a Certificate of Amendment to its Amended and Restated Certificate of Incorporation (the "Certificate of Amendment"), effecting a reverse stock split of the Company's common stock, par value $0.0001 per share, at a ratio of one-for-four. The reverse stock split was effective on January 14, 2011. The Company's stockholders approved the Certificate of Amendment on June 17, 2010, and the Company's Board of Directors authorized the implementation of the reverse stock split on December 17, 2010.

As a result of the reverse stock split, every four shares of the Company's then issued and outstanding common stock were combined into one share of common stock. Any fractional shares that resulted from the reverse stock split were paid in cash to the stockholder. The reverse stock split reduced the number of the Company's outstanding shares of common stock from 85,414,000 to approximately 21,354,000 on the date of effectiveness of such split.

The share amounts of common and treasury stock, warrants and options shown in the accompanying consolidated financial statements have been adjusted to reflect the reverse stock split, at a ratio of one-for-four. The exercise price for all options and warrants and the conversion price for preferred stock in the accompanying consolidated financial statements have been adjusted to reflect the reverse stock split by multiplying the original exercise or conversion price by four.

The following table sets forth high and low closing sale prices per share for our common stock for each quarter of 2011 and 2012, based upon information obtained from the OTCBB and NYSE MKT. All reported sales prices reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

| | Glowpoint Common Stock | |
|---|---|---|
| | High | Low |
| Year Ended December 31, 2011 | | |
| First Quarter | $2.60 | $1.90 |
| Second Quarter | 2.25 | 1.96 |
| Third Quarter | 2.34 | 2.00 |
| Fourth Quarter | 2.40 | 2.00 |
| Year Ended December 31, 2012 | | |
| First Quarter | $3.03 | $2.51 |
| Second Quarter | 2.64 | 2.03 |
| Third Quarter | 2.34 | 2.05 |
| Fourth Quarter | 2.25 | 1.79 |

On March 29, 2013, the closing sale price of our common stock was $1.47 per share as reported on the NYSE MKT, and 28,654,639 shares of our common stock were held by approximately 106 holders of record. American Stock Transfer & Trust Company of Brooklyn, New York is the transfer agent and registrar of our common stock.

Dividends

Our board of directors has never declared or paid any cash dividends on our common stock and does not expect to do so for the foreseeable future. We currently intend to retain any earnings to finance the growth and development of our business. Our board of directors will make any future determination of the payment of dividends based upon conditions then existing, including our earnings, financial condition and capital requirements, as well as such economic and other conditions as our board of directors may deem relevant. In addition, the payment of dividends may be limited by financing arrangements to which we are currently a party or which we may enter into in the future.

Table of Contents

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

On October 1, 2012, the Company issued 100,000 shares of unregistered common stock to Burnham Hill Partners, LLC ("BHP") in consideration of services rendered under the Consulting Agreement dated as of September 28, 2012 between the Company and BHP. The shares of common stock were issued in reliance on the exemption from registration set forth in Section 4(2) of the Securities Act. Other than the foregoing, there have been no sales of securities during the fiscal year that have not been previously reported in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

Purchases of Equity Securities by Glowpoint and Affiliated Purchasers

There were no purchases of any Glowpoint securities by Glowpoint or any affiliated purchaser during the fourth quarter of 2012.

Equity Compensation Plan Information

The following table provides information regarding the aggregate number of securities to be issued under all of our equity-based plans upon exercise of outstanding options, warrants and other rights and their weighted-average exercise prices as of December 31, 2012. All securities were issued under approved equity compensation plans.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities Reflecting in Column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 1,757,067 | $3.07 | 321,118 |

Item 6. Selected Financial Data

A smaller reporting company is not required to provide the information required by this Item.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated balance sheets as of December 31, 2012 and 2011 and the related consolidated statements of operations, stockholders’ equity and cash flows for the years ended December 31, 2012 and 2011 and the related notes attached hereto. All statements contained herein that are not historical facts, including, but not limited to, statements regarding anticipated future capital requirements, our future development plans, our ability to obtain debt, equity or other financing, and our ability to generate cash from operations, are based on current expectations. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

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 Company delivers services to more than 600 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

During 2012, we continued our strategy to transition Glowpoint to a cloud-based services company, focusing our sales and marketing efforts on growing the market awareness and adoption of our next-generation virtual meeting solutions based on ourOpenVideo® architecture. Our continuing operations reflect only our meeting solutions. As a result and except as provided herein, the following discussion and analysis reflects our results from continuing operations.

Key highlights of our financial and strategic accomplishments for 2012 include:

- Generated 4.5% growth in our net revenues over 2011,
- Expanded our services and customer base by over 1,000 customers through the acquisition of Affinity,
- Launched OpenVideo Room as our next generation platform for reservationless video conferencing.

Our primary corporate objectives in 2013 are focused on continuing to:

- Expand our global distribution through a more focused sales approach, add new agents, resellers and strategic alliances with service providers worldwide, in order to further our market reach and accelerate customer awareness and adoption of our services;
- Develop and release additional upgrades and enhancements to OpenVideo® to increase functionality, improve competitive positioning and grow market opportunities; and
- Transition our network-only customers to a more converged set of services that provide a richer, more productive user experience.

We believe these strategic initiatives will increase the addressable market opportunity for Glowpoint and our solutions.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Our significant accounting policies are described in Note 2 to our consolidated financial statements attached hereto. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

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, and presented as required by ASC Topic 605 "Revenue Recognition." Revenues derived from other sources are recognized when services are provided or events occur.

Allowance for Doubtful Accounts. We perform ongoing credit evaluations of our customers. We record an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. We also record additional allowances based on our aged receivables, which are determined based on historical experience and an assessment of the general financial conditions affecting our customer base. If our actual collections experience changes, revisions to our allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. We do not obtain collateral from our customers to secure accounts receivable.

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. No impairment losses were recorded during 2012 and 2011 except for the amounts discussed below under capitalized software costs.

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. During 2011 we recorded an impairment loss of $23,000 for certain costs previously capitalized. No related impairment losses were recorded during 2012.

Goodwill.  Goodwill is not amortized but is subject to periodic testing for impairment in accordance with ASC Topic 350 "Intangibles - Goodwill and Other - Testing Indefinite-Lived Intangible Assets for Impairment". The test for impairment will be conducted annually or more frequently if events occur or circumstances change indicating that the fair value of the goodwill may be below its carrying amount. The Company determined that no events occurred or circumstances changed during the three months ended December 31, 2012 that would indicate that the fair value of goodwill may be below its carrying amount. However, if market conditions deteriorate, or if the Company is unable to execute on its strategies, it may be necessary to record impairment charges in the future.

Intangible Assets. Intangible assets include acquired customer relationships, affiliate network and trademarks. Intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from five years to twelve years in accordance with ASC Topic 350 "Intangibles - Goodwill and Other - Testing Indefinite-Lived Intangible Assets for Impairment". Long-lived assets, including intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Results of Operations

Year Ended December 31, 2012 (“2012 Year”) versus Year Ended December 31, 2011 ("2011 Year")

Revenue. Total revenue increased $1,264,000, or 4.5%, in the 2012 Year to $29,070,000 from $27,806,000 in the 2011 Year. 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 16.5% to $14,932,000 in the 2012 Year, from $12,816,000 in the 2011 Year. Revenue for Managed Services Combined accounted for 51.4% of our total revenue in the 2012 Year compared to 46.1% for the 2011 Year. The increase in revenue for Managed Services Combined was primarily attributable to the acquisition of Affinity.
- Revenue for network services, which represents network sales and related services generally tied to contracts of 12 months or more, decreased 7.6% to $12,366,000 in the 2012 Year from $13,387,000 in the 2011 Year. Revenue for network services accounted for 42.5% of total revenue in the 2012 Year compared to 48.1% for the 2011 Year. The decrease in revenue for network services was primarily attributable to customers disconnecting or transitioning to managed service in their portfolio of Glowpoint services.
- Revenue for professional and other services, which represent non-recurring services, increased 10.5% to $1,772,000 in the 2012 Year from $1,603,000 in the 2011 Year. Revenue for professional and other services accounted for 6.1% of revenue in the 2012 Year compared to 5.8% for the 2011 Year. The increase in revenue for professional and other services was primarily attributable to the acquisition of Affinity.

| | Year Ended December 31, (in thousands) | | | |
|---|---|---|---|---|
| | 2012 | 2011 | Increase (Decrease) | % Change |
| Revenue | | | | |
| Managed Services Combined | $14,932 | $12,816 | $2,116 | 16.5 % |
| Network services | 12,366 | 13,387 | (1,021) | (7.6) |
| Professional and other services | 1,772 | 1,603 | 169 | 10.5 |
| Total revenue | $29,070 | $27,806 | $1,264 | 4.5 % |

Network and Infrastructure Expenses. Network and infrastructure expenses increased 1.3% to $9,513,000 in the 2012 Year from $9,388,000 in the 2011 Year. 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 increase was primarily attributed to the acquisition of Affinity.

Global Managed Services Expenses. Global managed services expenses increased 1.7% to $7,477,000 in the 2012 Year from $7,350,000 in the 2011 Year. 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 increase was primarily attributed to the acquisition of Affinity.

Sales and Marketing Expenses. Sales and marketing expenses increased 19.2% to $4,180,000 in the 2012 Year from $3,506,000 in the 2011 Year. The increase 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, human resources and information technology, increased 13.3% to $6,411,000 in the 2012 Year from $5,656,000 in the 2011 Year. The increase was primarily due to expenses related with the acquisition of Affinity.

Depreciation and Amortization Expenses. Depreciation and amortization expenses increased 45.2% to $2,085,000 in the 2012 Year from $1,436,000 in the 2011 Year, due to purchases of property and equipment exceeding the retirement of these assets.

Income (Loss) from Operations. Income from operations decreased by $1,066,000 in the 2012 Year to a $596,000 loss from $470,000 income in the 2011 Year. The primary drivers of the decrease were due to acquisition related expenses of $857,000 and a decline in revenue associated with network services.

Interest and Other Expense. Interest and other expense in the 2012 Year was $574,000, which principally reflected $421,000 of interest charges on outstanding debt (see new debt acquired as discussed in Note 6 to our consolidated financial statement attached hereto) and $153,000 of the amortization of financing charges related to our Revolving Loan Facility and other debt. Interest and other expense in the 2011 Year was $129,000, which principally reflected $67,000 of interest charges from vendors and $62,000 of the amortization of financing charges related to certain private placement transactions in the Company completed during the 2011 Year.

Income (Loss) from Continuing Operations. Income from continuing operations decreased by $1,511,000 to a $1,170,000 loss in the 2012 Year from $341,000 in the 2011 Year. This decrease was due to acquisition related expenses of $857,000 and a reduction in revenue as noted above.

Income from Discontinued Operations. Income from discontinued operations decreased by $28,000 to $0 in the 2012 Year from $28,000 in the 2011 Year. This decrease was a result of the transfer of our ISDN resale business completed in the third quarter of 2011.

Income Taxes. As a result of our current taxable income, a $2,221,000 benefit from income taxes was recorded for the tax benefit related to the amortization of the intangible assets acquired through Affinity in the 2012 Year. There was no provision recorded in the 2011 Year. 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.

Net Income (Loss). Net Income increased by $682,000 to $1,051,000 or, or $0.04 per basic and diluted share, in the 2012 Year. The primary drivers of the increase were due to the tax benefit as noted above.

Liquidity and Capital Resources

For the year ended December 31, 2012, we had net income of $1,051,000 and a positive cash flow from operations of $821,000. As of December 31, 2012, we had $2,218,000 of cash, positive working capital of $711,000 and an accumulated deficit of $163,648,000. 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 (as discussed in Note 6 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") 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 Comerica Revolver bears 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. As of December 31, 2012, we had unused borrowing availability of approximately $2,220,000.

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 3 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 bears 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. On March 28, 2013, the Company and Comerica Bank mutually agreed to amend the Loan and Security Agreement, dated as of October 1, 2012 (the “Amendment”), which Amendment required the consent of Escalate Capital Partners SBIC I, L.P. ("Escalate"). In consideration of Escalate's consent to the Amendment and entrance into an Affirmation, the Company issued 100,000 shares of its common stock to Escalate. The Amendment established revised financial covenants for future minimum levels of liquidity and EBITDA to be more consistent with the Company's continuing operations. The financial covenants affected by the Amendment were (i) the total funded debt to adjusted EBITDA ratio, (ii) the senior funded debt to adjusted EBITDA ratio and (iii) the fixed charge coverage ratio. The Amendment also added two new financial covenants, a minimum cash requirement and an extraordinary expenses limitation. Further, the Amendment reduced funds available to the Company under the Comerica Revolver so that advances under the Comerica Revolver cannot exceed the lesser of the Revolving Line or the Borrowing Base, less in each case any amount outstanding under the Comerica Revolver up to $1,500,000.

Pursuant to the terms of our Series A-2 Preferred Stock and Series B-1 Preferred Stock, the Company is not obligated to pay dividends on a current basis, however, mus