GLOWPOINT INC
Form 10-Q
June 26, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2007.

or

o 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	**77-0312442**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Number)

225 Long Avenue, Hillside, New Jersey 07205
(Address of Principal Executive Offices)

312-235-3888
(Issuer'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 o No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

Yes o No x

The number of shares outstanding of the registrant's Common Stock as of June 26, 2007 was 47,209,673.

GLOWPOINT, INC

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* The Condensed Consolidated Balance Sheet at December 31, 2006 has been derived from the audited consolidated financial statements filed as an exhibit to our Report on Form 10-K on June 6, 2007.

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

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,290	$ 2,153
Accounts receivable, net of allowance for doubtful accounts of $132 and $121; respectively	2,350	2,748
Prepaid expenses and other current assets	527	327
Total current assets	5,167	5,228
Property and equipment, net	2,635	2,762
Other assets	273	403
Total assets	$ 8,075	$ 8,393
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 2,259	$ 1,957
Accrued expenses	2,205	1,906
Customer deposits	329	102
Accrued sales taxes and regulatory fees	4,210	4,216
Derivative financial instruments	4,956	4,301
10% Senior secured convertible notes, net of discount of $1,652 and $2,280, respectively	5,119	4,326
Deferred revenue	290	288
Total current liabilities	19,368	17,096
Preferred stock, $.0001 par value; 5,000 shares authorized and redeemable; 0.120 Series B shares issued and outstanding, (stated value of $2,888; liquidation value of $3,820 and $3,735, respectively)	2,888	2,888
Commitments and contingencies		
Stockholders' deficit:		
Common stock, $.0001 par value; 100,000 shares authorized; 46,750 and 46,390 shares issued and issuable; 46,710 and 46,350 shares outstanding, respectively	5	5
Additional paid-in capital	161,327	161,267
Accumulated deficit	(175,273)	(172,623)
	(13,941)	(11,351)
Less: Treasury stock, 40 shares at cost	(240)	(240)
Total stockholders' deficit	(14,181)	(11,591)
Total liabilities and stockholders' deficit	$ 8,075	$ 8,393

See accompanying notes to condensed consolidated financial statements.

GLOWPOINT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2007	2006
Revenue	$ 5,661	$ 4,721
Cost of revenue	3,909	3,486
Gross margin	1,752	1,235
Operating expenses:		
Research and development	161	271
Sales and marketing	646	729
General and administrative	1,951	4,653
Total operating expense	2,758	5,653
Loss from operations	(1,006)	(4,418)
Other expense (income):		
Interest expense	915	1,638
Interest income	(15)	(4)
(Decrease) increase in fair value of derivative financial instruments	614	(23)
Amortization of deferred financing costs	130	—
Total other expense, net	1,644	1,611
Net loss	(2,650)	(6,029)
Preferred stock dividends	(85)	(85)
Net loss attributable to common stockholders	$ (2,735)	$ (6,114)
Net loss attributable to common stockholders per share:		
Basic and diluted	$ (0.06)	$ (0.13)
Weighted average number of common shares:		
Basic and diluted	46,540	46,046

See accompanying notes to condensed consolidated financial statements.

GLOWPOINT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
Three Months Ended March 31, 2007

(In thousands)

(Unaudited)

	Common Stock		Paid In	Accumulated	Treasury Stock		
	Shares	Amount	Capital	Deficit	Shares	Amount	Total
Balance at January 1, 2007	46,390	$ 5	$ 161,267	$ (172,623)	40	$ (240)	$ (11,591)
Net loss	—	—	—	(2,650)	—	—	(2,650)
Comprehensive loss	—	—	—	—	—	—	(2,650)
Stock-based compensation	—	—	83	—	—	—	83
Issuance of restricted stock	360	—	62	—	—	—	62
Preferred stock dividends	—	—	(85)	—	—	—	(85)
Balance at March 31, 2007	46,750	$ 5	$ 161,327	$ (175,273)	40	$ (240)	$ (14,181)

See accompanying notes to consolidated financial statements.

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

(Unaudited)

	Three Months Ended March 31,	
	2007	2006
Cash flows from Operating Activities:		
Net loss	$ (2,650)	$ (6,029)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	429	526
Other expense (income) recognized for the increase (decrease) in the estimated fair value of the derivative financial instruments	614	(23)
Amortization of deferred financing costs	130	—
Accretion of discount on 10% Notes	628	—
Beneficial conversion feature for 10% Notes	41	1,586
Stock-based compensation	145	297
Increase (decrease) in cash attributable to changes in assets and liabilities:		
Accounts receivable	398	143
Prepaid expenses and other current assets	(200)	85
Other assets	—	6
Accounts payable	302	822
Customer deposits	227	(10)
Accrued expenses, sales taxes and regulatory fees	373	1,623
Deferred revenue	2	(58)
Net cash provided by (cash used) in operating activities	439	(1,032)
Cash flows from Investing Activities:		
Purchases of property, equipment and leasehold improvements	(302)	(121)
Net cash used in investing activities	(302)	(121)
Increase (decrease) in cash and cash equivalents	137	(1,153)
Cash and cash equivalents at beginning of period	2,153	2,023
Cash and cash equivalents at end of period	$ 2,290	$ 870
Supplement disclosures of cash flow information:		
Cash paid during the period for		
Interest	$ 1	$ —
Non-cash investing and financing activities:		
Preferred stock dividends	$ 85	$ 85
Additional 10% Notes issued as payment for interest	165	—
Deferred financing costs for 10% Notes incurred by issuance of placement agent warrants	—	279
Proceeds from March 2006 financing not yet received	—	5,179

See accompanying notes to condensed consolidated financial statements.

GLOWPOINT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007

(Unaudited)

Note 1 - Basis of Presentation

The Business

Glowpoint, Inc. (“Glowpoint” or “we” or “us”), a Delaware corporation, is a premiere broadcast-quality, IP (Internet Protocol)-based managed video services provider. We offer a vast array of managed video services, including video application services, managed network services, IP and ISDN videoconferencing services, multi-point conferencing (bridging), technology hosting and management, and professional services. We provide these services to a wide variety of companies, from large enterprises and governmental entities to small and medium-sized businesses. Glowpoint is exclusively focused on high quality two-way video communications and has been supporting millions of video calls since its launch in 2000. We have bundled some of our managed services to offer video communication solutions for broadcast/media content acquisition and for video call center applications. Recently, with the advent of HD (High Definition) Telepresence solutions, we have combined various components of our features and services into a comprehensive “white glove” service offering that can support any of the telepresence solutions on the market today.

Liquidity and Going Concern

Our condensed consolidated financial statements have been prepared assuming we will continue as a going concern. We have incurred recurring operating losses and negative operating cash flows since our inception including a net loss attributable to common stockholders of $2,735,000 for the three months ended March 31, 2007. At March 31, 2007, we had a working capital deficit of $14,201,000. Excluding $657,000 of one-time customer deposits and an early payment for services provided in March, we would have had $1,633,000 in cash and cash equivalents at March 31, 2007 and cash used in operating activities of $218,000 for the three months ended March 31, 2007. Additionally, the 10% Senior Secured Convertible Notes (the “10% Notes”) (see Note 5) mature in September 2007. These factors raise substantial doubt as to our ability to continue as a going concern. In March 2006 we implemented a corporate restructuring plan designed to reduce certain operating, sales and marketing and general and administrative costs (see Note 7). Assuming we realize all of the savings from our restructured operating activities, assuming we are able to negotiate favorable terms with the authorities regarding our sales and use taxes and regulatory fees and assuming we are able to renegotiate or refinance the 10% Notes, we believe that our available capital as of March 31, 2007 will enable us to continue as a going concern through March 31, 2008. There are no assurances, however that we will be able to raise additional capital as needed, or upon acceptable terms nor any assurances that we will be able renegotiate the terms and maturity date of the 10% Notes. If we are unable to renegotiate the maturity of the 10% Notes or issue new securities on favorable terms to repay them, it would have a material adverse effect on the Company. The accompanying financial statements do not include any adjustments that might result from this uncertainty.

Summary of Significant Accounting Policies

Quarterly Financial Information and Results of Operations

The financial statements as of March 31, 2007 and for the three months ended March 31, 2007 and 2006, 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 March 31, 2007, and the results of operations and cash flows for the three months ended March 31, 2007 and 2006. The results for the three months ended March 31, 2007 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

consolidated financial statements should be read in conjunction with the consolidated financial statements and the footnotes thereto for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission as an exhibit to Form 10-K on June 6, 2007.

See “Note 2 - Basis of Presentation, Liquidity and Summary of Significant Accounting Policies” in the consolidated financial statements for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission as an exhibit to Form 10-K on June 6, 2007 for a discussion of the estimates and judgments necessary in the Company’s accounting for sales taxes and regulatory fees, concentration of credit risk, lives of property and equipment, income taxes and fair value of financial instruments. There have been no changes to our critical accounting policies in the three months ended March 31, 2007. Critical accounting policies and the significant estimates made in accordance with them are regularly discussed with our Audit Committee.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Glowpoint and our wholly owned subsidiaries, GP Communications LLC, AllComm Products Corporation and VTC Resources, Inc. All material inter-company balances and transactions have been eliminated in consolidation.

Reclassifications

Certain amounts from 2006 have been reclassified to conform to the 2007 presentation.

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 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, sales and use tax obligations, regulatory fees and related penalties and interest, the estimated life of customer relationships, the estimated lives of property and equipment and the fair value of derivative financial instruments.

Revenue Recognition

We recognize subscription revenue when the related services have been performed. Revenue billed in advance is deferred until the revenue has been earned. Other service revenue, including amounts related to surcharges charged by our carriers, related to the Glowpoint managed network service and the multi-point video and audio bridging services are recognized as service is provided. As the non-refundable, upfront activation fees charged to the subscribers do not meet the criteria as a separate unit of accounting, they are deferred and recognized over the twenty-four month period estimated life of the customer relationship. Revenues derived from other sources are recognized when services are provided or events occur.

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 in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144 *“Accounting for the Impairment or Disposal of Long-Lived Assets”*. 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, the related assets will be written down to fair value. In the 2007 and 2006 periods, no impairment losses were indicated or recorded.

Derivative Financial Instruments

The Company’s objectives in using debt related derivative financial instruments are to obtain the lowest cash cost source of funds within a targeted range of variable to fixed-rate debt obligations. Derivatives are recognized in the consolidated balance sheets at fair value based on the criteria specified in SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”. The estimated fair value of the derivative liabilities is calculated using the Black-Scholes formula where applicable and such estimates are revalued at each balance sheet date with changes in value recorded as other income or expense in the statement of operations.

Related Party Transactions

The Company receives consulting and tax services from an accounting firm in which one of our directors is a partner. Management believes that such transactions are at arm's-length and for terms that would have been obtained from unaffiliated third parties. For the three months ended March 31, 2007 and 2006, we incurred fees for these services of $3,000 and $0, respectively.

Software Development Costs

The company incurs costs for the development of its "Customer Connect" software that is to be sold, leased or licensed to third parties in the future. All software development costs have been appropriately accounted for in accordance with SFAS 86 "*Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*". Software development costs are required to be capitalized when a product's technological feasibility has been established by completion of a detailed program design or working model of the product, and ending when a product is available for release to customers. The Company capitalized $73,000 and $0 of software development costs for the three months ended March 31, 2007 and 2006, respectively.

Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. ("FIN") 48 *"Accounting for Uncertainty in Income Taxes*" ("FIN 48"). FIN 48 sets forth a recognition threshold and measurement attribute for financial statement recognition of positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 had no material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159 *"The Fair Value Option for Financial Assets and Financial Liabilities"*. SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its financial position and results of operations.

Note 2 - Stock-Based Compensation

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 the closing market price of the common stock on the date of grant. Effective January 1, 2006, the Company adopted Statement of Financial Standards No. 123R, *Share-Based Payment* ("SFAS No. 123R") which requires that compensation cost relating to share-based payment transactions be recognized as an expense in the financial statements and that measurement of that cost be based on the estimated fair value of the equity or liability instrument issued. Under SFAS No. 123R, the pro forma disclosures previously permitted under SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123") are no longer an alternative to financial statement recognition. SFAS No. 123R also requires that forfeitures be estimated and recorded over the vesting period of the instrument.

The Company has adopted SFAS No. 123R using the modified prospective method which requires that share-based expense recognized includes: (a) earned share-based expense for all awards granted prior to, but not yet vested, as of the adoption date and (b) earned share-based expense for all awards granted subsequent to the adoption date. Since the modified prospective application method is being used, there is no cumulative effect adjustment upon the adoption of SFAS No. 123R, and the Company's December 31, 2006 financial statements do not reflect any restated amounts. No modifications were made to outstanding options prior to the adoption of SFAS No. 123R, and the Company did not

change the quantity, type or payment arrangements of any share-based payments programs.

The weighted average fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions during the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
Risk free interest rate	4.7%	4.3%
Expected option lives	5 Years	5 Years
Expected volatility	99.3%	96.1%
Estimated forfeiture rate	10%	30%
Expected dividend yields	None	None
Weighted average grant date fair value of options	$ 0.45	$ 0.45

Expected volatility was calculated using the historical volatility of the Company. The expected term of the options is estimated based on the Company's historical exercise rate and forfeiture rates are estimated based on 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 term of the grants. The assumptions used in the Black-Scholes option valuation model are highly subjective, and can materially affect the resulting valuation.

A summary of options granted, exercised, expired and forfeited under our plans and options outstanding as of and for the three months ended March 31, 2007 with respect to all outstanding options is as follows (options in thousands):

	Outstanding		Exercisable	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, January 1, 2007	5,100	$ 2.26	3,664	$ 2.86
Granted	34	0.59		
Exercised	—	—		
Expired	(1,360)	2.95		
Forfeited	(148)	1.61		
Options outstanding, March 31, 2007	3,626	$ 2.02	2,230	$ 2.84

At March 31, 2007, there was $114,000 of total unrecognized compensation costs related to non-vested options granted prior to January 1, 2006 that are expected to be recognized over a weighted-average period of 0.72 years.

The Company has recorded $83,000 and $142,000 related to its stock option compensation in general and administrative expenses for the three months ended March 31, 2007 and 2006, respectively. There was no income tax benefit recognized for stock-based compensation for the three months ended March 31, 2007 and 2006. No compensation costs were capitalized as part of the cost of an asset. The intrinsic value of stock options granted in the three months ended, and as of March 31, 2007 and 2006 was $2,000 and $0, respectively.

Restricted Stock

A summary of restricted stock granted, vested, forfeited and unvested restricted stock outstanding as of March 31, 2007, is presented below (restricted shares in thousands):

	Restricted Shares	Weighted Average Exercise Price
Unvested restricted shares outstanding, January 1, 2007	317	$ 0.71
Granted	360	0.62
Vested	(97)	1.35
Forfeited	—	—
Unvested restricted shares outstanding, March 31, 2007	580	$ 0.53

The Company has recorded $62,000 and $155,000 related to its restricted stock compensation in general and administrative expenses for the three months ended March 31, 2007 and 2006, respectively. There was no income tax benefit recognized for stock-based compensation for the three months ended March 31, 2007 and 2006, respectively. No compensation costs were capitalized as part of the cost of an asset.

Note 3 - Loss Per Share

Basic loss per share is calculated by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted loss per share for the three months ended March 31, 2007 and 2006 is the same as basic loss per share. Potential shares of common stock associated with 17,956,000 and 20,777,000 outstanding options and warrants, 1,729,000 and 1,699,000 shares issuable upon the conversion of our Series B convertible preferred stock and 13,542,000 and 11,330,000 shares issuable upon conversion of the 10% Notes as of March 31, 2007 and 2006, respectively, have been excluded from the calculation of diluted loss per share because the effects would be anti-dilutive.

Note 4 - Stockholders' Deficit

In February 2004, we raised net proceeds of $12,480,000 in a private placement of 6,100,000 shares of our common stock at $2.25 per share. The registration rights agreement for the February 2004 financing provides for liquidated damages of 3% of the aggregate purchase price for the first month and 1.5% for each subsequent month if we failed to register the common stock and the shares of common stock underlying the warrants or maintain the effectiveness of such registration. We account for the registration rights agreement as a separate freestanding instrument and account for the liquidated damages provision as a derivative liability subject to SFAS No. 133. The estimated fair value of the derivative liability is based on estimates of the probability and costs expected to be incurred and such estimates are revalued at each balance sheet date with changes in value recorded as other income or expense. Approximately $1,164,000 of the proceeds of the financing was attributed to the estimated fair value of the derivative liability. We estimated the fair value of the derivative liability to be $1,223,000 and $1,236,000 as of March 31, 2007 and December 31, 2006. We recognized other income of $13,000 and $23,000 for the three months ended March 31, 2007 and 2006, respectively.

Note 5 - 10% Senior Secured Convertible Notes

10% Senior Secured Convertible Notes and 10% Note Discount

In March and April 2006, we issued our 10% Senior Secured Convertible Notes ("10% Notes") in a private placement to private investors. Activity for the 10% Notes and 10% Notes discount during the three months ended, and as of March 31, 2007, was as follows (in thousands):

	Dec. 31, 2006	Activity	Mar. 31, 2007
Principal of 10% Notes:			
March 2006 financing	$ 5,665	$ —	$ 5,665
April 2006 financing	515	—	515
Additional 10% Notes	426	165	591
	6,606	165	6,771
Discount:			
Derivative financial instrument - Series A Warrants	(2,873)	—	(2,873)
Reduction of exercise price and extension of expiration dates of warrants	(766)	—	(766)
	(3,639)	—	(3,639)
Accretion of discount	1,359	628	1,987
	(2,280)	628	(1,652)
10% Notes, net of discount	$ 4,326	$ 793	$ 5,119

In the March and April 2006 transactions, we issued $5,665,000 and $515,000, respectively, with a total aggregate principal amount of $6,180,000 of our 10% Notes and Series A warrants to purchase 6,180,000 shares of common stock at an exercise price of $0.65 per share. The warrants are subject to certain anti-dilution protection. We also agreed to reduce the exercise price of 3,625,000 previously issued warrants held by the investors in this offering to $0.65 from a weighted average price of $3.38, and to extend the expiration date of any such warrants to no earlier than three years after the offering date. The new weighted average expiration date of the warrants will be 3.5 years from a previous weighted average expiration date of 2.9 years. In addition, we issued to Burnham Hill Partners placement agent warrants to purchase 618,000 shares of our common stock at an exercise price of $0.55 per share. The warrants are subject to certain anti-dilution protection. The $5,585,000 net proceeds of the March and April 2006 financings are being used to support our corporate restructuring program and for working capital.

The 10% Notes bear interest at 10% per annum, increasing to 12% in April 2007 and mature on September 30, 2007. They are convertible into common stock at a conversion rate of $0.50 per share. We have the option to pay the accrued interest for the 10% Notes in cash or additional 10% Notes. The Series A warrants are exercisable for a period of 5 years.

We accounted for the reduction of the exercise price of 3,625,000 previously issued warrants held by the investors in this offering to $0.65 from a weighted average price of $3.38, and the extension of the expiration date of any such warrants to no earlier than three years after the offering date at fair value as a debt discount with an offsetting credit to paid in capital. A portion of the finance costs of the 10% Notes in March and April 2006 will be allocated to this transaction and charged to paid in capital. The estimated fair value of this modification is based on the excess of the fair value of these warrants at the date of the financings over the fair value of these warrants at their original terms. In the March and April 2006 financings $766,000 of the proceeds was attributed to the estimated fair value of the modification of price and term of these warrants. The $766,000 fair value of this modification will be treated as a discount of the 10% Notes and expensed, using the imputed interest method, over the 18 month period to the 10% Note's maturity date.

During the three months ended March 31, 2007 and 2006 the accretion of discount was $628,000 and $0, respectively.

Financing Costs

The financing costs, which were included in the other assets in the accompanying balance sheets, and accumulated amortization as of March 31, 2007, are as follows (in thousands):

	March 31, 2007
Cash financing costs:	
Placement agent fees - Burnham Hill Partners	$ 480
Other financing costs	115
	595
Placement agent warrants - Burnham Hill Partners	296
Financing costs charged to additional paid in capital	(110)
Total financing costs	781
Accumulated amortization	(519)
	$ 262

The financing costs are being amortized over the 18 month period through September 30, 2007, the maturity date of the 10% Notes. During the three months ended March 31, 2007 and 2006 the amortization of financing costs was $130,000 and $0, respectively.

Accounting for Conversion Feature and Series A Warrant Derivative Liabilities

Activity for derivative liabilities during the quarter ended March 31, 2007 and December 31, 2006, was as follows (in thousands):

	Dec. 31, 2006	Additions	Increase (decrease) in Fair Value	Mar. 31, 2007
Derivative financial instrument - February 2004 capital raise	$ 1,236	$ —	$ (13)	$