

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____ .

Commission File No. 001-33601

GlobalSCAPE, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

74-2785449

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

4500 Lockhill-Selma, Suite 150

San Antonio, Texas

(Address of Principal Executive Office)

78249

(Zip Code)

(210) 308-8267

(Registrant's Telephone Number, Including Area Code)

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

Common Stock, par value \$0.001 per share

(Title of Class)

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 No

Indicate by check mark whether disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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.

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 "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated filer

Accelerated filer

Non-Accelerated filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

Yes No

The aggregate market value of the registrant's outstanding common stock held by non-affiliates was approximately \$21,955,050 as of the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sales price of \$2.20 per share on such date on the NYSE MKT.

As of March 15, 2014 there were 20,048,817 shares of common stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2014 Annual Meeting of Stockholders to be held on May 14, 2014, are incorporated by reference in Part III hereof.

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Preliminary Notes

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Other trademarks and trade names in this Annual Report are the property of their respective owners.

In this report, we use the following terms:

“Cloud” or “cloud computing” refers to pooled computing resources, delivered on-demand, over the Internet. In the same manner that electricity is delivered on-demand from large scale power plants, cloud computing is delivered from centralized data centers to users all over the world.

“DMZ” or Demilitarized Zone refers to a computer host or perimeter network inserted between a trusted internal network and an untrusted public network such as the Internet.

“FTP” or File Transfer Protocol is a protocol used to exchange or manipulate files over a computer network such as the Internet.

“HTTP” or Hyper Text Transfer Protocol is a protocol commonly used to transfer hypertext documents between a web server and a web browser.

“LAN” or Local Area Network provides networking capability to a group of computers in close proximity to each other, such as in an office building or home.

“MFT” or Managed File Transfer refers to software solutions that facilitate the secure transfer of data from one computer to another through a network.

“RFC” or Request for Comment is a memorandum published by the Internet Engineering Task Force describing methods, research, or innovations applicable to the working of the Internet and Internet-connected systems.

“SaaS” or Software-as-a-Service uses hosted, cloud computing approaches in which the customer additionally does not need to install the underlying software on its own computer systems to access the application.

“SMB” means small to medium size business.

“SSL” or Secure Sockets Layer and “TLS” or Transport Layer Security uses cryptography to encrypt data between the web server and the web browser.

“WAN” or Wide Area Network is a computer network that spans a relatively large geographical area, and typically connects multiple LANs. The largest WAN in existence is the Internet.

Forward-Looking Statements

This Annual Report on Form 10-K and the documents incorporated by reference herein contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. “Forward-looking statements” are those statements that are not of historical fact but describe management’s beliefs and expectations. We have identified many of the forward-looking statements in this Annual Report by using words such as “anticipate,” “believe,” “could,” “estimate,” “may,” “expect,” “potentially” and “intend.” Although we believe these expectations are reasonable, our operations involve a number of risks and uncertainties, including those described in the “Risk Factors” section of this Annual Report and other documents filed with the Securities and Exchange Commission. Therefore, GlobalSCAPE’s actual results could differ materially from those discussed in this Annual Report.

PART I

Item 1. Business

Company Overview

We provide secure information exchange capabilities for enterprises and consumers through the development and distribution of software, delivery of managed and hosted solutions, and provisioning of associated services. We have thousands of enterprise customers and more than one million individual consumers in over 150 countries. Our solutions are used by more than 20,000 U.S. Army personnel deployed worldwide.

We believe we are well-positioned to provide secure transfer, sharing, and replication of files that need to be transmitted inside the user's firewall to distributed offices, or outside the user's firewall to business and trading partners, including network-enabled mobile devices. Our solution portfolio addresses data and information management, movement, security and accessibility across a broad range of environments encompassing data and information in motion (for example, with traditional Managed File Transfer, or MFT, solutions delivered as on-premises software or as a cloud service) and at rest (for example, through securely deleting or purging files or securely accessing stored data from mobile tablet or smartphone devices).

Our solution portfolio facilitates transmission of critical information such as financial data, medical records, customer files, vendor files, personnel files, transaction activity, and other similar documents between diverse and geographically separated network infrastructures while supporting a range of information protection approaches to meet privacy and other security requirements. In addition to enabling secure, flexible transmission of critical information using servers, desktop and notebook computers, and a wide range of network-enabled mobile devices, our products also provide customers with the ability to monitor and audit file transfer activities.

Our solutions ensure compliance with government regulations and industry standards relating to the protection of information while allowing users to reduce IT costs, increase efficiency, track and audit transactions, and automate processes. Our solutions also provide data replication, acceleration of file transfer, sharing/collaboration and continuous data backup and recovery to our customers.

Our initial product, CuteFTP, a file transfer program used mostly by individuals and small businesses, was first distributed in 1996 over the Internet and achieved significant success and popularity. Since then, we have continued to enhance our portfolio of products to meet the increasing demand for secure information exchange in the MFT industry and adjacent markets such as cloud services. Our capabilities have evolved from personal and small business MFT products to include standard and enterprise versions of our Enhanced File Transfer, or EFT, software with an increasing number of add-on modules that provide additional capabilities such as ad hoc file transfer, advanced auditing and reporting, government-validated cryptography, and workflow automation. We have also developed Wide-Area File Services, or WAFS, software which uses data synchronization to further enhance the ability to replicate, share and backup files within a wide area network or local area network, at higher speeds than possible with alternate approaches.

Our Mail Express product offers managed e-mail attachment solutions for information sharing. We believe our managed e-mail attachment solution addresses the needs of customers who are constrained by the typical limits on e-mail attachment size or who require additional security, auditing, and reporting for file attachments shared through e-mail.

We also offer software-as-a-service, or SaaS, and cloud-based subscription solutions for information sharing. Our SaaS and cloud-based subscription solutions allow customers to reduce their upfront and total cost of ownership and achieve other recognized benefits of cloud-based solutions, including service elasticity and strong service level agreements for IT infrastructure reliability and performance. We believe our managed, cloud-based subscription solutions may become a notable part of our future revenue because these solutions provide recurring revenue which potentially builds over time, as compared to sales of on-premises software licenses which must be reconstituted every period. We have the capability to deliver these services in the United States as well as in additional geographies, such as the United Kingdom and Canada, where country-specific compliance requirements may necessitate in-country service delivery.

We serve the secure content mobility market with our TappIn solutions. Secure content mobility provides users with the ability to easily and securely access and share data and information using a web-browser, tablet or other mobile device such as a smartphone. Secure content mobility integrates aspects of ad hoc file transfer, broader MFT capabilities, cloud services, and remote accessibility to address growing market demand for secure, 'anytime and anywhere', device-independent access to distributed content. We believe that the inclusion of secure content mobility capability in our portfolio will contribute to the future growth of our business due to the continuing adoption of tablet computers and smartphones.

As a corporation, we have won multiple awards for performance and reputation, including:

- In 2013, we were named in Software Magazine’s Software 500 revenue-based ranking of the world’s largest software and service providers for the third year in a row.
- In 2013, we were listed in the highest ranking category of “Champion” in Info-Tech Research Group’s Vendor Landscape Report for managed file transfer for the second year in a row.
- In 2013, Texas Monthly named GlobalSCAPE one of the best companies to work for in Texas for the fourth year in a row, ranking us #13 in the medium size category.
- In 2013, the San Antonio Business Journal recognized us for fast growth in revenue for the second consecutive year.
- In 2012, we were named one of the top 50 companies in the San Antonio Express-News Top Workplaces for the third year in a row.
- In 2012, we were named one of the “Best Places to Work” by the San Antonio Business Journal for the third year in a row.
- In 2011, Computerworld named GlobalSCAPE on its list of “100 Best Places to Work in IT” for the second year in a row.

Industry Background

The Internet has become an integral part of daily operations for individual users and companies of all sizes, not only for e-commerce, but also as a means of managing information between central and remote locations and with associates, employees, partners, suppliers, and customers. Corporate information managers must protect business assets, ensure that policies and processes meet regulations governing the management of sensitive information, and ensure that the right people have access to the right information, at the right place and at the right time. Global operations, diverse business partners and networks further emphasize the need for common standards to ensure compatibility, scalability, privacy, security and cost-effective integration. These requirements have created the need for maintaining the security of data and information in motion (for example, with traditional MFT solutions delivered as on-premises software or as a cloud service) and at rest (for example, through securely deleting or purging files or securely accessing stored data from mobile tablet or smartphone devices).

The need for MFT and secure content mobility solutions is particularly strong for organizations faced with a daunting array of privacy, security, and remote accessibility challenges stemming from various regulatory and business requirements for data privacy and confidentiality. Regulatory and privacy requirements include federal legislation and regulations such as the Health Insurance Portability and Accountability Act (HIPAA), the Gramm-Leach-Bliley Act (GLBA), the Federal Trade Commission Red Flags Rules, as well as state legislation and regulations in the U.S such as California Senate Bill (SB) 1386 and the data security regulations issued by the Massachusetts Office of Consumer Affairs and Business, as well as the extraterritorial requirements such as the European Union Data Privacy Directive. Some of these statutes and regulations impose severe penalties for improper disclosure of confidential information. Industry best-practices such as the Payment Card Industry Data Security Standard (PCI DSS) and self-imposed business requirements lead to the need to secure and protect consumer information, intellectual property and trade secrets. These measures offer protection against disclosure of proprietary information and also reduce corporate risks associated with the potentially devastating consequences of security breaches.

Markets for MFT and secure remote access grew from mainstream adoption of the Internet, the subsequent exponential growth in data and information sharing, and the growing realization that information is a significant business currency requiring appropriate security, management, auditing, and reporting, and also subject in many cases to regulatory and privacy requirements. Similarly, the cloud services market arose from recognition that the Internet allows ubiquitous, global access to data and information services. By leveraging Internet technologies, and delivering services through appropriately secured and managed shared resources, cloud-based solutions allow businesses and other organizations to achieve economies of scale and greater operational agility. Cloud solutions also can support individual consumer needs for information access and sharing at very affordable costs. Secure content mobility solutions provide these same benefits, but extend the information delivery model to and from the broadest range of network-enabled devices, including smartphones and tablets.

Our primary industry is known as managed file transfer. The MFT industry has its technical origin in the file transfer protocol, or FTP. FTP dates back to 1980 (RFC 765, later superseded by RFC 959), with even earlier RFCs guiding prior attempts to establish standards for file transfer protocols. The use of file transfer protocols increased dramatically with the explosive growth of the Internet and the World Wide Web during the 1990s. The MFT industry arose from recognition that FTP, alone, does not provide adequate security and management capabilities for file transfers. MFT solutions offer a greater degree of security and control than FTP. Features available in MFT solutions include integrated security, auditing capabilities, performance monitoring, and reporting. The MFT industry includes low cost, or even free, solutions that offer basic capabilities. However, we believe businesses and even individuals procure more advanced solutions that provide scalability, enhanced security options, automated workflow, dedicated maintenance and support, and other features that facilitate high-confidence, secure and cost effective file transfers.

Cloud computing is a model for enabling convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned, released, and scaled to meet requirements. We believe the continuing movement to cloud services is analogous to the telecommunications shift from dedicated point-to-point circuits to a delivery model in which the entire telecommunications infrastructure potentially can be used to establish, maintain, and manage individual connections on an as-needed basis.

The secure content mobility market has emerged from a confluence of the same primary market forces that drove demand for MFT and cloud services, with those forces magnified by the exponential, worldwide proliferation of mobile devices. Secure content mobility solutions will become increasingly necessary to allow business and consumers to securely access and share data, potentially across multiple network-enabled devices to include smartphones and tablets. The content delivery model will include solutions like TappIn that provide access directly to and from on-premises or personal devices, with those solutions possibly interoperating with cloud-based data repositories.

Strategy

We intend to build upon our leadership position in the MFT market to provide businesses, other organizations, and individual users with the solutions necessary to meet their growing need for secure information exchange. From our perspective, fully addressing this need for secure information exchange requires consideration of capabilities beyond traditional MFT, including the sharing of content between both people and businesses, work group collaboration, access to content outside the data center, business-to-business partner enablement, electronic data interchange, integration between systems and information, solution-wide governance, and advanced visibility including analytics, dashboards, and transaction-level control. We believe we must consider ongoing, fundamental changes in customer technologies and processes, such as the rapidly increasing use of mobile devices and “bring your own device,” or BYOD, aspirations, in the workplace.

Our strategic focus continues to evolve with market demand and will center on:

- Developing new solutions and enhancing our existing products..
- Increasing sales through expanded third-party distributor channels.
- Growing recurring revenue.
- Establishing leadership in broader markets.
- Extending our presence in the secure content mobility market.
- Growing enterprise and government sales.
- Developing our corporate brand.

Developing New Solutions and Enhancing Our Existing Products

Our strategy includes increasing license sales both in absolute terms and as a percent of revenues. During the three years ended December 31, 2013, 2012 and 2011, our license revenue was 44%, 52% and 55% , respectively, of total revenue and our M&S revenue was 56%, 48%, and 45%, respectively, of total revenue. We intend to increase our expenditures for research and development to create and introduce new features, functions and capabilities for our products with the objective of increasing the amount of license sales and resulting revenue from those products and increasing our license revenue as a percent of our total revenue.

The primary area of focus for enhancing the existing solutions is to establish a framework of capabilities that our clients can use to address all of their secure information exchange requirements. By aligning the solutions by capability rather than just a specific application, our clients can choose which parts of the solution they wish to have and can add capabilities across the product lines that work together and can grow over time. This approach will allow us not only to satisfy the needs of clients who are new to GlobalSCAPE but also to expand coverage within our existing client base. This process will involve advancing the capabilities of each of the product lines by frequently integrating functionality from one product to expand capabilities in another. It may also involve adding new capabilities that do not currently exist in the product lines to fulfill the client needs of the broader software portfolio.

As we evolve our solution portfolio, we intend to maintain an appropriate balance between legacy and new solutions, including making choices about transitioning, sustaining, or retiring solutions as necessary to best operate under prevailing business conditions. Transitioning or sustaining solutions may involve consolidating capabilities within our solution portfolio, releasing upgrades in response to market or customer needs, or making bug fixes in accordance with our communicated End of Life, or EOL, Policy. We also may phase out solutions periodically in accordance with the EOL Policy.

Increasing Sales Through Expanded Third-Party Distributor Channels

Historically, most of our revenue has been derived from sales by our direct sales force to end users. In addition to enhancing our existing solutions and developing new solutions, we believe that we can increase license revenue, as well as associated M&S revenue, by expanding our domestic, third-party dealer channel, or channel, to support more rapid growth of our managed file transfer platforms. To achieve wider distribution of our product portfolio using the dealer channel, we are actively recruiting channel partners interested in selling our products suite as part of their security and compliance offerings. Historically, we have earned a small percentage of our domestic revenue through the channel. Our current strategy is to significantly increase this source of revenue by adding new partners and distributors, particularly through the addition of the domestic entities while maintaining the existing international alliances. While these changes do take time for acquisition, education, and identification of deals to occur, the medium to longer term benefits are anticipated to be significant.

Channel sales can help us establish a lower-touch delivery model through which we train and provision the partners to sell and distribute our solutions. We leverage this approach to reduce our overall cost of marketing and selling our solutions in areas where it would be costly to establish a presence with our own employees. To facilitate this approach, we host channel partner conferences to provide a forum for exchanging ideas and delivering partner-specific sales education and training. Additionally, channel partners supplement our own demand generation efforts and provide access to client bases that previously would not have been available to us.

Growing Recurring Revenue

Recurring revenue includes software maintenance and support, or M&S, contracts and subscriptions for our cloud-based managed and hosted solutions. In the broadest sense, delivery of labor hours on long-duration professional services contracts also fits within this growth strategy because such “contracted sales” provide a book of sold business that will be recognized as revenue in future periods with some revenue from these contracts potentially visible even two or three years in the future. This future revenue is included in deferred revenue on our balance sheet and in Aggregate Contract Value (ACV) as described in the Key Business Metrics section.

We believe execution of this strategy element potentially could provide greater predictability of revenue in future periods and a stronger hedge against future business (or broader economic) downturns. Currently, the largest component of our recurring revenue is from M&S contracts. We intend to continue focusing on delivering growth in M&S contracts and the future revenue they yield, while assessing market traction for the full range of our solutions on an ongoing basis. From this perspective, M&S revenue may continue to grow in absolute terms, and as a percentage of total revenue, for some period of time, depending on the relative future growth rates of all of our solutions.

Subscription sales of our MIX and Hosted EFT managed solutions and TappIn products may change the trajectory of our future revenue growth. We believe that due to its compounding effects, subscription revenue for these software-as-a-service offerings potentially can grow more quickly and significantly than software license revenue and create increased operating margins.

Establishing Leadership in Broader Markets

Gartner Inc., a notable industry analyst, and International Data Corporation have stated that the annual MFT market is in excess of \$700 million. We are a leader in MFT products and services. In both 2013 and 2012, we achieved one of the highest ratings in the Managed File Transfer Vendor Landscape Report from Info-Tech Research Group by being designated a “Champion” in its Vendor Landscape matrix. Info-Tech Research Group evaluated criteria such as strategy, viability, sales and support reach, and channel partner programs. Their evaluation of our strategy garnered one of the highest possible scores due in part to our TappIn product line and our approach to secure content mobility. Also playing a role in our rating was the assessment of our EFT Enterprise Edition, one of our primary MFT solutions. EFT Enterprise Edition was commended for its ability to meet advanced security requirements, its flexible deployment options and our responsive customer support. We also received the highest marks for our available features and flexible system architecture. In addition, we also were positioned in the leader’s quadrant of the *Gartner Magic Quadrant for Managed File Transfer* in the latest years for which Gartner published this magic quadrant.

We offer services to the much larger, and adjacent, cloud services market with our MIX and Hosted Enhanced File Transfer solutions. Gartner estimated the cloud computing market would grow to approximately \$72 billion by 2016. This market includes categories such as infrastructure-as-a-service, management and security, and SaaS. Our partner agreements with hosting providers such as Rackspace and Peer 1, and the proven modular capabilities of our EFT solution suite, provide us a straightforward path for delivering our products and technology to specific segments of this market.

We have added adjacent-market capabilities, such as business automation and business activity monitoring, to the EFT software also through our modular solution architecture. These capabilities are helping to underpin the consistent growth in revenue from the EFT solution suite. In addition, our Mail Express solution was recognized by Info Security Products Guide as a “Global Excellence Award” winner in the Email Management and Security category in 2012 and by Network Products Guide as a Best Products and Services winner in the Email, Security and Management Category in 2013. We believe strengthening our ad hoc file transfer solutions remains a key strategy element and we intend to pursue solution enhancements in this area in future periods. Our secure content mobility competencies provide another potentially compelling complement to traditional MFT capabilities, including ad hoc file transfer solutions. We regard secure content mobility potentially as a unifying concept for our solution portfolio given the central position and importance of content (i.e., data and information) in the market drivers for our solutions. We intend to further integrate our solution capabilities, for example as demonstrated by the integration in 2013 of Mail Express functionality as a module within the EFT solution suite, to take advantage of potential synergies and strengths across our solution portfolio, while also possibly simplifying our marketing and sales processes.

With MFT capabilities increasingly being integrated into B2B gateway, data integration, service oriented architecture, and other technical solutions, the need to keep evolving our solutions and entering adjacent markets also is clear. We continue to believe the market will shift toward consideration of traditional MFT as more of a “feature” than a solution. This shift may take many years, but we believe early recognition of the trend and appropriate strategic planning increase our potential for evolving our solutions in front of the ongoing market changes. Placing our MFT solutions in a solution framework that provides comprehensive solutions to our clients’ information exchange requirements in a secure manner, while enabling users to perform their duties wherever and whenever needed, will be a key strategic element to further establish GlobalSCAPE’s market leadership in the broader markets. Key features such as collaboration, integration of disparate capabilities and systems into the MFT framework, and enhanced application support around the edge of MFT will increase client value and expand revenue opportunities.

Extending our Presence in the Secure Content Mobility Market

In December 2011, we entered the secure content mobility market with the acquisition and introduction of our TappIn product line. Secure content mobility provides users with the ability to easily and securely access and share data and information using a web-browser, tablet or other mobile device such as a smartphone. Secure content mobility integrates aspects of ad hoc file transfer, broader MFT capabilities, cloud services, synchronization and remote accessibility to address growing market demand for secure, ‘anytime and anywhere’, access to distributed content.

We believe the addition of secure content mobility capability to our portfolio potentially has profound implications due to the continuing growth of tablet computers and smartphone sales and their increasing adoption by business users. While storing and accessing data in a cloud environment is viable in many circumstances, we believe there also is a significant demand in the marketplace for the ability to access data in a manner similar to that offered by cloud computing but with the data being accessed and stored within the security of computers, servers or data centers owned by or dedicated solely to a particular individual or enterprise, rather than in the cloud. Many of our customers already using our EFT solution and other products have expressed a desire to have the flexibility to access their data from anywhere using a tablet computer or smartphone with security protocols at least equivalent to that offered by our EFT software and other products within our portfolio. Our TappIn technology potentially can provide or contribute to that functionality. Therefore, we intend to expand and enhance the TappIn capabilities and appeal for enterprise customers including merging the TappIn technology and functionality with our other MFT capabilities to create a TappIn Enterprise solution.

TappIn currently supports the consumer user’s needs by providing the capability to access data stored on the user’s personal computer, network attached storage or similar device from a remote location using a tablet, smartphone or other network-enabled device. There is demand in the marketplace for this capability in light of concerns about the security of personal data when it is stored in the cloud. We are accessing this market through direct sales of the TappIn application to consumers through our website and by partnering with major original equipment manufacturers who will ship their products pre-configured with TappIn capabilities.

Growing Enterprise and Government Sales

GlobalSCAPE conducts business with thousands of businesses around the world. We provide solutions to some of the world’s largest banks, insurance companies, healthcare providers, automakers, film companies and technology providers. We intend to continue penetrating large enterprise firms with by expanding our solutions and services.

Government revenue, particularly large contracts from the U.S. Army, have had a significant positive impact on our growth and market image in recent years. However, these large contracts also have caused significant swings in our financial results. We are focused on more deliberate growth in government sales, including software and associated services, potentially augmented by occasional large product orders. We intend to pursue more numerous contractual arrangements with the various government suppliers to increase the chances of more predictable government business.

We have an M&S contract with the U.S. Army to support the Standard Army Maintenance System-Enhanced (SAMS-E) logistics program. This is the fourth large U.S. Army contract for GlobalSCAPE since 2005. Under this agreement, we provide M&S for previously purchased software licenses, including the EFT solution and CuteFTP Pro managed file transfer application. GlobalSCAPE solutions enable the SAMS-E program to maintain compliance with federal and U.S. Army and information security regulations as a result of our product certifications that include Federal Information Processing Standards (FIPS 140-2) and the U.S. Army Certificate of Networthiness. In June 2013, the U.S. Army exercised year one of a two-year option to continue Globalscape's support to this program, extending this contract to July 2014. We will receive \$1.45 million for our M&S services during this period from which we will earn revenue of \$360,000 of revenue per quarter. If the second option year is exercised, it could result in a total value of \$4.4 million over three years, making it potentially the largest single contract win in company history.

Developing our Corporate Brand

We have made significant progress in establishing a brand beyond its traditional heritage of being known simply for CuteFTP, our original product. We will continue to emphasize ongoing initiatives to elevate our corporate profile under the GlobalSCAPE brand. The transformation of the GlobalSCAPE product lines into a more comprehensive solution architecture will continue to elevate this brand larger enterprises while still serving the needs of our traditional clients. We use internal resources as well as outside marketing, communications and investor relations professionals to support this work.

We continue to participate in numerous analyst briefings and investor conferences that have increased our recognition within the investor and analyst communities. We have revised our website, logos, and other areas to more prominently emphasize our corporate brand. Through these activities, we have established a more consistent, recognizable brand that may better support future growth and market visibility.

We believe we have continued to enhance our brand through additional national and regional attention resulting from the numerous corporate awards we have received including:

- In 2013, we were named in Software Magazine's Software 500 revenue-based ranking of the world's largest software and service providers for the third year in a row.
- In 2013, we were listed in the highest ranking category of "Champion" in Info-Tech Research Group's Vendor Landscape Report for managed file transfer for the second year in a row.
- In 2013, Texas Monthly named GlobalSCAPE one of the best companies to work for in Texas for the fourth year in a row, ranking us #13 in the medium size category.
- In 2013, the San Antonio Business Journal recognized us for fast growth in revenue for the second consecutive year.

Software Products and Services

Managed File Transfer Solutions (On Premises and Cloud-based)

Our MFT products and solutions allow customers to move large files and large numbers of files securely. We facilitate management, monitoring, and reporting on the file transfers and deliver advanced workflow capabilities to move data and information into and throughout an enterprise.

EFT Standard and Enterprise Editions

We earn most of our software license revenue from sales of our EFT Standard Edition and EFT Enterprise Edition solutions. These "server side" solutions provide a common, scalable MFT platform that accommodates a broad family of add-on modules to provide small and medium-sized businesses, or SMB's, as well as larger enterprise customers, with increased security, automation, and performance when compared to traditional FTP-based and e-mail delivery systems. The add-on modules allow customers to select the solution configuration most applicable to their requirements for auditing and reporting, encryption, ad hoc and web-based file transfers, operability in or through a DMZ network, and integration with back-end business processes, including workflow automation capabilities. In 2013, we released Version 6.5 of our EFT platform. Enhancements and added capabilities in this latest version include, among others:

- Enhanced integration with our Mail Express managed email attachment solution.
- Comprehensive support for Unicode UTF-8 encoding allowing greater international use.
- Enhanced administrative controls and improved visibility of the status and progress of file transfer activities.
- Full support for Microsoft Windows Server 2012 and Microsoft SQL Server 2012.

We continue to develop these products and solutions by, for example, improving their speed and responsiveness of performance, providing additional administration flexibility supporting cross-platform implementation with our DMZ Gateway solution, implementing business activity monitoring, and providing additional language support. We have sustained the year-to-year increase in our revenue from these products and solutions as a result of our ongoing development of this product line that has continued to enhance its appeal in the marketplace.

CuteFTP

CuteFTP is a “client side” software product, installed on a user’s local computer that enables file transfers from or to a file transfer server. The target market for the CuteFTP product includes, among others, corporate IT professionals who use it to transfer data between locations via the Internet and individual Web site operators who use it to upload their Web pages to their Web hosting provider.

CuteFTP continues to have significant brand recognition in the market. As a result of notable features introduced in our current CuteFTP Version 9 released in 2013, our CuteFTP revenue increased in 2013 compared to 2012, which was a reversal of the decline in this revenue in 2012 compared to 2011. Those new features include, among others:

- Support for Unicode (UTF-8) characters that allows greater international use.
- Web Distributed Authoring and Versioning (WebDAV) support to facilitate collaboration between users in editing and managing documents and files stored on World Wide Web servers.
- Integration with TappIn, enabled by the WebDAV support.

Version 9 simplified our CuteFTP product line by consolidating all the features of our previous multi-product CuteFTP product line for Windows operating systems into this single version. We continue to offer CuteFTP Version 3.1 software for Mac platforms. We believe current versions of CuteFTP appeal to users wanting features more robust than offered in free alternatives.

Cloud-Based MFT

We have agreements with Rackspace Hosting, Inc., a world leader in the hosting and cloud computing industry and PEER 1 Hosting under which we deliver cloud-based, managed file transfer solutions (MIX, Hosted Mail Express, and Hosted EFT) for the secure exchange of business-to-business data, including large files and sensitive data. Our cloud-based solutions allow customers to outsource all or part of their complex and demanding information exchange needs to reduce costs, improve operational efficiencies, track and audit transactions, and provide a greater level of security. Our cloud services capabilities are available in the United States, Canada and in Europe. We meet country-specific compliance requirements in the UK and Canada which can necessitate in-country delivery of the services.

The cloud-based solutions established an additional delivery method for our MFT products and solutions and potentially for other solution capabilities. Through our cloud services, we offer new and existing customers “pay as you go”, flexible pricing under one, two, and three-year contracts that help them eliminate upfront capital expenditures. This subscription revenue provides us with a growing revenue stream visible into future periods. While our cloud-based MFT revenue has grown from year-to-year, it does not yet constitute a material portion of our overall revenue.

Wide Area File Services

Our WAFS software provides a file sharing, collaboration, and replication solution over multiple sites. WAFS technology provides enterprises with a file access and data protection combination that centralizes data storage and IT administration facilities without compromising data sharing and protection. A key feature and benefit of WAFS is its byte-level differencing architecture that continually transmits only changed bytes (versus an entire file) thereby allowing rapid update of large files accessed by widely dispersed, multiple users. Other key features of WAFS include native file locking, replication to multiple locations simultaneously and adherence to access control list file permissions, and full UTF-8 support.

Our WAFS revenue for the year ended December 31, 2013, was lower than for the comparable period in 2012 due to our need to restrict the environments into which it is sold and installed to those that can be configured to operate within the data transmission volume and stored file size operating specifications of the software. We have an ongoing product development program to expand these operating specifications so we can introduce WAFS to a broader spectrum of the marketplace and increase our revenue from this product. We believe WAFS will be competitive in the marketplace for the foreseeable future as a product serving the need for wide area file access and data protection.

Managed E-mail Attachment Solution

Our managed e-mail attachment solution, Mail Express, is a client-server application that allows users to send and receive e-mail attachments of unlimited size easily and transparently without resorting to unapproved and potentially insecure methods such as USB drives or social media sites. The ability of Mail Express to transmit multi-terabyte and larger attachments, which is well beyond the operation range of typical competing approaches to sending email attachments, means the user is limited only by their available bandwidth when sending files as an email attachment. Mail Express provides increased benefits for information technology organizations by offering greater visibility into email-based file movement across the enterprise, including robust tracking and auditing. The Mail Express application provides flexible, customer-defined administration privileges to allow e-mail administrators and end users to configure specific parameters for handling e-mail attachments in accordance with corporate policy. In 2013, we introduced Mail Express Version 3.3 that includes a number of enhancements including:

- Integration with EFT 6.5.
- More flexible language support to enhance international appeal.
- A new dashboard allowing additional administrator visibility into all connected clients.

We believe Mail Express will be competitive in the marketplace for the foreseeable future as a product for securely sharing and managing large e-mail attachments.

Secure Content Mobility Solution

Our TappIn product line provides the ability to easily and securely access and share documents, pictures, videos and music anytime, anywhere while minimizing the storage of data in the cloud and the associated security and privacy concerns. From the office, at home, or on the road, customers can “Tapp In” to their files, stored in multiple locations, using any web browser and most Internet-enabled tablets, smartphones and similar mobile devices. With TappIn, users can minimize uploading and/or syncing to a cloud storage location and eliminate the need to pay for additional cloud storage. Instead, the TappIn service securely leverages the user’s existing in-house storage devices (such as a desktop computer, in-house network servers or network-attached storage devices), allows sharing of large files and provides encryption to safeguard content.

The TappIn solutions incorporate elements of on-premises software, cloud and SaaS delivery models. Unlike other remote access products that can consume significant amounts of storage capacity on a smartphone or tablet, TappIn makes content available through a secure pathway that gives users access to files on their existing in-house storage devices without having to download those files to their mobile device. This delivery method not only saves storage space on the mobile device but also ensures content remains secure and private on the user’s existing in-house storage devices without being required to upload files to a cloud repository as is required by competitive products.

We believe secure content mobility is a rapidly emerging, central feature of the markets we serve, including our primary MFT market. We believe growth in smartphone and tablet sales and adoption, combined with rapid growth in retained content and BYOD expectations, potentially will drive strong revenue growth in this market segment particularly in the enterprise space. In order to capitalize on these trends, our future emphasis will be on merging the TappIn technology and functionality with our MFT capabilities to create a TappIn Enterprise solution. We believe offering the TappIn technology through this integration will maximize the return on our investment in this product line.

Professional Services

We offer a range of professional services to complement our software and cloud-based solutions. These professional services include product customization and system integration, solution “quickstart” implementations, business process and workflow, policy development, education and training, and solution health checks. In addition, we may provide longer-term engineering services, including supporting multi-year contracts, if necessary to support certain solution implementations and integrations.

Our professional services revenue is directly correlated to certain components of our cost of revenues because the services necessarily are labor intensive. For this reason, professional services typically have significantly lower margins than product sales or subscription services. However, we believe professional services allow us to better establish and maintain our solution implementations while also providing our customers with the training and education services that help them make more complete use of our solution capabilities. In addition, for large contracts like the engineering services we have provided to the U.S. Army, such professional services provide significant past performance that facilitates additional business. Over time, we believe the return on investment from increased professional services outweighs the potential near-term impacts on operating margins.

Maintenance and Support

We offer maintenance and support, or M&S, contracts to licensees of all of our software products. These M&S contracts entitle the licensee to software upgrades and technical support services in accordance with the terms of our M&S contract. Standard technical support services are provided via e-mail and telephone during our regular business hours. For certain of our products, we offer a Platinum M&S contract which provides access to emergency technical assistance 24 hours per day, 7 days a week.

Sales and Marketing

We emphasize developing our direct sales staff and reseller channels to capture sales through a high level of individual attention to the customer. For example, sales of our more complex enterprise solutions, such as EFT Server, WAFS and Mail Express, to larger enterprises, and sales of managed solutions and M&S contracts are delivered by our direct sales staff and resellers in an environment of personal interaction with the customer.

We provide our sales staff and resellers with training and professional development opportunities to ensure they are capable of meeting the needs of our prospects and customers. These sales team development activities focus on technical and process-oriented topical areas to enhance their ability to identify prospects, best position our solutions and develop pipeline opportunities into sales.

Our reseller and distributor relationships allow us to leverage those third-party resources to increase our market reach. We have established such relationships throughout the world and across industry lines. In particular, we are focusing on growing our domestic reseller channel.

We sell EFT Standard Edition, certain of our EFT solution add-on modules, and CuteFTP via download from our websites. Prospective buyers may use certain of our software products for free during an evaluation period that is typically for thirty days. The programs are automatically disabled if a license is not purchased by the end of the trial period. Our software is also available for download from a variety of independent Internet software sites such as CNet's Download.com, as well as sites in Western Europe, Canada, Australia, and Asia.

We offer our TappIn solutions for trial and subscription activation from our websites. As with our software solutions, prospective subscribers may use the TappIn service for free during an evaluation period. At the end of the evaluation period, the TappIn service is automatically downgraded to a limited feature and functionality status unless the prospective customer activates a paid subscription.

Our marketing efforts focus on building brand awareness and capturing demand for our solutions. We take a three-pronged approach that includes a blend of digital, field and channel marketing. Through our digital marketing initiatives, we have reduced our reliance on online paid advertising by conducting ongoing search-engine optimization to enhance our ranking for particular key words in natural search results of major search engines. As a result, we are able to more heavily invest in outbound targeted campaigns that more effectively reach the right audience with white papers, case studies and competitor comparisons. In addition to attending key industry trade shows, such as the RSA Security conference, we are enhancing our field marketing initiatives by increasing our presence at regional product and trade shows specifically targeting audiences in the mobility and security markets. We are increasing our investment in channel marketing through programs designed to recruit and enable our target partners in a manner that creates joint initiatives that drive demand through them for our products.

Our websites provide an effective means of facilitating certain post-sale customer support functions. To facilitate self-help for common inquiries and issues, we provide free self-service support via searchable knowledge bases on our websites. We also sell maintenance and support plans to customers requiring assistance from our support services team.

Our corporate website is www.globalscape.com. It provides a variety of sales and marketing information for our enterprise solutions as well as an ability to purchase some of our products online. We also have product-specific websites at www.cuteftp.com and www.tappin.com. We continually update the design of our websites to be responsive to the evolving marketplace and to provide a more solution-oriented perspective of our business, improve site navigation and provide additional opportunities for visitors to contact us through the websites.

Customers

Our solutions have been sold to most of the Fortune 100 companies. Our products have been sold into more than 150 countries. No single customer accounts for more than 10 percent of our revenue.

We derive a significant portion of our revenue from risk averse and heavily regulated commercial customers in North America and Western Europe. Our primary commercial vertical markets include finance, health care, energy, retail, manufacturing, and engineering. We also have a customer base in the local, state, and federal government spaces. We continue to pursue additional government business by leveraging our certifications and industry validations.

Seasonality

Our products are marketed to individuals as well as large organizations. As a result of this mix within our customer base, we typically have not experienced significant seasonality in our sales other than a typical modest decline in first quarter sales as compared to fourth quarter results. We believe this seasonality is related to our continued growth as an enterprise solution provider operating in an environment where first quarter sales possibly slow as prospective customers begin to execute their business activities, including purchases of our solutions, in accordance with new-year budgets and plans.

Network and Equipment

We have contracted with various network providers for Internet access. Our arrangements provide for redundancy in the event of a failure, and also for expansion of available bandwidth in the event there is a dramatic increase in demand. To protect critical customer data, our Internet shopping cart utilizes SSL encryption. We maintain technical and physical measures and procedures compliant with the PCI DSS. We use a certified Approved Scanning Vendor and to verify our compliance with the PCI DSS.

We have dedicated servers on and off site and expansion plans in place to allow rapid and cost effective scalability. Our offsite servers and data backup procedures provide a warm backup to our onsite servers for contingency purposes. The backups are performed in accordance with our disaster recovery plan.

Research and Development

Our internal software engineers are responsible for software design, managing the development process, testing and quality assurance, which we collectively refer to as research and development, or R&D. We utilize offshore developers for a portion of the coding phase of software development for certain products. Our use of external developers allows us to tap into a highly skilled labor pool, maintain a 24-hour development schedule, decrease time to market, and minimize programming costs.

All phases of R&D, including scope approval, functional and implementation design, object modeling and programming, are subject to extensive internal quality assurance testing. We maintain an ongoing focus on improving our quality assurance testing infrastructure and practices. Technical reporting and customer support feedback from customers confirm the continuing positive effect of our ongoing enhancement of research and development and quality assurance processes.

Our R&D expenditures profile has been as follows (\$'s in thousands):

	Year ending December 31,		
	2013	2012	2011
R&D expenditures	\$ 4,665	\$ 3,861	\$ 3,124
R&D expenditures expensed	3,766	3,531	3,124
R&D expenditures capitalized	899	330	-

The majority of our R&D expenditures relate to our EFT Standard and Enterprise Edition products with the remainder related to our other products collectively. We expect to continue to increase our research and development spending in future years as we focus improving our current products and introducing new products.

Competition

The file management, content management and Web development software market sectors are intensely competitive, subject to rapid change and significantly affected by new product introductions and other activities of market participants. Our primary competitors vary by product.

There is limited information regarding the market shares of our solutions in their respective categories. Many of our competitors have substantially greater financial, technical, sales, marketing, personnel, and other resources, as well as greater name recognition and a larger customer base than we do. Significant competition characterizes the markets for our traditional MFT products. We anticipate we will continue to face increasing pricing pressures from competitors in the future. Given there are low barriers to entry into the software market and the market is subject to rapid technological change, we believe that competition will persist and intensify in the future. For more discussion on the risks associated with our competition, you should read the information under "Risk Factors — Risks Related to Operations."

EFT Standard Edition. EFT Standard Edition competes against a limited number of secure, Windows-based FTP servers. We believe our primary competitors are products sold by Ipswitch, SolarWinds (RhinoSoft), and JSCAPE. EFT Standard Edition has the advantage of leveraging the success of CuteFTP through product integration, offering proprietary extensions to the FTP protocol, and cross-marketing efforts to an existing customer base. EFT Standard Edition also benefits from being part of our EFT platform, which includes add-on modules, including the DMZ Gateway solution, and an upgrade path to EFT Enterprise Edition.

EFT Enterprise Edition. EFT Enterprise Edition competes in the managed file transfer server market. We believe our primary competitors are Axway, Ipswitch, IBM-Sterling Commerce and Tibco (including through their acquisition of Proginet). EFT Enterprise Edition has the advantage of being very cost effective in its market and allowing customers to flexibly evolve their MFT implementation by procuring add-on modules such as our DMZ Gateway and Advanced Workflow Engine solutions.

CuteFTP. CuteFTP exists in a highly competitive environment with numerous FTP software utilities available on the Internet for both the personal and professional user. CuteFTP is positioned as one of the only secure FTP client programs that support a wide range of security standards related to the FTP protocol. We believe our primary competitors are consumer file transfer solutions sold by Ipswitch, Inc., SolarWinds (RhinoSoft) and products offered by Van Dyke Software, Inc. CuteFTP was the second Windows-based FTP client to market and is consistently among the most frequently downloaded FTP clients on popular download sites. CuteFTP Mac, our FTP client for the Macintosh platform, competes with products offered by Fetch Softworks, Interachry, Nolobe Software Pty Ltd, and Panic, Inc.

WAFS. WAFS competes in the Wide Area File Services/Storage market. We believe our primary competitors are Riverbed, Blue Coat and Cisco, who are delivering proprietary appliances. We believe that WAFS has the advantage of being a software-only solution which leverages corporate infrastructure and minimizes the total cost of ownership.

Mail Express. Mail Express competes in areas of the file transfer market associated with e-mail attachment offloading. We believe our primary competitors are Accellion, Tibco (Proginet), Leapfile and Biscom. Mail Express has the advantage of centralized policies for outbound file attachments and a transparent end-user experience, which allows for rapid customer deployments. Mail Express also has the benefit of integration with our most recent EFT release which provides customers with a more uniform administration experience for e-mail attachment offloading and traditional MFT operations.

Cloud-based Managed Solutions for Secure Information Exchange. Our MIX and Hosted Enhanced File Transfer solutions compete with MFT SaaS solutions. We believe our primary competitors are Ipswitch, Axway, IBM-Sterling Commerce, Thru, Inc. and Accellion. MIX and Hosted Enhanced File Transfer have the advantage of leveraging cost effective, secure hosting and cloud infrastructures, as well as Enhanced File Transfer management services provided by GlobalSCAPE's experts.

TappIn. The TappIn solution has direct competitors such as PogoPlug and FileTek. In addition, TappIn competes for mindshare in the market with pure-play cloud data repositories like Dropbox and Box and with computer remote control solution such as Citrix Systems (GoToMyPC) and LogMeIn.

Governmental Regulation

Export Control Regulations. All of our products are subject to U.S. export control laws and applicable foreign government import, export and/or use requirements. The level of control generally depends on the nature of the goods and services in question. For example, the level of control is impacted by the nature of the software and encryption incorporated into our products. Where controls apply, the export of our products may require an export license or authorization or that the transaction qualify for a license exception or the equivalent, and may also be subject to corresponding reporting requirements. For the export of some of our products, we may be subject to various post-shipment reporting requirements. Minimal U.S. export restrictions apply to all of our products, whether or not they perform encryption functions. Additionally, because we are a Department of Defense contractor, there are certain registration requirements that may be triggered by our sales. In addition, certain of our items and/or transactions may be subject to the International Traffic in Arms Regulations (ITAR) if our software or services are specifically designed or modified for defense purposes. Companies engaged in manufacturing or exporting ITAR-controlled goods and services (even if these companies do not export such items) are required to register with the U.S. State Department.

Enhancements to existing products may, and new products will, be subject to review under the Export Administration Act to determine what export classification they will receive. In light of the ongoing discussions regarding anti-terrorism legislation in the U.S. Congress, there continues to be discussions regarding the correct level of export control. Export regulations may be modified at any time. Modifications to the export regulations could reduce or eliminate our ability to export some or all of our products from the U.S. without a license in the future, which could put us at a disadvantage in competing for international sales compared to companies located outside of the U.S. that would not be subject to these restrictions. Modifications to the export regulations could prevent us from exporting our existing and future products in an unrestricted manner without a license or make it more difficult to receive the desired classification. If export regulations were to be modified in such a way, we may be put at a competitive disadvantage with respect to selling our products internationally. We are working on enhancing our systems to address the impact of these regulations on our products and services and understand the need to comply. We will complete technical reviews on any new products that we acquire or develop that may be subject to the requirements before we can export them.

Privacy Laws. As our business evolves to incorporate more cloud and SaaS solutions, we will receive, transmit, and store a greater volume and diversity of information. As a result, we may be subject to various federal and State regulations regarding the protection of personally identifying information. Applicable laws may include, without limitation, federal laws such as the GLBA and HIPAA, as well as state and regulations in the U.S., as international laws and regulations including the European Union Data Privacy Directive. In the event our systems are compromised by an unauthorized party, many of these privacy laws require that we provide notices to our customers whose personally identifiable data we reasonably believe may have been compromised. To mitigate the risk of compromised information, we use encryption and other security to protect our databases.

Intellectual Property

We regard some of the features of our internal operations, software, and documentation as proprietary and rely on copyright, patent, and trademark and service mark laws and trade secret protection, such as confidentiality procedures, contractual arrangements, non-disclosure agreements and other measures to protect our proprietary information. Our intellectual property is an important and valuable asset that enables us to gain recognition for our products, services, and technology and enhance our competitive position and market value.

As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees and independent contractors, resellers, and corporate partners. We enter into license or subscription services agreements with respect to our software, documentation, and other proprietary information. Our standard license agreements are transferable only in limited circumstances and have a perpetual term. Our subscription services agreement for our hosted solutions restrict access and have a definite term. We also educate our employees on trade secret protection and employ measures to protect our facilities, equipment, and networks.

Our trademarks and copyrights are central to our business. We have the following trademarks in the United States:

- GlobalSCAPE®, CuteFTP®, CuteFTP Pro®, CuteBackup®, DMZ Gateway®, CuteSendIt®, Mail Express are registered trademarks of GlobalSCAPE, Inc. are registered trademarks of GlobalSCAPE, Inc.
- Secure FTP Server™, Wide Area File Services™, WAFS™, CDP™, Advanced Workflow Engine™, AWE™, Enhanced File Transfer™, Managed Information Xchange™, MIX™, Hosted Enhanced File Transfer Server™, EFT Server™, CuteFTP Lite™, CuteFTP Home™, Secure Ad Hoc Transfer™, Total Path Security™, Enhanced File Transfer Server™, EFT Server Enterprise™, Enhanced File Transfer Server Enterprise™, Total Recall™, GlobalSCAPE Securely Connected™, Desktop Transfer Client™, DTC™, Mobile Transfer Client™, MTC™, Web Transfer Client™, WTC™, and appShield™ are trademarks of GlobalSCAPE, Inc.
- TappIn® and TappIn design are registered trademarks of TappIn, Inc., our wholly-owned subsidiary.
- TappIn Secure Share™, Social Share™, -Now Playing™, and Enhanced A La Carte Playlist™, are trademarks of TappIn, Inc., our wholly-owned subsidiary.

In addition to the United States trademarks listed above, we have trademarks registered in Canada and the European Union for GlobalSCAPE and a registration for TappIn in China.

We have obtained United States copyright registrations for all but the most recent versions of our software applications. We have applied for registration for the most recent versions.

GlobalSCAPE, Inc. has two patents in the U.S. TappIn, Inc. has one pending patent application in the U.S and one pending application filed under the Patent Cooperation Treaty (PCT).

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products, which are licensed by the thousands and sold world-wide, is difficult. While we are unable to determine the extent to which piracy of our software products exists, software piracy is a persistent problem. In selling our products, we rely primarily on click-wrap licenses which are not signed in writing by licensees and may be unenforceable under the laws of certain jurisdictions. The laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Companies in the software industry, and other patent and trademark holders seeking to profit from royalties in connection with grants of licenses own large numbers of patents, copyrights, trademarks, service marks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have received, and may receive in the future, communications from third parties asserting that our products infringe, or may infringe, the proprietary rights of third parties, seeking damages resulting from such infringement or indicating that we may be required to obtain a license or royalty from such third parties. For more discussion on the risks associated with our intellectual property, you should read the information under "Risk Factors," especially "Risks Related to Legal Uncertainty."

Employees

As of February 28, 2014, we had 100 full-time employees and 3 part-time employee organized as follows:

Department	Number of Employees
Management and Administration	12
Engineering	31
Marketing	4
Information Services	9
Professional Services	4
Sales	27
Customer Support	16
Total	103

None of our employees are covered by collective bargaining agreements. We believe our employee relations are good.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an Internet web site that contains annual, quarterly and current reports, proxy statements and other information that issuers (including GlobalSCAPE) file electronically with the SEC. The SEC's web site is www.sec.gov. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and amendments filed with the Securities and Exchange Commission are available free of charge on our web site at www.globalscape.com in the Investor Relations section as soon as practicable after such reports are filed. Information on our website is not incorporated by reference into this Form 10-K and should not be considered part of this report or any other filing that we make with the SEC.

Item 1A. Risk Factors

We have described below risks we are aware of that could have a material adverse effect on our business, financial results of operations and financial condition and the value of our stock owned by our shareholders.

Risks Related to Our Operations

A significant portion of our revenue is generated through maintenance and support revenue. Decreases in maintenance and support sales or renewal rates, or a decrease in the number of new licenses we sell, will negatively impact our future revenue and financial results.

Revenue from maintenance and support services, or M&S, we provide our customers comprised 56%, 48% and 45% of our total revenue in 2013, 2012 and 2011, respectively. We earn M&S revenue from new M&S contracts, typically sold with new software licenses, and from renewals of such contracts. Any reduction in the number of new software licenses that we sell, or a reduction in sales of associated initial M&S contracts, therefore may have a long-term negative impact on our future M&S revenue, even if our customers continue to renew M&S contracts at historical rates. This situation, in turn, would impact our business and harm our financial results.

Our customers have no obligation to purchase M&S with their initial software license or renew their M&S contract after the expiration of their initial M&S period, which is typically one year. Our customers' purchases of M&S, and our renewal rates, may decline or fluctuate as a result of a number of factors, including the overall global economy, the health of their businesses, and the perceived value of the M&S program. If our customers do not purchase M&S with their initial software license or renew their M&S contract for our products, our M&S revenue will decline and our financial results will suffer. In addition, customers are generally entitled to reduced annual maintenance fees for entering into long-term maintenance contracts, i.e. those contracts with a term longer than one year. Declines in our license bookings, increases in the proportion of long-term maintenance contracts and/or increased discounting could lead to declines in our maintenance revenue growth rates. Should customers migrate from systems and applications which our products support, utilize alternatives to our products, including maintenance-free solutions, or become dissatisfied with our maintenance services, increased cancellations could lead to declines in our maintenance revenue.

A substantial portion of our quarterly M&S revenue is attributable to M&S agreements entered into during previous quarters. As a result, if there is a decline in renewed M&S agreements in any one quarter, only a small portion of the decline will be reflected in our M&S revenue recognized in that quarter and the remainder will be reflected in our M&S revenue recognized in the following four quarters or more and in a decrease in deferred revenue on our balance sheet. For more information, see Item 7, "Management; Discussion and Analysis of Financial Condition and Results of Operations".

Our ability to sell our products is highly dependent on the quality of our support and services offerings. Our failure to offer high-quality support and services could have a material and adverse effect on our business and results of operations.

Once our products are deployed at our end customers' locations, our end may customers depend on our support organization and our channel partners to resolve issues relating to our products. High-quality support is critical for the successful marketing and sale of our products. If we or our channel partners do not assist our end customers in deploying our products effectively, succeed in helping our customers resolve post-deployment issues quickly, or provide ongoing support, it could adversely affect our ability to sell our products to existing end customers and could harm our reputation with other potential end customers. As we expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. Our failure or the failure of our channel partners to maintain high-quality support and services could have a material and adverse effect on our business and operating results.

If we are unable to develop, offer and deliver new and enhanced products and services that achieve widespread market acceptance, or if we are unable to continually improve the performance, features, and reliability of our existing products and services, our business and operating results could be adversely affected.

Rapid technological changes, as well as changes in customer requirements and preferences, characterize the software industry. Just as the transition from mainframes to personal computers transformed the industry thirty years ago, we believe our industry may transform in response to continued adoption of mobile devices and cloud services, growth of big data, and potential emergence of capabilities resulting from disruptive innovation. In response, we have devoted significant resources to the development of new solutions, such as our cloud-based and secure content mobility services. We are making such investments through our internal efforts, including further development and enhancement of our existing products, as well as through potential acquisitions of new product lines. Innovation, new product development or acquisition, and go-to-market activities involve a significant commitment of time and resources and are subject to a number of risks and challenges including:

- Developing, sustaining, and appropriately leveraging market intelligence to identify areas of market need that offer potentially high return on investment for solution development.
- Managing the length of the development cycle for new products and product enhancements, which may be longer than originally expected.
- Adapting to emerging and evolving industry standards and to technological developments by our competitors and customers.
- Extending the operation of our products and services to new platforms and operating systems.
- Entering into new or unproven markets with which we have limited experience.
- Managing new product and service strategies, including integrating our various security and file replication technologies, management solutions, customer service, and support into unified enterprise security and file replication solutions.
- Incorporating acquired products and technologies.
- Developing or expanding efficient sales channels.
- Obtaining sufficient licenses to technology and technical access from operating system software vendors on reasonable terms to enable the development and deployment of interoperable products, including source code licenses for certain products with deep technical integration into operating systems.

Investments in new products may not result in sufficient revenue generation to justify their costs, or may cause short or long-term harm to our financial results. For example, customer adoption of our cloud and mobile computing services may not occur as rapidly as anticipated, or competitors may introduce new products and services that achieve acceptance among our current customers, adversely affecting our competitive position, or we may not be successful in future attempts to achieve disruptive innovation.

Further, given the rapid speed of changing customer expectations and advancement of technology inherent in the software industry, the extensive and complex efforts required to create useful and widely accepted products and the rapid evolution of cloud computing, mobile devices, new computing platforms and other technologies, our executive management team must act quickly, continuously and with vision. Although we have articulated a strategy that we believe will fulfill these challenges, if we fail to execute properly on that strategy, adapt that strategy as market conditions evolve, or fail to internalize and execute on that strategy, we may fail to meet our customers' expectations, fail to compete with our competitors' products and technology and lose the confidence of our channel partners and employees. This in turn could adversely affect our business and financial performance.

We earn the large majority of our revenue and operating margins from our Enhanced File Transfer, licensed software solution suite and related maintenance and support services and, as a result, are highly dependent upon the continued success of this product line.

Our Enhanced File Transfer solution, or EFT, is one of our on-premises, managed file transfer solutions targeted primarily to the enterprise and small and medium business user environments. License and M&S revenue from this product line was responsible for over 79% of our total revenue in 2013 and has provided substantially all of our recent revenue growth and most of the operating margin necessary to fund our operations including, most notably, our sales and marketing and research and development activities. Declines and variability in demand for the EFT solution could occur as a result of:

- Improved products or product versions being offered by competitors in our markets.
- Competitive pricing pressures.
- Failure to release new or enhanced versions of the EFT solution on a timely basis, or at all.
- Technological change that we are unable to address with file transfer products or that changes the way enterprises utilize our products.
- General economic conditions.

Due to our product concentration, our business, results of operations, financial condition, and cash flows would therefore be adversely affected by a decline in demand for the EFT solution suite.

We may not achieve our expected future financial results from our other product lines and services that include Mail Express, Wide Area File Services, CuteFTP, Managed Information Xchange, Hosted Enhanced File Transfer, TappIn and professional services.

Revenue from our products and services other than the EFT solution accounted for 20.9% of our total revenue in 2013, which is a decline from 22.4% and 24.2% of our total revenue in 2012 and 2011, respectively. Improving, and possibly even sustaining, our financial results is dependent upon achieving additional success in the marketplace with our products and services that complement and supplement our EFT solution suite. These products and services include CuteFTP, Mail Express, Wide Area File Services, Managed Information Xchange, Hosted Enhanced File Transfer and TappIn. These solutions involve serving markets that in some ways differ from the markets we encounter when selling EFT software and maintenance. Gaining additional traction in such markets will require that we market, sell, and support these solutions effectively. Each of these success factors has inherent risks due to, for example, our limited corporate expertise in the adjacent markets and the possibility that the specific buyers of solutions in these adjacent markets may be different from the buyers with whom we interact throughout our traditional EFT solution sales cycle. Entering, obtaining traction, and sustaining growth in these markets requires investments in engineering, marketing, sales, customer support, and internal business systems. If we do not effectively penetrate these markets, or if the resources necessary to effectively address these markets exceed our expectations, our business and financial results could be adversely affected.

Our Managed Information Exchange, Hosted Enhanced File Transfer and TappIn solutions are cloud-based services. We believe these cloud-based services potentially provide a significant revenue opportunity to supplement our EFT business. Cloud-based services are a relatively new solution area for us that require technology development, marketing, sales and customer support techniques that can be distinctly different from those items as they relate to our EFT software that is installed on-premises at a customer location. Our experience suggests that it will continue to take time to obtain market traction with these solutions and to identify the trends necessary to develop projections of future business performance. It is difficult to determine when, or if, our ongoing investment in these products lines will achieve the desired levels of sales and contribution margins. If our ongoing development, marketing and sales of these products does not evolve as anticipated, our business and financial results could be adversely affected.

A material portion of our professional services revenue in 2013 was earned under our contract with McLane Advanced Technologies, or MAT, in connection with their services to the U.S. Army. This contract was successfully completed in 2013. If we cannot sell professional services to others at a level sufficient to offset the revenue we will no longer earn under this contract, our business and financial results in the future could be adversely affected.

Possible future acquisitions give rise to risks and challenges that could adversely affect our future financial results.

Acquisitions generally such as our purchase of TappIn, Inc. in 2011, involve a number of risks and challenges, including:

- Complexity, time, and costs associated with integration of the acquired business operations, workforce, products, and technologies into our existing business, sales force, employee base, product lines, marketing and technology. The possibility exists that the integration ultimately may not be successful.
- Diversion of management time and attention from our existing business and other business opportunities throughout the integration.
- Potential loss or termination of employees, including costs associated with the termination or replacement of those employees.
- Assumption of debt or other liabilities of the acquired business, including any future litigation related to alleged liabilities of the acquired business.
- The incurrence of additional acquisition-related debt as well as increased expenses and working capital requirements.
- Potential dilution of earnings per share.
- Increased costs and efforts in connection with compliance with Section 404 of the Sarbanes-Oxley Act.
- Potentially substantial accounting charges for restructuring and related expenses, write-off of in-process research and development, impairment of goodwill, amortization of intangible assets, and share-based compensation expense.

The ongoing integration of any acquired business, involves continually determining and leveraging the actual market synergies, sustaining and even extending the business performance of the acquired entity, implementing our technology systems in the acquired operations and integrating and managing the personnel of the acquired operations. We also must continue to effectively integrate the different cultures of acquired business organizations into our own culture in a way that aligns various interests.

Through the TappIn acquisition, we entered a new adjacent market in which we had limited experience at the time of the acquisition. While our knowledge of this market has expanded since the acquisition, the secure content mobility market is an emerging market, with a wide range of potential solution approaches. More established, cloud-based data repositories and service providers compete for market share and mindshare with TappIn. Some of these competitors have much stronger market positions than TappIn. The time and expense to market, sell and support the TappIn solution and possible future versions of the solution, introduce additional risk to current operations.

Any of the foregoing, and other factors, could harm our ability to achieve anticipated levels of financial performance or to realize other anticipated benefits of an acquisition. In addition, because acquisitions of technology companies are inherently risky, no assurance can be given that our previous, current, or future acquisitions will be successful and will not adversely affect our business, operating results, or financial condition.

We may engage third parties to develop products on our behalf. These engagements may involve reliance on resources owned and managed by those third parties over which we have no direct control.

In addition to researching and developing new products ourselves, we have in the past and may in the future decide to evolve and expand our product offerings by engaging third parties to conceive, design and develop products on our behalf. These arrangements involve high levels of risk due to inherent uncertainties about the timely delivery and ultimate viability of those products due to the reliance we must place on third parties to plan, perform and successfully complete work for us. These are processes for which we could have notably less direct control than if we performed the work ourselves. These arrangements also involve us relying on the ongoing financial viability of the enterprise performing the work. This risk is challenging to manage because we do not always have clear visibility as to the overall condition of the third-party enterprise. These risks could result in the product not being successfully completed within the expected timeframe, or at all. If actual results from these type endeavors we may undertake in the future differ materially from original and ongoing expectations, our business, operating results and financial position could be harmed.

Our addition of subscription services, such as our cloud-based Managed Information Xchange and Hosted Enhanced File Transfer solutions in recent years, may impact our prior revenue trends as some opportunities that otherwise would have materialized as software license sales potentially shift to subscription-based sales.

Much of our revenue growth in recent years has been attributable to license and maintenance and support sales of our EFT solution. Software license sales typically are intended for implementations on customer premises and are recognized as revenue when delivery of the software has occurred and collection of fees from the customer is deemed probable. Because revenue from a subscription is recognized ratably over the life of the subscription, changes in the proportion of sales from software licenses and from subscriptions may result in substantial changes in our revenue trends and other financial metrics.

License fees for software to be installed at a customer site, such as our EFT solution, are typically recognized in full as revenue at the time the software is delivered to the customer. Subscription services, on the other hand, are recognized as revenue over time as the services are delivered (assuming collection is deemed probable), typically on a monthly basis. Therefore, only a ratable portion of the total value of a subscription services sale is recognized as revenue each month with the remainder recorded as deferred revenue. The portion of the total value of the subscription recognized as revenue each month decreases as the contract term increases from 12 to 24, or 36 months. Any significant increase in the percentage of our business generated from such a subscription model could, as a result, delay revenue recognition and have a negative impact on our operating results.

The impact of subscription services on prior revenue growth trends depends on several key factors, including the number of customers who may shift from software licenses to subscription services, the rate at which they may do so, the subscription term and fees, and the comparative value of the opportunity had it materialized as a software license sale instead of as a subscription service. Generally, for a fixed number of opportunities (that is, without considering the possibility that a new service offering may result in additional sales opportunities), addition of subscription services reduces revenue growth rates for several quarters for the associated solutions until cumulative subscription revenue increases and, potentially, surpasses comparable software license revenue. The revenue impacts are particularly pronounced early in the introduction of subscription services because there has been only a short time period for accumulation of the recurring revenue stream. As we continue to promote subscription-based services, the risk of this revenue shift will continue with revenue derived from sales of our EFT solution, the comparable on-premises MFT software in our portfolio, is most subject to ongoing transitory risk from the introduction of these subscription services. However, to date, we have seen no material impact from this potential revenue shift in light of the continued strength of our EFT sales and the pace at which our managed and hosted products and services have gained market acceptance.

Subscription offerings create risks related to the timing of revenue recognition.

Although the subscription model is designed to increase the number of customers who purchase our products and services and create a recurring revenue stream that is more predictable, it creates certain risks related to the timing of revenue recognition and potential reductions in cash flows.

A portion of the subscription-based revenue we report each quarter results from the recognition of deferred revenue relating to subscription agreements entered into during previous quarters. A decline in new or renewed subscriptions in any period may not be immediately reflected in our reported financial results for that period but may result in a decline in our revenue in future quarters. If we were to experience significant downturns in subscription sales and renewal rates, our reported financial results might not reflect such downturns until future periods. Our subscription model could also make it difficult for us to rapidly increase our revenues from subscription or SaaS-based services through additional sales in any period, as revenue from new customers will be recognized over the applicable subscription term. Increases in sales under our subscription sales model could result in decreased revenues over the short term if they are offset by a decline in sales from perpetual license customers.

Our cloud and SaaS offerings bring new business and operational risks.

We have introduced multiple new products and technology initiatives to provide secure file transfer solutions in the emerging area of cloud computing. We include in this category our SaaS offerings. Our SaaS offerings provide our customers with existing and new software management through a hosted service as opposed to traditional software deployments. There can be no assurance that SaaS revenue will be significant in the future despite our levels of investment. There is a risk that our SaaS offerings may reduce demand for licenses and maintenance of our traditional software products which could impact our revenue. Margins associated with our SaaS offerings are generally lower than margins associated with our on-premise solutions.

Our customers may not renew their subscriptions after the expiration of their subscription agreements and in fact, some customers elect not to do so. Our customers may opt for a lower-priced edition of our offerings or for fewer subscriptions. We have limited historical data with respect to rates of customer subscription renewals, so we may not be able to accurately predict customer renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our services and their ability to continue their operations and spending levels. If we experience a decline in the renewal rates for our customers or they opt for lower-priced editions of our offerings or fewer subscriptions, our operating results may be adversely impacted.

There is a risk that our internal development and customer support teams could find it difficult or costly to support both traditional software installed by customers and software delivered as a service. To the extent that our new SaaS offerings are defective or there are disruptions to our services, demand for our SaaS offerings could diminish and we could be subject to substantial liability.

Interruptions or delays in service from our third party service delivery hosts could impair the delivery of our services and harm our business. If we or our third party service delivery hosts experience security breaches and unauthorized access is obtained to a customer's data or our data, our services may be perceived as not being secure, customers may curtail or stop using our services and we may incur significant legal and financial exposure and liabilities.

Our success in the emerging area of cloud computing depends on organizations and customers perceiving technological and operational benefits and cost savings associated with the increasing adoption of virtual infrastructure solutions for on-premise data centers as well as for cloud computing and end user computing. Concerns about security, privacy, availability, data integrity, retention and ownership may negatively impact the rate of adoption of cloud computing. Cloud computing environments can be complex and the deployment of our secure file transfer solutions in the cloud may require additional professional services and implementation services for which we may not have the ability to provide at an appropriate margin. In the cloud, our products are dependent upon third party hardware, software and cloud hosting vendors, all of which must interoperate for end users to achieve their computing goals. Since the cloud computing market is in the early stages of development, we expect other companies to enter this market and to introduce their own initiatives that may compete with, or not be compatible with, our cloud solutions.

Operating margins on our new initiatives may be lower than those we have achieved in our more mature product markets. Our new initiatives may not generate sufficient revenue to recoup our investments in them. If any of these events were to occur, it could adversely affect our business, results of operations and financial condition.

We rely on third parties to provide us with a number of operational services, including hosting and delivery, certain of our customer services and other operations. Any interruption or delay in service from these third parties, breaches of security or privacy, or failures in data collection could expose us to liability, harm our reputation and adversely impact our financial performance.

We rely on hosted computer services from third parties for certain services that we provide our customers. As we gather customer data and host certain customer data in third-party facilities, a security breach could compromise the integrity or availability or result in the theft of customer data. In addition, our operations could be negatively affected in the event of a security breach, and we could be subject to the loss or theft of confidential or proprietary information..

Unauthorized access to this data may be obtained through break-ins, breach of our secure network by an unauthorized party, employee theft or misuse, or other misconduct. We rely on a number of third party suppliers in the operation of our business for the provisioning of various services and materials that we use in the operation of our business and production of our products. Although we seek to diversify our third party suppliers, we may from time to time rely on a single or limited number of suppliers, or upon suppliers in a single country, for these services or materials. The inability of such third parties to satisfy our requirements could disrupt our business operations or make it more difficult for us to implement our business strategy. If any of these situations were to occur, our reputation could be harmed, we could be subject to third party liability, including under data protection and privacy laws in certain jurisdictions, and our financial performance could be negatively impacted.

Fluctuations in professional services revenue may be greater than experienced in previous reporting periods and have a disproportionate impact on our financial results. For example, increased professional services sales, especially to the government, may result in lower earnings as a percentage of revenue.

Our solution portfolio includes software licenses, subscription services, and professional services. Because they are relatively labor intensive, professional services typically have substantially lower margins than software license sales, maintenance and support sales and subscription services. However, these services represent a strategic capability that helps customers plan, implement, and sustain our solutions and also provide us with the demonstrated past performance necessary to participate in certain procurements.

Professional services historically have been less than 10% of our total revenue. However, this percentage can fluctuate significantly from period to period depending on the needs of our customers. For example, our professional services contract with McLane Advanced Technologies in connection with services to the U.S. Army was completed in 2013.

Depending on our mix of software licenses, subscription, and professional services revenue in a given reporting period, our earnings as a percentage of revenue may fluctuate from historical norms. For example, if we were to derive a relatively large (compared to historical norms) component of our revenue from professional services in a reporting period, earnings as a percentage of revenue may decline in that period due to lower margin contribution from the labor-intensive services as compared to software license and subscription service revenue.

An inability to establish vendor specific objective evidence of the selling price of one or more components of a software sale with multiple components could result in our having to change from recognizing software license revenue in full at the time the software is delivered to recognizing that same software license revenue ratably in the future over an extended number of accounting periods.

For software sales with multiple components (typically a sale involving both a license to software that will be delivered immediately and M&S that will be delivered over an extended period of time), generally accepted accounting principles require that vendor specific objective evidence of selling price ("VSOE") be established for at least one of the components of that sale before the software license revenue can be recognized in full at the time of delivery to the customer of the licensed software. If VSOE cannot be established, recognition of the software license revenue must be deferred and recognized ratably in the future over an extended number of accounting periods, the length of which would typically be the time period covered by the related M&S contract. We currently have established VSOE in a manner that supports us recognizing software license revenue in full at the time we deliver the software to our customers for substantially all of our products.

Situations can arise where a change in product pricing that improves our cash flow and financial position has an unintended consequence of us not being able to establish VSOE where it existed before. If that set of circumstances were to occur, we could be required by generally accepted accounting principles to defer recognition of software license revenue to future periods. That requirement could cause us to experience an immediate decline in software license revenue recognized in our financial statements in the period in which the licensed software was delivered to our customer even though the timing and amount of cash flow from the transaction would be the same as when we had established VSOE. If this collection of events were to occur, it could have a material, adverse effect on our revenue, results of operations and financial condition we present in our financial statements.

Our indebtedness may adversely affect our cash flow and business operations.

At December 31, 2013, we had notes payable of \$4.4 million under our loan agreements with a bank. Our indebtedness could have important consequences to us, including:

- Our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes which may be impaired or not available on favorable terms.
- Covenants contained in our loan agreements require us to meet financial tests that may affect our flexibility in planning for and reacting to changes in our business, including future business opportunities.
- We may need a substantial portion of our cash flow from operations to make principal and interest payments on our indebtedness, reducing the funds that would otherwise be available for operations and future business opportunities.
- Our level of indebtedness can make us more vulnerable to competitive pressures if there is a downturn in our business or the economy in general, than our competitors with less debt.

Our ability to service our indebtedness will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing or delaying capital expenditures, acquisitions and/or, selling assets, restructuring or refinancing our indebtedness or seeking additional debt or equity capital or bankruptcy protection. We may not be able to affect any of these remedies on satisfactory terms or at all.

A breach of the terms and conditions of our loan agreements, including the inability to comply with the required financial covenants, could result in an event of default. If an event of default occurs (after any applicable notice and cure periods), the lender would be entitled to accelerate the repayment of amounts outstanding (including accrued and unpaid interest and fees). Upon a default under the loan agreements, the lender could also foreclose against any collateral securing such obligations, which may be all or substantially all of our assets. If that occurred, we may not be able to continue to operate as a going concern.

We may not be able to compete effectively with larger, better-positioned companies, resulting in lower margins and loss of market share.

We operate in intensely competitive markets that experience rapid technological developments, market consolidation, changes in industry standards, changes in customer requirements, and frequent new product introductions and product improvements by existing and new competitors. If we are unable to anticipate or react to these competitive challenges or if existing or new competitors take or gain additional market share in any of our markets, our competitive position could weaken, and we could experience a decrease in revenues that could adversely affect our business and operating results. To compete successfully, we must maintain a successful research and development effort to develop new products and services and enhance existing products and services, effectively adapt to changes in the technology or product rights held by our competitors, appropriately respond to competitor strategies as such strategies become apparent, and effectively adapt to technological changes and changes in the ways that our information is accessed, used, and stored within our enterprise and consumer markets. If we are unsuccessful in responding to our competitors or to changing technological and customer demands, we could experience a negative effect on our competitive position and our financial results.

We compete with a variety of companies who have significantly greater revenues and financial resources, partners, resellers and distribution channels than we have as well as greater personnel and technical resources. For example, the EFT solution suite competes with products from Sterling Commerce, Axway and several other vendors, and WAFS competes with Riverbed Technology and Cisco. TapIn competes with a variety of cloud file storage and collaboration companies such as Dropbox. Large companies may be able to develop new technologies, across multiple solution spaces, and on more operating systems, more quickly than we can, to offer a broader array of products, and to respond more quickly to new opportunities, industry standards or customer requirements. For example, Sterling Commerce receives substantial maintenance contract revenue annually, providing them with significant resources for product research, development and marketing.

Additional competitors may enter the market and also may have significantly greater capabilities and resources than we do. Some existing competitors also may be able to adopt more aggressive pricing strategies. For example, Ipswitch provides an older version of its consumer file transfer protocol program for free for non-commercial use, and Microsoft includes file transfer protocol functionality in its Internet browser, which it also distributes for free. Increased competition may result in lower operating margins and loss of market share.

As we attempt to expand our business, our operating expenses may increase, and we may incur losses.

We intend to expand our business, specifically with regard to new license sales of our products. To do so, we plan to increase our research and development expenditures to accelerate our introduction of new features, functions and capabilities for our products to the marketplace, particularly with regard to our EFT Server product line. We intend to enhance the presence and visibility of those products by increasing our sales and marketing expenditures to expand our internal sales force, develop a broader reseller program involving more third-parties, and implement new sales lead generation and marketing initiatives.

These expanded research and development and sales and marketing activities may result in an increase in our operating expenses. If we do not successfully develop new features, functions and capabilities for our products in a manner that increases license sales of our products, particularly with regard to our EFT Server product line, and if our enhanced sales and marketing activities, including expansion of our third-party reseller programs, are not successful, our revenue may not increase. In that event, our net income could decline or we may incur losses.

Our products are complex and operate in a wide variety of computer configurations, which could result in errors or product failures.

Addressing MFT, file synchronization, managed email attachment, cloud services and secure content mobility typically requires very complex products. Therefore, undetected errors, failures, or bugs may occur, especially when products are first introduced or when new versions are released. Our products are often installed and used in large-scale computing environments with different operating systems, system management software, and equipment and networking configurations, which may cause errors or failures in our products or may expose undetected errors, failures, or bugs in our products. Our customers' computing environments also are often characterized by a wide variety of standard and non-standard configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. In addition, despite testing by us and others, errors, failures, or bugs may not be found in new products or releases until after commencement of commercial shipments. In the past, we have discovered software errors, failures, and bugs in certain of our product offerings after their introduction and have experienced delayed or lost revenues during the time required to correct these errors.

Errors, failures, or bugs in products released by us could result in negative publicity, product returns, loss of or delay in market acceptance of our products, loss of competitive position, or claims by customers or others. Many of our end-user customers use our products in applications that are critical to their businesses and may have a greater sensitivity to defects in our products than to defects in other, less critical, software products. In addition, if an actual or perceived breach of information integrity or availability occurs in one of our end-user customer's systems, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products could be harmed. Alleviating any of these problems could require significant expenditures of our capital and other resources and could cause interruptions, delays, or cessation of our product licensing, which could cause us to lose existing or potential customers and could adversely affect our operating results. For example, it has taken longer than originally expected to make the necessary improvements to our WAFS solution and therefore WAFS revenues to date have been lower than originally anticipated.

Our business is subject to the risks of warranty claims, product returns, product liability and product defects.

Real or perceived errors, failures or bugs in our products could result in claims by customers for losses that they sustain. If customers make these types of claims, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem. Liability provisions in our standard terms and conditions of sale, and those of our resellers and distributors, may not be enforceable under some circumstances or may not fully or effectively protect us from customer claims and related liabilities and costs, including indemnification obligations under our agreements with resellers and distributors. The sale and support of our products also entail the risk of product liability claims. We maintain insurance to protect against certain types of claims associated with the use of our products, but our insurance coverage may not adequately cover any such claims. Even claims that ultimately are unsuccessful could result in expenditures of funds in connection with litigation and divert management's time and other resources.

Turmoil and uncertainty in U.S. and international economic markets could adversely affect our business and operating results.

Demand for our products depends in large part upon the level of capital and maintenance expenditures by many of our customers. Lingering effects of the economic downturn in recent years have adversely impacted spending on information technology projects as prospects and customers reduce, sometimes greatly, their discretionary spending to focus on preserving mandatory spending budgets.

These adverse impacts to customer spending may be directly, and adversely, reflected in our future business and operating results because we believe a substantial part of the MFT spending budget is considered discretionary by our prospects and customers. The perception of MFT solutions spending as discretionary is further reinforced by the existence of low cost, or even free, products that deliver some subset of the capabilities found in our solutions. Given the economic downturn, some customers may have decided to defer spending for our solutions or may have elected to obtain low cost or free "good enough" products as an interim measure. The potential adverse impacts of such decisions may persist for an extended period of time, even well into a period of economic recovery, given that many prospects will not change their IT infrastructure for a considerable period of time after that infrastructure has been installed and is operating adequately.

Adverse financial results from another economic downturn and uncertainty could include flat, or even decreasing, sales, lower gross and net margins, and impairment of current or future goodwill and long-lived assets. In addition, some of our customers could delay paying their obligations to us. Potentially reduced sales and margins and customer payment problems could limit our ability to fund research and development, marketing, sales, and other activities necessary to sustain and expand our market position.

As was the case with many other companies, at the onset of the recent economic downturn, our stock price decreased. If investors have concerns that our business, financial condition and results of operations will be negatively impacted by another economic downturn, our stock price could decrease again.

Regardless of economic conditions, fluctuations in demand for our products and services are driven by many factors and a decrease in demand for our products could adversely affect our financial results.

We are subject to fluctuations in demand for our products and services due to a variety of factors, including competition, product obsolescence, technological change, budget constraints of our actual and potential customers, level of broadband usage, awareness of security threats to IT systems, and other factors. While such factors may, in some periods, increase product sales, fluctuations in demand can also negatively impact our product sales. If demand for our products declines, our revenues, as well as our gross and net margins, could be adversely affected. CuteFTP, in particular, competes in some ways with social media services for image and video sharing. As social media has increased in popularity, sales of our CuteFTP product line have declined.

Sales to the U.S. Government make up a portion of our business and changes in government defense spending could have consequences on our financial position, results of operations and business.

From time-to-time in the past, sales to the U.S. Government have accounted for 10% or more of our total sales. Our revenues from the U.S. Government largely result from contracts awarded to us under various U.S. Government programs, primarily defense-related programs with the Department of Defense (“DoD”). The funding of our programs is subject to the overall U.S. Government budget and appropriation decisions and processes which are driven by numerous factors, including geo-political events and macroeconomic conditions, and are beyond our control. The overall level of U.S. defense spending has increased in recent years for numerous reasons, including increases in funding of operations in Iraq and Afghanistan and the DoD’s modernization initiatives. Looking forward, we expect overall defense spending to remain relatively flat in the near term, given the completed military withdrawal from Iraq and the expected drawdown of military operations in Afghanistan. However, projected defense spending budgets are uncertain and become increasingly difficult to predict for periods beyond the near-term due to numerous factors, including the external threat environment, funding for ongoing operations in Afghanistan, future priorities of the Administration and the overall health of the U.S. and world economies and the state of governmental finances.

Significant changes in defense spending could have long-term consequences for our size and structure. Changes in government priorities and requirements could impact the funding, or the timing of funding, of our programs which could negatively impact our results of operations and financial condition. Larger government contracts, such as the Army contracts in which we participate with certain of our customers, typically have long sales cycles. Therefore, closure of such contracts is difficult to predict, increasing uncertainty in our projections.

U.S. Government contracts generally also permit the government to terminate the contract, in whole or in part, without prior notice, at the government’s convenience or for default based on performance. If one of our contracts is terminated for convenience, we would generally be entitled to payments for our allowable costs and would receive some allowance for profit on the work performed. If one of our contracts is terminated for default, we would generally be entitled to payments for our work that has been accepted by the government. A termination arising out of our default could expose us to liability and have a negative impact on our ability to obtain future contracts and orders. Furthermore, on contracts for which we are a subcontractor and not the prime contractor, the U.S. Government could terminate the prime contract for convenience or otherwise, irrespective of our performance as a subcontractor.

Because we are a DoD contractor, certain of our items and/or transactions may be subject to the International Traffic in Arms Regulations (“ITAR”) if our software or services are specifically designed or modified for defense purposes. Companies engaged in manufacturing or exporting ITAR-controlled goods and services (even if these companies do not export such items) are required to register with the U.S. State Department. Failure to comply with these requirements could result in fines and sanctions which could negatively impact our results of operations and financial condition.

Changes to our sales organization can be disruptive and may negatively impact our results of operations.

From time to time, we make significant changes in the organizational structure and compensation plans of our sales organizations, which may increase the risk of sales personnel turnover. To the extent that we experience turnover within our direct sales force or sales management, there is a risk that the productivity of our sales force would be negatively impacted which could lead to revenue declines. Turnover within our sales force can cause disruption in sales cycles leading to delay or loss of business. It can take time to implement new sales management plans and to effectively recruit and train new sales representatives. We review and modify our compensation plans for the sales organization periodically. Changes to our sales compensation plans could make it difficult for us to attract and retain top sales talent.

If we are unable to generate significant volumes of sales leads from Internet search engines, marketing campaigns and traffic to our websites, then our revenue may not grow as expected or may decline.

We generate many of our sales leads through visits to our websites by potential end-users interested in purchasing or downloading evaluations of our products. Many of these potential end-users find our websites by searching for secure file transfer products through Internet search engines, such as Google. A critical factor in attracting potential customers to our websites is how prominently our websites are displayed in response to search inquiries. If we are listed less prominently or fail to appear in search result listings for any reason, visits to our websites by customers and potential customers could decline significantly. We may not be able to replace this traffic, and, if we attempt to replace this traffic, we may be required to increase our sales and marketing expenses, which may not be offset by additional revenue and could adversely affect our operating results.

We also generate leads through various marketing activities such as targeted email campaigns, attending networking-based trade shows and hosting webinars on enterprise IT management issues. Our marketing efforts may be unsuccessful in generating evaluation downloads, resulting in fewer sales leads. If we fail to generate a sufficient volume of leads from these activities and/or such sales leads do not result in actual sales, our revenue may not grow as expected or could decrease and our operating results could suffer.

If we fail to manage our sales and distribution channels effectively or if our partners choose not to market and sell our products to their customers, our operating results could be adversely affected.

We sell our products to customers primarily through our direct sales force and through resellers. Sales through these different channels involve distinct risks, including the following:

Direct Sales. Most of our revenue is derived from sales by our direct sales force to end-users. Special risks associated with this sales channel include:

- Longer sales cycles associated with direct sales efforts;
- Difficulty in hiring, retaining, and motivating our direct sales force;
- Substantial amounts of training for sales representatives to become productive, including regular updates to cover new and revised products; and
- Reliance on leads obtained from paid advertising (for example, Google ads) could materially impact direct sales should advertising effectiveness decline due to non-attributable declines in leads, unforeseen search engine algorithm changes, or other occurrences that may adversely impact the lead generation aspects of the direct sales cycle. In addition, increased competition may materially impact the costs associated with such advertising.

Indirect Sales Channels. A significant portion of our revenue is derived from sales through indirect channels, including distributors and partners that sell our products to end-users and other resellers. This channel involves a number of risks, including:

- Our lack of control over the timing of delivery of our products to end-users;
- Our resellers and distributors currently are not subject to minimum sales requirements or any obligation to market our products to their customers;
- Our reseller and distributor agreements are generally nonexclusive and may be terminated at any time without cause; and
- Our resellers and distributors frequently market and distribute competing products and may, from time to time, place greater emphasis on the sale of these products due to pricing, promotions, and other terms offered by our competitors.

We cannot be certain that our distribution channel partners will continue to market or sell our products effectively. If we are not successful, we may lose sales opportunities, customers and revenues.

If we lose key personnel we may not be able to execute our business plan.

Our future success depends on the continued services of key members of our management team. These individuals are difficult to replace because of the intense competition for similarly skilled people. New members of the management team may not be productive for weeks or months as they learn about our solutions, our personnel and the administrative practices within our company.

Failure to maintain proper and effective internal controls could affect our ability to produce accurate financial statements which could result in the restatement of our financial statements or adversely affect our operating results, our ability to operate our business, and our stock price.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We maintain a system of internal control over financial reporting, which is defined as a process designed by, or under the supervision of, our principal executive officer and principal financial officer, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

If we are unable to establish and maintain appropriate internal financial reporting controls and procedures, it could cause us to fail to meet our reporting obligations, result in the restatement of our financial statements, harm our operating results, subject us to regulatory scrutiny and sanction, cause investors to lose confidence in our reported financial information, and have a negative effect on the market price for shares of our common stock.

Our ability to develop our software will be seriously impaired if we are not able to use our foreign subcontractors.

We rely on foreign subcontractors to help us develop some aspects of some of our software. If these programmers decided to stop working for us, or if we were unable to continue using them because of political or economic instability, we would have difficulty finding comparably skilled developers in a timely manner. In addition, we would likely have to pay considerably more for the same work, especially if we used U.S. personnel. If we could not replace the contract programmers, it would take us significantly longer to develop certain products and product upgrades.

It may be difficult for us to recruit and retain software developers and other technical and management personnel because we are a relatively small company.

We compete intensely with other software development and distribution companies internationally and information technology departments supporting larger businesses to recruit and hire from a limited pool of qualified personnel. Some qualified candidates prefer to work for larger, better known companies or in another geographic area. In order to attract and retain personnel in a competitive marketplace, we believe that we must provide a competitive compensation package, including cash and equity-based compensation. The volatility in our stock price may from time to time adversely affect our ability to recruit or retain employees. In addition, we may be unable to obtain required stockholder approvals of future increases in the number of shares available for issuance under our equity compensation plans. Also, accounting rules require us to treat the issuance of employee stock options and other forms of equity-based compensation as compensation expense. As a result, we may decide to issue fewer equity-based incentives and may be impaired in our efforts to attract and retain necessary personnel. If we are unable to hire and retain qualified employees, or conversely, if we fail to manage employee performance or reduce staffing levels when required by market conditions, our business and operating results could be adversely affected.

Key personnel have left our Company in the past. There likely will be additional departures of key personnel from time to time in the future. The loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives, the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, and the results of our operations. Hiring, training, and successfully integrating replacement sales, engineering, and other personnel could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful, which could negatively impact future revenues.

Our operations potentially are vulnerable to security breaches that could harm the quality of our products and services or disrupt our ability to deliver our products and services.

Information security is a dynamic discipline that historically has faced a threat that develops and emerges in sometimes-unpredictable ways. Third parties may breach our system and information security and damage our products and services or misappropriate confidential customer information. This might cause us to lose customers, or even cause customers to make claims against us for damages. We may be required to expend significant resources to protect against potential or actual security breaches and/or to address problems caused by such breaches.

Improper disclosure of personal data could result in liability and harm our reputation.

While we have derived the majority of our historical revenues from on-premise delivery of our products, we now also offer our products on third party hosted platforms. As we continue to execute our strategy of increasing the number and scale of our cloud-based offerings, we store and process increasingly large amounts of personally identifiable information of our customers. At the same time, the continued occurrence of high-profile data breaches provides evidence of an external environment increasingly hostile to information security. This environment demands that we continuously improve our design and coordination of security controls. It is possible our security controls over personal data, our training of employees and vendors on data security, and other practices we follow may not prevent the improper disclosure of personally identifiable information. Improper disclosure of this information could harm our reputation, lead to legal exposure to customers, or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue. We believe consumers using our subscription services increasingly will want efficient, centralized methods of choosing their privacy preferences and controlling their data. Perceptions that our products or services do not adequately protect the privacy of personal information could inhibit sales of our products or services, and could constrain consumer and business adoption of cloud-based solutions.

Breaches of our cybersecurity systems could degrade our ability to conduct our business operations and deliver products and services to our customers, delay our ability to recognize revenue, compromise the integrity of our software products, result in significant data losses and the theft of our intellectual property, damage our reputation, expose us to liability to third parties and require us to incur significant additional costs to maintain the security of our networks and data.

We increasingly depend upon our IT systems to conduct virtually all of our business operations, ranging from our internal operations and product development activities to our marketing and sales efforts and communications with our customers and business partners. Cyber threats may attempt to penetrate our network security, or that of our website, and misappropriate our proprietary information or cause interruptions of our service. Because the techniques used by such attackers to access or sabotage networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of the system. We have also outsourced a number of our business functions to third party contractors. Therefore, our business operations also depend, in part, on the success of our contractors' own cybersecurity measures. Similarly, we rely upon distributors, resellers, system vendors and systems integrators to sell our products and our sales operations depend, in part, on the reliability of their cybersecurity measures. Additionally, we depend upon our employees to appropriately handle confidential data and deploy our IT resources in safe and secure fashion that does not expose our network systems to security breaches and the loss of data. Accordingly, if our cybersecurity systems and those of our contractors fail to protect against unauthorized access, sophisticated cyber attacks and the mishandling of data by our employees and contractors, our ability to conduct our business effectively could be damaged in a number of ways, including:

- Sensitive data regarding our business, including intellectual property and other proprietary data, could be stolen;
- Our electronic communications systems, including email and other methods, could be disrupted, and our ability to conduct our business operations could be seriously damaged until such systems can be restored;
- Our ability to process customer orders and electronically deliver products and services could be degraded, and our distribution channels could be disrupted, resulting in delays in revenue recognition;
- Defects and security vulnerabilities could be introduced into our software products, thereby damaging the reputation and perceived reliability and security of our products and potentially making the data systems of our customers vulnerable to further data loss and cyber incidents; and
- Personally identifiable data of our customers, employees and business partners could be lost.

Should any of the above events occur, we could be subject to significant claims for liability from our customers, regulatory actions from governmental agencies, our ability to protect our intellectual property rights could be compromised and our reputation and competitive position could be significantly harmed. Also, the regulatory and contractual actions, litigations, investigations, fines, penalties and liabilities relating to data breaches that result in losses of personally identifiable or credit card information of users of our services can be significant in terms of fines and reputational impact and necessitate changes to our business operations that may be disruptive to us. Additionally, we could incur significant costs in order to upgrade our cybersecurity systems and remediate damages. Consequently, our financial performance and results of operations could be adversely affected.

Certain components of the software code comprising some of our products are licensed from third parties making us dependent upon those licenses remaining in place for those products to operate in their current form.

Certain key components of the software code comprising certain of our products are licensed from unrelated, third parties. These licenses are not perpetual such that, with advance notice as provided in the license agreements, those third parties could terminate those licenses. Even with advance notice, termination of those licenses could create a severe hardship for us due to the need to locate substitute software code from other third parties or create alternative software code ourselves in order for our products to continue to operate in the manner designed or for us to keep pace with customer requirements, including our obligations under maintenance and support agreements. There is no assurance we could achieve either of those alternative solutions in a timely and effective manner that would not disrupt our ability to continue selling and supporting those products, or without the consumption of significant company resources in the form of time spent by our personnel creating alternative solutions or cash paid to third parties to assist us. Such a situation could delay the completion and introduction to the marketplace of other products we are developing to remain competitive due to the diversion of the attention of certain of our key personnel away from that work. If any of these events occur, our future business and financial results could be adversely affected.

We utilize “open source” software in some of our products.

The open source software community develops software technology for free use by anyone. We incorporate a limited amount of open source code software into our products. For example, we have relied on open source technology for the encryption features in our CuteFTP Pro, EFT, and Mail Express solutions. We may use more open source code software in the future.

Our use, in some instances, of open source code software may impose limitations on our ability to commercialize our solutions and may subject us to possible intellectual property litigation. Open source code may impose limitations on our ability to commercialize our products because, among other reasons, open source license terms may be ambiguous and may result in unanticipated obligations regarding our solution, and open source software cannot be protected under trade secret law. In addition, it may be difficult for us to accurately determine the developers of the open source code and whether the acquired software infringes third-party intellectual property rights. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. From time to time, companies that incorporate open source software into their products have been subject to such claims.

Claims of infringement or misappropriation against us could be costly for us to defend and could require us to re-engineer our solution or to seek to obtain licenses from third parties in order to continue offering our solution. We also might need to discontinue the sale of our solution in the event re-engineering could not be accomplished on a timely or cost-effective basis. If any such claim, attempted remediation, or solution discontinuance occur, our business and operating results could be harmed.

Our products may expose customers to invasion of privacy, causing customer dissatisfaction.

Our EFT suite, Mail Express, and TappIn solutions are intended to facilitate information sharing, sometimes by providing outsiders access to a customer's computer. Such access potentially may make the customer vulnerable to security breaches, which could result in the loss of their privacy or property. Invasions of privacy or other customer harm occurring in an environment where our solutions are operating could result in customer dissatisfaction and possible claims against us for any resulting damages.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.

All products that are exported, re-exported or that are worked on by foreign nationals are subject to export controls. Such controls include prohibitions on end uses, end users and exports to certain sanctioned countries. In addition, incorporation of encryption technology into our products increases the level of U.S. export controls. The encryption export controls were modified in 2010. We are subject to these requirements as certain of our products include the ability for the end user to encrypt data. Therefore, our products may be exported outside the United States or revealed to foreign nations only by complying with the required level of export controls/restrictions. Restrictions applicable to our products may include: the requirement to have a license to export the technology; the requirement to have software licenses approved before export is allowed; and outright bans on the licensing of certain encryption technology to particular end users or to all end users in a particular country. In addition, various countries regulate the import of certain technology and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries.

There can be no assurance that we will be successful in obtaining or maintaining the licenses and other authorizations required to export our products from applicable government authorities. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the list of countries to which we cannot export, changes in persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations.

Export laws and regulations can be extremely complex in their application. If we are found not to have complied with applicable export control laws, we may be sanctioned, fined or penalized by, among other things, having our ability to obtain export licenses curtailed or eliminated, possibly for an extended period of time. Our failure to receive or maintain any required export licenses or authorizations or our penalization for failure to comply with applicable export control laws would hinder our ability to sell our products, could result in financial penalties, and could materially adversely affect our business, financial condition, and results of operations. Any failure on our part or the part of our distributors to comply with encryption or other applicable export control requirements could harm our business and operating results.

Import and export regulations of encryption/decryption technology vary from country to country. We may be subject to different statutory or regulatory controls in different foreign jurisdictions, and as such, importation of our technology may not be permitted in these foreign jurisdictions. Violations of foreign regulations or regulation of international transactions could prevent us from being able to sell our products in international markets. Our success depends in large part to having access to international markets. A violation of foreign regulations could limit our access to such markets and have a negative effect on our results of operations.

As our international sales grow, we could become increasingly subject to additional risks that could harm our business.

We conduct significant sales and customer support, in countries outside of the United States. During the year ended December 31, 2013, approximately 27% of our sales were to purchasers outside the United States. Our continued growth and profitability could require us to further expand our international operations. To successfully expand international sales, we must establish additional foreign operations, hire additional personnel and recruit additional international resellers. We may also incur additional expense translating our applications into additional languages. In addition, there is significant competition for entry into high growth markets, such as China. Our international operations are subject to a variety of risks, which could cause fluctuations in the results of our international operations. These risks include:

- Compliance with foreign regulatory and market requirements.
- Variability of foreign economic, political and labor conditions.
- Changing restrictions imposed by regulatory requirements, tariffs or other trade barriers or by U.S. export laws.
- Longer accounts receivable payment cycles.
- Potentially adverse tax consequences.
- Difficulties in protecting intellectual property.
- Burdens of complying with a wide variety of foreign laws.
- Difficulty transferring funds to the U.S. in a tax efficient manner from non-U.S jurisdictions in which the cash flow originates.

We are subject to risks associated with compliance with laws and regulations globally which may harm our business.

We are a global company subject to varied and complex laws, regulations and customs domestically and internationally. These laws and regulations relate to a number of aspects of our business, including trade protection, import and export control, data and transaction processing security, payment card industry data security standards, records management, user-generated content hosted on websites we operate, corporate governance, employee and third-party complaints, gift policies, conflicts of interest, employment and labor relations laws, securities regulations and other regulatory requirements affecting trade and investment. The application of these laws and regulations to our business is often unclear and may at times conflict. Compliance with these laws and regulations may involve significant costs or require changes in our business practices that result in reduced revenue and profitability. Non-compliance could also result in fines, damages, or criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business, and damage to our reputation. We incur additional legal compliance costs associated with our global operations and could become subject to legal penalties if we fail to comply with local laws and regulations in U.S. jurisdictions or in foreign countries, which laws and regulations may be substantially different from those in the U.S. In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us, including the Foreign Corrupt Practices Act. Although we implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, including those based in or from countries where practices that violate such U.S. laws may be customary, will not take actions in violation of our internal policies. Any such violation, even if prohibited by our internal policies, could have an adverse effect on our business.

The amount of income taxes we compute as payable on our income tax returns filed with the Internal Revenue Service and certain states could be challenged by those taxing authorities resulting in us paying more taxes than anticipated.

We file income tax returns with the Internal Revenue Service and taxing authorities in certain states. We prepare and file those returns based on our interpretations of the relevant tax code as to revenue to be reported and deductions and credits allowed. We use third-party experts to assist us in preparing our tax returns and computing our tax liabilities to help us ensure we pay the proper amount of tax due. Our tax returns are subject to examination by taxing authorities who could interpret the tax code in a different manner from us and conclude we are obligated to pay more taxes than we originally computed and paid. While we would defend the position taken on our tax returns as filed, a challenge from a taxing authority can be costly to defend with no assurance of a favorable outcome for us. In the event of an unfavorable result under these circumstances, our business, operating results and financial position could be harmed.

The amount of sales tax we collect on sales could be challenged by taxing authorities both in jurisdictions in which we have a corporate presence as well as by taxing authorities in areas where we have no corporate presence.

We collect and remit sales tax on sales in jurisdictions where we have a corporate or physical presence that results in an obligation to do so. We sell our products to customers in numerous locations where we do not have a corporate or physical presence and, therefore, do not collect sales tax on those sales. States in which we collect sales tax could audit our activities and assess us with additional tax based on them interpreting the sales tax code differently than we interpret it. Various states in which we do not collect sales tax are aggressive in interpreting their sales tax codes in determining if a company with no apparent presence in those states is obligated to collect and remit sales taxes, particularly on sales made across the Internet. States where we do not collect sales tax could make an assertion that we should have been collecting sales tax and could assess us with that tax. While we would defend the position taken as to our obligation to collect sales tax and the amount of sales tax collected, a challenge from a taxing authority can be costly to defend with no assurance of a favorable outcome for us. In the event of an unfavorable result under these circumstances, our business, operating results and financial position could be harmed.

Risks Related to Stock Ownership

Our stock price is/may be volatile.

The trading price of our common stock has been and could continue to be subject to wide fluctuations in response to certain factors, including:

- U.S. and global economic conditions leading to general declines in market capitalizations, with such declines not associated with operating performance.
- Quarter-to-quarter variations in results of operations.
- Our announcements of new products.
- Our announcements of acquisitions.
- Our announcements of significant new customers or contracts.
- Our competitors' announcements of new products.
- Our product development or release schedule.
- Changes in our management team.
- General conditions in the software industry.
- Investor perceptions and expectations regarding our products, plans and strategic position and those of our competitors and customers.

In addition, the public stock markets experience extreme price and trading volume volatility, particularly in high-technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons often unrelated to the operating performance of the specific companies. The broad market fluctuations may adversely affect the market price of our common stock.

Accounting charges may cause fluctuations in our annual or quarterly financial results.

Our financial results may be affected by non-cash and other accounting charges, including:

- Amortization of intangible assets, including acquired technology and product rights.
- Acquisition expenses.
- Impairment of goodwill and intangibles.
- Share-based compensation expense.
- Restructuring charges.
- Impairment of long-lived assets.

Anti-takeover provisions in our charter and Delaware law could inhibit others from acquiring us.

Some of the provisions of our certificate of incorporation and bylaws and in Delaware law could, together or separately:

- Discourage potential acquisition proposals.
- Delay or prevent a change in control.
- Limit the price that investors may be willing to pay in the future for shares of our common stock.

In particular, our certificate of incorporation and bylaws prohibit stockholders from voting by written consent or calling meetings of the stockholders. We are also subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder, as defined in the statute, for a period of three years following the date on which the stockholder became an interested stockholder.

Our directors and executive officers continue to have substantial control over us.

Our directors and executive officers, together with their affiliates and related persons, beneficially owned, in the aggregate, approximately 40.3% of our outstanding common stock as of December 31, 2013. These stockholders would have the ability to substantially control GlobalSCAPE and direct its policies including the outcome of matters submitted to our stockholders for approval, such as the election of directors and any acquisition or merger, consolidation or sale of all or substantially all of our assets. In addition, our certificate of incorporation and bylaws provide for our Board of Directors to be divided into three classes of directors serving staggered three-year terms. As a result, approximately one-third of our Board of Directors will be elected each year.

Stockholders' ownership of our stock may be significantly diluted, affecting the value of the stock.

There were options for 2,947,155 shares outstanding under our employee and director stock option plans as of March 1, 2014, of which 2,121,595 were vested. We have filed a registration statement under the Securities Act, covering stock issued upon the exercise of options by non-affiliates, and we may file a registration statement covering options held by affiliates as well. If we do not file a registration statement covering affiliates, affiliates who exercise their options may choose to sell the stock under an exemption from registration, such as Rule 144 under the Securities Act. The exercise of these options and sale of the resulting stock could depress the value of our stock.

Risks Related to Intellectual Property

We are vulnerable to claims that our products infringe third-party intellectual property rights particularly because our products are partially developed by independent parties.

From time to time we experience claims that our products infringe third-party intellectual property rights. We may be exposed to future litigation based on claims that our products infringe the intellectual property rights of others. This risk is exacerbated by the fact that some of the code in our products is developed by independent parties or licensed from third parties over whom we have less control than we exercise over internal developers. In addition, we expect that infringement claims against software developers will become more prevalent as the number of products and developers grows and the functionality of software programs in the market increasingly overlaps. Companies in the technology industry, and other patent and trademark holders seeking to profit from royalties in connection with grants of licenses, own large numbers of patents, copyrights, trademarks, service marks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. In addition, we may be the target of aggressive and opportunistic enforcement of patents by third parties, including non-practicing entities.

Responding to and defending against such claims may cause us to incur significant expense and divert the time and efforts of our management and employees. Successful assertion of such claims could require that we pay substantial damages or ongoing royalty payments, prevent us from selling our products and services, damage our reputation, or require that we comply with other unfavorable terms, any of which could materially harm our business. In addition, we may decide to pay substantial settlement costs in connection with any claim or litigation, whether or not successfully asserted.

While it is not possible to predict the outcome of patent litigation incident to our business, defense costs may be significant, and we believe the costs associated with this litigation or other claims of infringement could generally have a material adverse impact on our results of operations, financial position or cash flows. Regardless of the merit of such claims, responding to infringement claims can be expensive and time-consuming.

For any intellectual property rights claim against us or our customers, we may have to pay damages and indemnify our customers against damages.

Claims of infringement could require us to re-engineer our products or seek to obtain licenses from third parties in order to continue offering its products. In addition, an adverse legal decision affecting our intellectual property, or the use of significant resources to defend against this type of claim could place a significant strain on our financial resources and harm our reputation.

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

Our software code, and trade and service marks are some of our most valuable assets. Given the global nature of the Internet and our business, we are vulnerable to the misappropriation of this intellectual property, particularly in foreign markets, such as China and Eastern Europe, where laws or law enforcement practices are less developed. The global nature of the Internet makes it difficult to control the ultimate destination or security of our software making it more likely that unauthorized third parties will copy certain portions of our proprietary information or reverse engineer the proprietary information used in its programs. If our proprietary rights were infringed by a third-party and we did not have adequate legal recourse, our ability to earn profits, which are highly dependent on those rights, would be severely diminished.

Other companies may own, obtain or claim trademarks that could prevent, limit or interfere with our use of our trademarks.

Our various trademarks are important to our business. If we were to lose the use of any of our trademarks, our business would be harmed and we would have to devote substantial resources towards developing an independent brand identity. Defending or enforcing our trademark rights at a local and international level could result in the expenditure of significant financial and managerial resources.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our corporate office is in San Antonio, Texas. That office contains approximately 21,000 square feet for which the average annual rent under the lease is \$347,000. We believe these facilities are suitable for our current business needs and that suitable, additional space would be available if needed in the future under acceptable terms.

We remain obligated under a lease for 5,300 square feet of office space in Seattle, Washington that we no longer occupy. The average annual rent under this lease is \$126,000. We are actively pursuing a sublease of this space.

Item 3. Legal Proceedings

None

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity

Our common stock is listed on the NYSE MKT Exchange under the symbol "GSB" The following table sets forth the quarterly high and low closing sale prices for our common stock for the last two fiscal years.

	2013		2012	
	High	Low	High	Low
First Quarter (ending March 31)	\$ 1.85	\$ 1.36	\$ 2.39	\$ 1.69
Second Quarter (ending June 30)	\$ 1.75	\$ 1.40	\$ 2.15	\$ 1.77
Third Quarter (ending September 30)	\$ 1.88	\$ 1.46	\$ 2.28	\$ 1.96
Fourth Quarter (ending December 31)	\$ 2.45	\$ 1.52	\$ 2.15	\$ 1.40
Annual	2.45	1.36	2.39	1.40

On March 15, 2014, the last reported sales price of our common stock on the NYSE MKT Exchange was \$2.37 per share. As of March 15, 2013, we had approximately 1901 stockholders of record of our common stock.

We paid a special cash dividend of \$.05 per share on December 3, 2013 and \$.07 per share on December 27, 2012, to shareholders of record as of the close of business on November 19, 2013 and December 17, 2012, respectively. While we cannot predict whether we will pay dividends in the future, in the event we have sufficient net cash flow and cash on hand, our Board of Directors may consider paying dividends in the future.

Item 6. Selected Financial Data

The following selected financial data is derived from the Financial Statements included in this annual report. This data is qualified in its entirety by and should be read in conjunction with the more detailed Financial Statements and related notes included in this annual report and with Item 8, *Financial Statements and Supplementary Data*. Historical results may not be indicative of future results.

On December 2, 2011 we acquired TappIn, Inc. This acquisition was accounted for as a stock purchase and, accordingly, the operating results of that business have been included in the Financial Statements included in this annual report since the date of acquisition.

Statement of Operations Data:

(\$ in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total revenues	\$ 24,339	\$ 23,372	\$ 20,894	\$ 18,565	\$ 16,451
Operating expenses:					
Cost of revenues	1,011	1,296	1,723	601	336
Selling, general and administrative	14,881	16,761	14,466	12,815	10,798
Research and development	3,766	3,531	3,124	3,016	2,805
Affiliated entity asset impairment	0	3,264	0	0	0
TappIn intangible asset impairment and earnout liability elimination	(128)	(1,303)	0	0	0
Depreciation and amortization	908	1,217	790	852	724
Total operating expenses	<u>20,438</u>	<u>24,766</u>	<u>20,103</u>	<u>17,284</u>	<u>14,663</u>
Income (loss) from operations	3,901	(1,394)	791	1,281	1,788
Net income (loss)	<u>\$ 3,840</u>	<u>\$ (1,800)</u>	<u>\$ 635</u>	<u>\$ 881</u>	<u>\$ 1,400</u>
Net income (loss) per common share - basic	\$ 0.21	\$ (0.10)	\$ 0.04	\$ 0.05	\$ 0.08
Net income (loss) per common share - diluted	\$ 0.20	\$ (0.10)	\$ 0.03	\$ 0.05	\$ 0.08

Balance Sheet Data:

(\$ in thousands)

	<u>2013</u>		<u>2012</u>		<u>2011</u>		<u>2010</u>		<u>2009</u>	
Cash and cash equivalents	\$	9,455	\$	8,079	\$	8,861	\$	11,087	\$	7,026
Working capital		1,824		73		1,662		8,607		5,540
Total assets		33,092		33,588		38,378		20,547		16,173
Long term debt, less current portion		2,989		4,389		5,667		-		-

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our financial statements for the years ended December 31, 2013, 2012 and 2011, and related notes included elsewhere in this document.

Overview

We provide secure information exchange capabilities for enterprises and consumers through the development and distribution of software, delivery of managed and hosted solutions, and provisioning of associated services. We have thousands of enterprise customers and more than one million individual consumers in over 150 countries. Our solutions are used by more than 20,000 U.S. Army personnel deployed worldwide.

We believe we are well-positioned to provide secure transfer, sharing, and replication of files that need to be transmitted inside the user's firewall to distributed offices, or outside the user's firewall to business and trading partners, including network-enabled mobile devices. Our solution portfolio addresses data and information management, movement, security and accessibility across a broad range of environments encompassing data and information in motion (for example, with traditional Managed File Transfer, or MFT, solutions delivered as on-premises software or as a cloud service) and at rest (for example, through securely deleting or purging files or securely accessing stored data from mobile tablet or smartphone devices).

Our solution portfolio facilitates transmission of critical information such as financial data, medical records, customer files, vendor files, personnel files transaction activity and other similar documents between diverse and geographically separated network infrastructures while supporting a range of information protection approaches to meet privacy and other security requirements. In addition to enabling secure, flexible transmission of critical information using servers, desktop and notebook computers, and a wide range of network-enabled mobile devices, our products also provide customers with the ability to monitor and audit file transfer activities.

Our solutions ensure compliance with government regulations and industry standards relating to the protection of information while allowing users to reduce IT costs, increase efficiency, track and audit transactions and automate processes. Our solutions also provide data replication, acceleration of file transfer, sharing/collaboration and continuous data backup and recovery to our customers.

Our initial product, CuteFTP, a file transfer program used mostly by individuals and small businesses, was first distributed in 1996 over the Internet and achieved significant success and popularity. Since then, we have continued to enhance our portfolio of products to meet the increasing demand for secure information exchange in the MFT industry and adjacent markets such as cloud services. Our capabilities have evolved from personal and small business MFT products to include standard and enterprise versions of our Enhanced File Transfer, or EFT, software with an increasing number of add-on modules that provide additional capabilities such as ad hoc file transfer, advanced auditing and reporting, government-validated cryptography, and workflow automation. We have also developed Wide-Area File Services, or WAFS, software which uses data synchronization to further enhance the ability to replicate, share and backup files within a wide area network or local area network, at higher speeds than possible with alternate approaches.

Our Mail Express product offers managed e-mail attachment solutions for information sharing. We believe our managed e-mail attachment solution addresses the needs of customers who are constrained by the typical limits on e-mail attachment size or who require additional security, auditing, and reporting for file attachments shared through e-mail.

We also offer software-as-a-service, or SaaS, and cloud-based subscription solutions for information sharing. Our SaaS and cloud-based subscription solutions allow customers to reduce their upfront and total cost of ownership and achieve other recognized benefits of cloud-based solutions, including service elasticity and strong service level agreements for IT infrastructure reliability and performance. We believe our managed, cloud-based subscription solutions may become a notable part of our future revenue because these solutions provide recurring revenue which potentially builds over time, as compared to sales of on-premises software licenses which must be reconstituted every period. We have the capability to deliver these services in the United States as well as in additional geographies, such as the United Kingdom and Canada, where country-specific compliance requirements may necessitate in-country service delivery.

We serve the secure content mobility market with our TappIn solutions. Secure content mobility provides users with the ability to easily and securely access and share data and information using a web-browser, tablet or other mobile device such as a smartphone. Secure content mobility integrates aspects of ad hoc file transfer, broader MFT capabilities, cloud services, and remote accessibility to address growing market demand for secure, 'anytime and anywhere', device-independent access to distributed content. We believe that the inclusion of secure content mobility capability in our portfolio will contribute to the future growth of our business due to the continuing adoption of tablet computers and smartphones.

Key Business Metrics

Key Business Metrics

We review a number of key business metrics on an ongoing basis to help us monitor our performance and to identify material trends which may affect our business. The significant metrics we review are described below.

Revenue Growth

We provide products and solutions to small, medium and large, multinational corporations as well as to individual consumers. We have a broad product line that has allowed us to grow revenue through software products installed at a customer's location as well as through cloud-based and software-as-a-service solution delivery. In addition, we have grown our professional services capabilities to enhance our customers' implementation, training and overall user experience. Our enterprise products, solutions, and services comprised 90.4%, 90.8% and 91.5% of our revenue for the years ended December 31, 2013, 2012 and 2011, respectively. We continue to serve consumers and small businesses with our CuteFTP software and other consumer products. Our consumer products, while 9.6%, 9.2 and 8.4% of total revenue for the years ended December 31, 2013, 2012 and 2011, respectively, are recognized brands in the marketplace that we believe continue to have a positive effect on our overall product offerings and corporate franchise.

Although we often have grown revenue sequentially quarter over quarter in recent years, we view *annual* revenue growth as the more important metric, especially considering the ongoing evolution of our solution portfolio. We believe annual "core" revenue growth, excluding larger, exceptional transactions, is a key metric for monitoring our continued success in developing our business in future periods. Given our diverse solution portfolio and the addition of subscription services, we review our revenue mix and changes in revenue, across all solutions, on a regular basis to identify key trends and adjust resource allocations.

We believe attaining additional traction in the cloud-based managed solutions and secure content mobility market segments, realizing the potential of new software solutions, and our ability to continue developing and enhancing our existing software solutions into a complete solutions portfolio are significant factors in our continued ability to sustain or possibly increase our revenue growth in future years.

The impact of cloud-based managed solutions on our revenue growth trends depends on several key factors, including the number of customers who may shift from software licenses to subscription services, the rate at which they may do so, the subscription term and fees, and the comparative value of the opportunity had it materialized as a software license sale instead of as a subscription service. The long-term impact also depends on whether availability of our managed solutions ultimately provides us with an expanded market footprint enabled by this additional means of delivering our solution capabilities.

Similarly, we believe market adoption of secure content mobility solutions, such as those provided by our TappIn solutions, will increase in future periods as use of personal computing devices, such as smart phones and tablets, continues to grow exponentially and as businesses increasingly embrace the rapidly increasing use of mobile devices, including "Bring Your Own Device", or BYOD, operating models. In order to capitalize on this trend, our future emphasis will be on merging the TappIn technology and functionality with our MFT capabilities to create a TappIn Enterprise solution. We believe offering the TappIn technology through this integration will maximize the return on our investment in this product line.

We have made and continue to make changes intended to increase license and M&S revenue growth across all or our product lines. In the second half of 2013, we made significant changes in personnel leading our sales and marketing groups. Under this new leadership, we have:

- Increased our sales staff headcount.
- Reconfigured the organization of our sales group to enhance their industry and geographic focus.
- Implemented new sales and marketing campaigns.
- Administered enhanced sales training programs.
- Engaged third party search engine optimization experts to redirect our efforts in that area.
- Launched a campaign to engage and leverage the resources of additional third-party resellers.

As a complement to these sales and marketing actions, we also made changes in personnel leading our software engineering group. Under this new leadership, we have revised the manner in which we assess the development of new technologies, our approach to managing those projects and the timelines over which we do that work.

See the section below comparing our results of operations for the years ended December 31, 2013, 2012 and 2011, for discussion of the revenue trends we have experienced.

Recurring Revenue Growth.

Recurring revenue includes revenue recognized from our maintenance and support, or M&S, contracts, managed and hosted solutions, and other subscription services such as from our TappIn solution. M&S contracts for our products are sold for fixed periods of time and are typically for one year with some agreements having longer terms. We recognize revenue from these contracts on a monthly basis over the life of the contract. Managed and hosted solutions, such as Managed Information Xchange, or MIX and Hosted EFT, are sold as one, two, or three-year subscriptions with the services invoiced and revenue recognized on a monthly basis. TappIn subscriptions typically are sold for one-year terms with the revenue recognized on a monthly basis.

Recurring revenue provides a more predictable revenue stream in future periods which we believe is highly valued by institutional investors and other market participants. We review recurring revenue trends periodically to determine the progress of our M&S and cloud solution sales and customer satisfaction with our ongoing solution development and support activities. We also assess how aggregate contract value (see further discussion below) will factor into possible recurring revenue in future periods.

See the section below comparing our results of operations for the years ended December 31, 2013, 2012 and 2011, and the section titled "Solution Perspective and Trends" for discussion of the recurring revenue trends we have experienced.

Aggregate Contract Value Growth.

Aggregate contract value, or ACV, is a measure of future revenue potential we have in place under contracts for product sales, M&S, managed solutions, and professional services to be delivered in the future for which we will recognize revenue in future periods. ACV is the sum of the following items:

- Deferred revenue resulting from payments we have already received for services to be provided in the future.
- Amounts we are due to be paid under non-cancellable contracts for future services we will provide under those contracts.

Our ACV growth, as illustrated in the table below, is a result of sales success in numerous areas of our business. While we expect ACV may grow in future periods as we potentially continue to increase our volume of non-cancellable contracts for future delivery of our products and services, it could also decrease for a number of reasons including existing customers electing not to renew their maintenance and support contracts or a large professional services contract not being renewed for additional terms as provided in certain of those contracts.

ACV is not a measure of financial performance under GAAP and should not be considered a substitute for deferred revenue. However, we believe it is a meaningful measure of the success of our current selling efforts, specifically with regard to our products we sell as a subscription service and our professional services under contracts for future delivery of those services, because the completion of the selling efforts for those products can precede, sometimes by several quarters, the recognition of revenue from those sales due to such revenue being recognized in future periods as those services are delivered. Accordingly, we use this metric to assess the effectiveness of current sales and business development activities and how that effectiveness will factor into future revenue. ACV, together with recurring revenue and deferred revenue trends, provides greater insight into how bookings will factor into revenue over specific periods. We determine ACV related to contracts for future delivery of our products and services as follows:

	December 31,	
	2013	2012
	<i>(thousands)</i>	
Amounts we have billed and/or been paid in advance (presented as deferred revenue in our financial statements)	\$ 10,800	\$ 9,773
Amounts we will bill and be paid in the future (will appear in our financial statements when we are paid and/or when we provide the products and services)	283	797
Total ACV	\$ 11,083	\$ 10,570

Our ACV related to M&S contracts that create deferred revenue in our financial statements has generally increased year-to-year in recent years. Our M&S revenue growth and its increasing percentage of our total revenue are primarily due to our ongoing efforts to increase M&S contract renewal rates, the growing installed base of our software products in the marketplace, and the decline in software license revenue in recent periods. The installed base growth creates a compounding effect for M&S renewals. This effect is due to the cumulative number of licensed software installations sold over multiple years that create M&S renewals in any single year predictably (and in line with our expectations) exceeding the number of new software licenses we sell in a single year. While we expect this compounding effect to continue to grow, if sales of our on premise enterprise products were to decrease, then new sales of M&S contracts could decrease as well given the typical bundling of M&S contracts with enterprise software solution sales.

Our ACV related to contracts we have for which we will deliver services, earn revenue, and be paid in future periods decreased in 2013 compared to 2012. This decrease was primarily due to us completing, in 2013, the delivery of services under our contract supporting the Standard Army Maintenance System-Enhanced, or SAMS-E, logistics program. We believe we can offset the effects of this event by continuing to increase deliveries of our higher margin, commercial (non-government) professional services as we increasingly bundle those services with new sales of our enterprise solutions and as we deliver additional services to existing customers.

Measurement of Income and Expense Excluding Infrequent Events (Non-GAAP Measurement)

We use supplemental measurements of income and expense excluding infrequent items to monitor the financial performance of our core operating activities prior to consideration of significant events that occur infrequently. These measurements of income and expense excluding infrequent items include:

- Operating expenses excluding infrequent items.
- Operating income excluding infrequent items.
- Net income excluding infrequent items.
- Earnings per share excluding infrequent items.

We exclude infrequent items from these income and expense measurements because we do not consider them part of our core operating results when assessing our ongoing operational performance, allocating resources to our business activities and preparing operating budgets. We believe that by comparing such income and expense measurements across historical periods, our operating results can be evaluated exclusive of the effects of certain infrequent items that may not be indicative of our core operations.

Income and expense excluding infrequent items are not measures of financial performance under GAAP and should not be considered a substitute for the similar items that include infrequent items. While we believe these non-GAAP income and expense measures provide useful supplemental information, there are limitations associated with the use of these non-GAAP income and expense measures. These non-GAAP income and expense measures are not prepared in accordance with GAAP and may not be comparable to similarly titled measures of other companies since there is no standard for preparing these non-GAAP income and expense measures. Items excluded in preparing these non-GAAP income and expense measures individually and collectively can have a material impact on operating expenses, operating income, net income and earnings per share. As a result, these non-GAAP income and expense measures have limitations and should not be considered in isolation from, or as a substitute for, financial statements prepared in accordance with GAAP.

Income and expense excluding infrequent items is as follows:

	Year Ended December 31,		
	2013	2012	2011
	(In 000's except per share amounts)		
Non-GAAP Operating Expenses			
GAAP total operating expenses	\$ 20,438	\$ 24,766	\$ 20,103
Add: TappIn intangible asset impairment and earnout liability elimination	128	1,343	-
Less: Affiliated entity asset impairment	-	(3,264)	-
Non-GAAP operating expenses	<u>\$ 20,566</u>	<u>\$ 22,845</u>	<u>\$ 20,103</u>
Non-GAAP Income From Operations			
GAAP (loss) income from operations	\$ 3,901	\$ (1,394)	\$ 791
Less: TappIn intangible asset impairment and earnout liability elimination	\$ (128)	(1,343)	-
Add: Affiliated entity asset impairment	-	3,264	-
Non-GAAP income from operations	<u>\$ 3,773</u>	<u>\$ 527</u>	<u>\$ 791</u>
Non-GAAP Net Income			
GAAP net (loss) income	\$ 3,840	\$ (1,800)	\$ 635
Less: TappIn intangible asset impairment and earnout liability elimination	\$ (1,341)	(1,343)	-
Add: Affiliated entity asset impairment	-	3,264	-
Non-GAAP net income	<u>\$ 2,499</u>	<u>\$ 121</u>	<u>\$ 635</u>
Non-GAAP Earnings Per Share			
Non-GAAP net income	\$ 2,499	\$ 121	\$ 635
Weighted average share outstanding:			
Basic	18,626	18,358	18,081
Diluted	19,082	19,016	18,747
Non-GAAP net income per common share:			
Basic	\$ 0.13	\$ 0.01	\$ 0.04
Diluted	\$ 0.13	\$ 0.01	\$ 0.03

For the year ended December 31, 2013, the TappIn intangible asset impairment and earnout liability elimination effect of \$(1.3) million is the gross TappIn intangible asset impairment and earnout liability elimination of \$128,000 plus \$1.2 million of related federal income tax effects.

For the year ended December 31, 2012, The TappIn earnout liability elimination of \$1.3 million is the gross amount of the liability relieved. There is no related federal income tax effect because the elimination of the liability for this payment is not a taxable event for federal income tax purposes.

For the year ended December 31, 2012, the affiliated entity asset impairment effect on non-GAAP net income of \$3.3 million is the gross affiliated entity asset impairment associated with the write-off of our investment in, and our notes receivable from, CoreTrace Corporation. There is no related federal income tax effect reflected here because this item is a capital loss for federal income tax purposes for which we are uncertain as to whether we will generate sufficient capital gains in the future against which this capital loss can be applied.

See our comparison of results for the years ended December 31, 2013, 2012 and 2011, below for our discussion of variations in the underlying elements comprising the amounts above.

Adjusted EBITDA Excluding Infrequent Items

We utilize Adjusted EBITDA (Earnings Before Interest, Taxes, Total Other Income/Expense, Depreciation, Amortization, other than amortization of capitalized software development costs, and Share-Based Compensation Expense) Excluding Infrequent Items to measure profitability and cash flow from our core operating activities. We exclude infrequent items because they typically do not directly impact profitability and cash flow resulting from our core activities. We monitor and review cost of revenues, selling, general, and administrative, or SG&A, expenses and research and development, or R&D, expenses to assess conformance with established budget expectations and to identify specific variances. Identifying and, if necessary, addressing variances above budget is important for the purpose of staying within budget ceilings. However, even variances below budget may indicate imbalances in resource allocations or deviation of operating activities from established expectations.

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For the year ended December 31, 2013, we modified our computation of EBITDA to exclude the amortization of capitalized software development costs from the amortization amount we add to net income because the amortization of capitalized software development costs is derived from expenditures that are part of our core operating activities. EBITDA for the years ended December 31, 2012 and 2011 have been recomputed to exclude amortization of capitalized software development costs for those years which resulted in EBITDA being \$87,000 less in 2012 and staying the same in 2011 than previously reported for 2012 and 2011.

Adjusted EBITDA Excluding Infrequent Items is not a measure of financial performance under GAAP and should not be considered a substitute for net income. Adjusted EBITDA Excluding Infrequent Items has limitations as an analytical tool and when assessing our operating performance. Adjusted EBITDA Excluding Infrequent Items should not be considered in isolation or as a substitute for net income or other income statement data prepared in accordance with GAAP.

We compute Adjusted EBITDA Excluding Infrequent Items as follows (\$ in thousands):

	2013	Year Ended December 31, 2012	2011
Net income (loss)	\$ 3,840	\$ (1,800)	\$ 635
Add (subtract) items to determine adjusted EBITDA:			
Income tax expense	(104)	217	169
Other expense	165	189	(13)
Depreciation and amortization:			
Total depreciation and amortization	908	1,217	790
Amortization of capitalized software development costs	(174)	(87)	-
Stock-based compensation expense	666	915	1,003
Affiliated entity asset impairment	-	3,264	-
TappIn intangible asset impairment and earnout liability elimination	(128)	(1,303)	-
Adjusted EBITDA	<u>\$ 5,173</u>	<u>\$ 2,612</u>	<u>\$ 2,584</u>

See the section below comparing our results of operations for the years ended December 31, 2013, 2012 and 2011, for discussion of the variances between periods in the components comprising Adjusted EBITDA.

Solution Perspective and Trends

Our discussion of the business trends of our products is based on the following profile of our revenue components (\$ in thousands):

	Revenue for the Year Ended December 31,					
	2013		2012		2011	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Revenue by Product						
EFT Enterprise	\$ 15,308	62.9%	\$ 14,742	63.1%	\$ 12,167	58.2%
EFT Standard	3,946	16.2%	3,367	14.4%	3,665	17.5%
Wide Area File Services/CDP	1,277	5.2%	1,577	6.7%	1,533	7.3%
Professional Services	1,479	6.1%	1,547	6.6%	1,772	8.5%
CuteFTP	1,205	5.0%	1,059	4.5%	1,209	5.8%
Other	1,124	4.6%	1,080	4.6%	548	2.6%
Total Operating Revenues	<u>\$ 24,339</u>	<u>100.0%</u>	<u>\$ 23,372</u>	<u>100.0%</u>	<u>\$ 20,894</u>	<u>100.0%</u>
Maintenance and Support Included in Total Operating Revenue	<u>\$ 13,650</u>	<u>56%</u>	<u>\$ 11,298</u>	<u>48%</u>	<u>\$ 9,424</u>	<u>45%</u>

Our revenue from software licenses and professional services (i.e. all sources other than M&S sales) decreased 12% in 2013 compared to 2012 and 5% in 2012 compared to 2011.

Software license revenue from our EFT, WAFS and other software products (i.e. all software products other than CuteFTP) declined 14% in 2013 compared to 2012 and grew 11% in 2012 compared to 2011. The decline in 2013 compared to the growth in 2012 was primarily a result of:

- Unanticipated delays during 2013 in introducing to the market certain new product features and functionality related to our EFT product line.
- Lower lead generation during the second half of 2012 and into 2013 that had the unintended effect of temporarily slowing the flow of new customer leads from online marketing activities.

In the second half of 2013, we made significant changes in personnel leading our sales and marketing groups. Under this new leadership, we have:

- Increased our sales staff headcount.
- Reconfigured the organization of our sales group to enhance their industry and geographic focus.
- Implemented new sales and marketing campaigns.
- Administered enhanced sales training programs.
- Engaged third party search engine optimization experts to redirect our efforts in that area.
- Launched a campaign to engage and leverage the resources of additional third-party resellers.
- Expanded our channel and distribution partner program.

As a complement to these sales and marketing actions, we also made changes in personnel leading our software engineering group. Under this new leadership, we have revised the manner in which we assess the development of new technologies, our approach to managing those projects and the timelines over which we do that work.

We have made these changes with a goal of returning to a growth trend in software license revenue from our lead EFT products and solutions. By renewing the growth in our EFT software license sales, we believe we will concurrently contribute to continued growth of M&S revenue because substantially all purchasers of our EFT software licenses also purchase an M&S contract which in turn also makes them candidates for M&S renewals in future years.

The decrease in WAFS revenue in 2013 compared to 2012 was primarily due to the continuation of our plan, implemented in prior periods, to more selectively sell this product in environments that can be configured to operate within the data transmission volume and stored file size operating specifications of the software which we have found allow customers to effectively use the WAFS product without encountering legacy WAFS issues. We are continuing development of this product so that it functions effectively and efficiently in additional environments which would allow us to broaden its market opportunities.

Software license revenue from CuteFTP increased 17% in 2013 compared to 2012 and declined 13% in 2012 compared to 2011. The increase in the 2013 period was primarily a result of our release in November 2012 of CuteFTP Version 9 with an improved feature set to better address the user's higher performance and security demands. The decline in 2012 was due to the marketplace awaiting this new version of this software.

Professional services revenue declined 4% in 2013 compared to 2012 and 13% in 2012 compared to 2011. We earned a significant portion of this professional services revenue (15% in 2013 and 33% in 2012) under our contract supporting the Standard Army Maintenance System-Enhanced, or SAMS-E, logistics program. We completed the terms of the final option year of the MAT contract in September 2013 which gave rise to this revenue decline in 2013. As there is now a new primary contractor, we do not anticipate future revenue from these activities. We believe we can offset the effects of this event by continuing to increase deliveries of our higher margin, commercial (non-government) professional services as we increasingly bundle those services with new sales of our enterprise solutions and as we deliver additional services to existing customers.

M&S revenue increased 21% in 2013 compared to 2012 and 20% in 2012 compared to 2011. M&S revenue as a percent of our total revenue was 56%, 48% and 45% in 2013, 2012 and 2011, respectively. During the 2013 period, M&S revenue continued its trend over recent years of becoming an increasing percentage of our total revenue. Our M&S revenue growth and its increasing percentage of our total revenue are primarily due to:

- The growing installed base of our software products in the marketplace.
- Declining software license revenue in recent periods.

The installed base growth creates a compounding effect for M&S renewals. This effect is due to the cumulative number of licensed software installations sold over multiple years that create M&S renewals in any single year predictably (and in line with our expectations) exceeding the number of new software licenses we sell in a single year. We expect this compounding effect to continue to grow, even as we potentially increase software license revenue in future periods. We view this M&S revenue increase as a positive indicator of our customers' ongoing satisfaction with our products purchased in past years.

Liquidity and Capital Resources

At December 31, 2013, we had cash of \$9.5 million. We generated cash from our operating activities of \$4.5 million in 2013, \$3.8 million in 2012 and \$2.8 million in 2011. We rely on cash on hand and cash flows from operations to fund our operations and believe these items will be our principal sources of operating capital in 2014.

At December 31, 2013, we had \$1.8 million of net working capital. The current liabilities component of that working capital included \$9.1 million of deferred revenue which, unlike all other liability components of our working capital, is an obligation we will satisfy through ongoing operating activities from which we have historically generated cash flow and not through a disbursement of cash as a direct payment of that liability. Our working capital minus that deferred revenue was \$10.9 million at December 31, 2013.

Our capital requirements principally relate to our need to fund our ongoing operating expenditures, which are primarily related to employee salaries and benefits. We make these expenditures to enhance our existing products, develop new products, sell those products in the marketplace and support our customers after the sale.

The agreement under which we purchased TappIn, Inc. provided for future milestone payments upon the achievement of certain future events subsequent to the date of purchase. In 2012, the TappIn shareholders earned an additional milestone payment of \$2.0 million of which we paid \$1.5 million in 2012 and \$500,000 in 2013 from our cash on hand.

Because our principal sources of capital are cash on hand and cash flow from operations, to the extent that sales decline, our cash flow from operations could also decline. If sales decline or if our liquidity is otherwise under duress, management could substantially reduce personnel and personnel-related costs, reduce or substantially eliminate capital expenditures and/or reduce or substantially eliminate certain research and development expenditures. We may also sell equity or debt securities or enter into credit arrangements in order to finance future acquisitions or licensing activities, to the extent available.

Cash provided or used by our various activities consisted of the following (\$ in thousands):

	Year Ended December 31,		
	2013	2012	2011
Net cash provided by operating activities	\$ 4,531	\$ 3,844	\$ 2,826
Net cash (used in) investing activities	(1,600)	(2,103)	(12,391)
Net cash (used in) financing activities	(1,555)	(2,325)	7,339

The variations in these amounts between years are due to the following items. This discussion should be read in conjunction with our consolidated statement of cash flows presented below in Item 8. Financial Statements and Supplemental Data:

Net cash provided by operating activities -

The amount provided in 2013 changed compared to the amount provided in 2012 primarily due to:

- Net income, after adjustments to reconcile net income to net cash provided by operating activities as illustrated on our Consolidated Statements of Cash Flow, of \$4.5 million for the 2013 period compared to \$3.8 million for the 2012 period which yielded \$700,000 of additional cash flow for the 2013 period compared to the 2012 period. See the comparison of statement of operations for the 2013 period and the 2012 period below for a discussion of the changes in the components of these amounts.
- Accounts payable increasing \$223,000 during the 2013 period compared to decreasing \$159,000 with the increase in 2013 due to enhanced cash management policies related to vendor payments and normal variations in the timing of our payments to vendors.

Offset by

- Accounts receivable increasing \$444,000 during the 2013 period compared to increasing \$60,000 during the 2012 period with this change due to changes in circumstances at customers causing certain of them to take longer to pay in 2013 compared to 2012 but which did not result in an increase in uncollectable accounts receivable.

- Accrued expenses decreasing \$455,000 in 2013 compared to decreasing \$43,000 in 2012 primarily due to the timing of the end of employee pay periods.
- Federal income taxes payable increasing \$315,000 in 2013 compared to decreasing \$292,000 in 2012 due to higher taxable income per our tax return for 2013 compared to taxable income per our tax return for 2012.
- Deferred revenue increasing \$1 million during the 2013 period compared to increasing \$2.1 million during the 2012 period. During the 2012 period, we received an M&S order from the U.S. Army that was notably higher than the expiring M&S order it replaced which contributed to the deferred revenue increase in 2012. The similar U.S. Army M&S renewal in 2013 was for an amount similar to the 2012 amount thereby not creating a similar increase in deferred revenue in 2013

Net cash provided by (used in) investing activities –

The net use of cash in 2013 changed compared to the net use of cash in 2012 primarily due to:

- A \$500,000 disbursement for a TappIn earnout payment in the 2013 compared to a \$1.5 million earnout payment in 2012, both of which related to the same earnout event that occurred in 2012, with that decrease primarily due to no additional earnout payment events occurring in 2013.
- An increase in capitalized software development costs in the 2013 period compared to the 2012 period due to a greater number of our software development projects having progressed to having a detailed program design or working prototype.

Net cash provided by (used in) financing activities –

The net use of cash in 2013 changed when compared to 2012 primarily due to:

- Increased proceeds from the exercise of stock options as a result of stock option exercises by former officers during 2013 for which there were no exercises of stock options in 2012.
- A smaller dividend payment in 2013 compared to 2012 due to dividends being paid at the rate of \$0.05 per share in 2013 compared to \$0.07 per share in 2012.

Our primary obligations at December 31, 2013, were:

- Deferred revenue of \$10.8 million of which \$9.1 million is the primary component of our current liabilities. This obligation is created as a result of advance payments we receive under contracts to provide maintenance and support services in the future. We will recognize this deferred revenue as revenue over the remaining life of those contracts which generally ranges from one to three years. We will satisfy this obligation through ongoing operating activities from which we have historically generated cash flow and not through a disbursement of cash as a direct payment of that liability.
- Notes payable to a bank of \$4.4 million (see discussion below under Loan Agreements).
- Trade accounts payable, accrued liabilities, obligations under operating leases and amounts due third parties under royalty agreements all incurred in the normal course of business.

Loan Agreements

In December 2011, we borrowed \$7 million under loan agreements with The Bank of San Antonio to fund a portion of the purchase price of TappIn. These loan agreements provide for the following notes payable:

- A note payable with an original principal balance of \$4.0 million bearing interest at 4.75% per annum and secured by substantially all of our consolidated assets.
- A note payable with an original principal balance of \$3.0 million bearing interest at 4.25% per annum and secured by a certificate of deposit with The Bank of San Antonio of \$3.0 million bearing interest at 2.0% per annum. This certificate of deposit is included in long-term investments on our balance sheet.

At December 31, 2013, the total principal balance outstanding under these notes payable was \$4.4 million.

Interest and principal are payable under both notes in 60 equal monthly installments that will fully amortize the notes as of their December 2, 2016 maturity date. The loans may be prepaid at any time without premium or penalty.

The Loan Agreements contain the following financial covenants:

- We must maintain a debt service coverage ratio of at least 1.25. This ratio is defined in the loan agreements as (1) net income plus depreciation, interest and non-cash charges divided by (2) the sum of the current portion of long-term debt plus interest expense. As of December 31, 2013, this debt service coverage ratio was 2.44.
- We must maintain a maximum debt to tangible net worth ratio of 4.00:1. This ratio is defined in the loan agreements as (1) total liabilities less deferred revenues divided by (2) total assets, excluding intangible assets, minus total liabilities, excluding deferred revenues. As of December 31, 2013, this debt to tangible net worth ratio was [0.45:1].
- We must maintain liquid assets (cash and marketable securities) of at least \$3.2 million in 2013 and \$2.2 million in 2014. As of December 31, 2013, cash and marketable securities were \$9.5 million.

The loan agreements contain customary covenants relating to maintaining legal existence and good standing, complying with applicable laws, delivery of financial statements, payment of taxes and maintaining insurance. We are prohibited, without obtaining advance approval from the bank, from selling any of our assets other than in the ordinary course of business, acquiring any other entities, changing the types of business we are engaged in, incurring indebtedness other than that permitted by the loan agreements, incurring any liens on our assets other than those permitted by the loan agreements, making certain investments or acquiring any shares of our capital stock. The loan agreements also contain customary events of default including the failure to make payments of principal and interest, the breach of any covenants, the occurrence of a material adverse change, and certain bankruptcy and insolvency events.

Contractual Obligations

At December 31, 2013, our principal commitments consisted of obligations outstanding under the loan agreements described above, operating leases for our office space, royalty agreements with third parties, federal income tax payable, trade accounts payable and accrued liabilities. The commitments related to royalty agreements are contingent on sales volumes. We plan to continue to expend significant resources on product development in future periods which may require that we enter into additional contractual arrangements and use our cash to acquire or license technology, intellectual property, products or businesses related to our current business strategy.

Our contractual obligations at December 31, 2013, other than trade accounts payable, accrued liabilities, royalties and federal income taxes we incur in the normal course of business consisted of the following (\$'s in thousands):

	Payments Due for the Period				Total
	2014	2015 - 2017	2018 - 2020	2021 and thereafter	
Office lease	\$ 473	\$ 1,051	\$ 462	\$ -	\$ 1,986
Long-term debt	1,567	3,135	-	-	4,702
	<u>\$ 2,040</u>	<u>\$ 4,186</u>	<u>\$ 462</u>	<u>\$ -</u>	<u>\$ 6,688</u>

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2013-11, *Income Taxes (Topic 740)- Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except under certain circumstances when one or more of these items is not available at the reporting date under the tax law of the applicable jurisdiction. ASU 2013-11 is applicable for fiscal years beginning after December 15, 2013. We do not expect adoption of this ASU to have a material impact on our financial statements.

In February 2013, the FASB issued FASB ASU No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements to the extent such obligations are not already addressed within existing guidance under GAAP. ASU 2013-04 is applicable for fiscal years beginning after December 15, 2013. We do not expect adoption of this ASU to have a material impact on our financial statements.

In July 2012, the FASB issued FASB ASU No. 2012-02, *Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. If an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. ASU 2012-02 became effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Our adoption of this ASU did not have a material impact on our financial statements.

In December 2011, the FASB issued FASB ASU No. 2011-11, *Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities are required to disclose both gross and net information about these instruments. ASU 2011-11 became effective for annual reporting periods beginning on or after January 1, 2013. Our adoption of this ASU did not have a material impact on our financial statements.

Critical Accounting Policies

Our financial statements and accompanying notes are prepared in accordance with GAAP applicable to public companies in the United States. Preparing financial statements requires management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We discuss our critical accounting areas and policies below, all of which we apply in accordance with GAAP.

Revenue Recognition

We develop, market and sell software products. We recognize revenue from a sale transaction when the following conditions are met:

- Persuasive evidence of an arrangement exists.
- Delivery has occurred or services have been rendered.
- The amount is fixed or determinable.
- Collection is reasonably assured.

For a sale transaction not meeting any one of these four criteria, we defer recognition of revenue related to that transaction until all the criteria are met.

We earn the majority of our software license revenue from software products sold under perpetual software license agreements. At the time our customers purchase these products, they typically also purchase a product maintenance and support, or M&S, agreement. These transactions are multiple element software sales for which we assess the presence of vendor specific objective evidence ("VSOE") of the fair value of the undelivered elements to determine the portion of these sales to recognize as revenue upon delivery of the software product and the portion of these sales to record as deferred revenue at the time the product is delivered. We amortize the deferred revenue component to revenue in future periods as we deliver the related future services to the customer. For transactions, if any, for which we cannot establish VSOE of fair value of the undelivered elements, we initially record the entire transaction as deferred revenue and amortize that amount to revenue in future periods as we deliver the related future services to the customer.

Our deferred revenue consists primarily of revenue to be earned in the future as we deliver services under M&S agreements. Certain of our customers will accept, and sometimes pay, our invoices for M&S services prior to the commencement of the M&S period. In such cases, we record accounts receivable and deferred revenue in the same amount at the time we submit an invoice to the customer and commence recognition of the deferred revenue as revenue only after the M&S period begins.

For our products delivered under a software-as-a-service transaction on a monthly or other periodic subscription basis, we recognize subscription revenue, including initial setup fees, on a monthly basis over the contractual term of the customer contract as we deliver our products and services. These amounts are in other revenue. Amounts invoiced or paid prior to this revenue recognition are presented as deferred revenue until earned.

We provide professional services to our customers consisting primarily of software installation support, operations support and training. We recognize revenue from these services as they are completed and accepted by our customers.

We collect sales tax on many of our sales. We do not include sales tax collected in our revenue. We record it as a liability payable to taxing authorities.

Property and Equipment

Property and equipment is comprised of furniture and fixtures, software, computer equipment and leasehold improvements which are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Furniture, fixtures and equipment have a useful life of 5 to 7 years, computer equipment and software have a life of 3 years and leasehold improvements are depreciated over the shorter of the term of the lease under which the improvements were made or the estimated useful life of the asset.

Expenditures for maintenance and repairs are charged to operations as incurred.

Goodwill

Goodwill is not amortized. On at least an annual basis, we test goodwill for impairment at the reporting unit level. We operate as a single reporting unit.

When testing goodwill, we first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of our reporting unit is less than its carrying amount, including goodwill. In performing this qualitative assessment, we assess events and circumstances relevant to us including, but not limited to:

- Macroeconomic conditions.
- Industry and market considerations.
- Cost factors and trends for labor and other expenses of operating our business.
- Our overall financial performance and outlook for the future.
- Trends in the quoted market value and trading of our common stock.

In considering these and other factors, we consider the extent to which any adverse events and circumstances identified could affect the comparison of our reporting unit's fair value with its carrying amount. We place more weight on events and circumstances that most affect our reporting unit's fair value or the carrying amount of our net assets. We consider positive and mitigating events and circumstances that may affect our determination of whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount. We evaluate, on the basis of the weight of the evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount.

If, after assessing the totality of these qualitative events and circumstances, we determine it is not more likely than not that the fair value of our reporting unit is less than its carrying amount, we conclude there is no impairment of goodwill and perform no further testing in accordance with GAAP. If we conclude otherwise, we proceed with performing the first step, and if necessary, the second step, of the two-step goodwill impairment test prescribed by GAAP.

As of December 31, 2013, after assessing the totality of the relevant events and circumstances, we determined it not more likely than not that the fair value of our reporting unit was less than its carrying amount. Accordingly, we concluded there was no impairment of goodwill as of that date.

Capitalized Software Development Costs

When we complete research and development for a software product and have completed a detail program design or a working model of that software product, we capitalize production costs incurred for that software product from that point forward until it is ready for general release to the public. Thereafter, we amortize capitalized software production costs to expense using the straight-line method over the estimated useful life of that product, which is generally three years.

Intangible Assets Being Amortized

During a portion of 2013 and all of 2012, we had intangible assets, other than goodwill, consisting of a patent, customer relationships and developed technology that we acquired through the purchase of other companies. We determined the value of those intangible assets at the time of acquisition through discounted cash flow and other similar valuation methods. We amortized these intangible assets on straight-line basis over their estimated useful lives that range from seven to eighteen years. As of December 31, 2013, the balance of these intangible assets had been reduced to zero as a result of the combination of this amortization and a determination that the unamortized portion of these intangible assets was of nominal value.

Contingent Consideration

Our TappIn acquisition in 2011 included future contingent milestone payments based on achieving certain levels of sales in the future and the introduction of new products (i.e. the TappIn earn out). We estimate the fair value of the TappIn earn out contingent consideration liability based on our assessment of the probabilities of achieving the prescribed milestones. These estimates involve significant judgment. Changes in the fair value of the TappIn earn out contingent consideration liability may result from changes in discount periods, changes in the timing and amount of sales and/or other specific milestone estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. At each reporting date, we assess the fair value of this contingent consideration liability. Changes in the fair value of these liabilities related are reflected in our net income and could materially affect our operating results.

Research and Development

We expense research and development costs as incurred.

Stock-Based Compensation

We measure the cost of share-based payment transactions at the grant date based on the calculated fair value of the award. We recognize this cost as an expense ratably over the recipient's requisite service period during which that award vests or becomes unrestricted.

For stock option awards, we estimate their fair value at the grant date using the Black-Scholes option-pricing model considering the following factors:

- We estimate expected volatility based on historical volatility of our common stock.
- We use primarily the simplified method to derive an expected term which represents an estimate of the time options are expected to remain outstanding. We use this method because our options are plain-vanilla options, and we believe our historical option exercise experience is not adequately indicative of our future expectations.
- We base the risk-free rate for periods within the contractual life of the option on the U.S. treasury yield curve in effect at the time of grant.

For restricted stock awards, we use the quoted price of our common stock on the grant date as the fair value of the award.

Income Taxes

We account for income taxes using the asset and liability method. We record deferred tax assets and liabilities based on the difference between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes, as measured by the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are carried on the balance sheet with the presumption that they will be realizable in future periods in which we generate taxable income.

We assess the likelihood that deferred tax assets will be realized from future taxable income. Based on this assessment, we provide any necessary valuation allowance on our balance sheet with a corresponding increase in the tax provision on our statement of operations. Any valuation allowances we establish are determined based upon a number of assumptions, judgments, and estimates, including forecasted earnings, future taxable income, and the relative proportions of revenue and income before taxes in the various domestic jurisdictions in which we operate.

We account for uncertainty in income taxes using a two-step process to determine the amount of tax benefit to be recognized. First, we evaluate the tax position to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed "more-likely-than-not" to be sustained, we assess the tax position to determine the amount of benefit to recognize in the financial statements. The amount of the benefit we recognize is the largest amount that we believe has a greater than 50% likelihood of being realized upon ultimate settlement. Unrecognized tax benefits represent tax positions for which reserves have been established.

Earnings Per Share

We compute basic earnings per share using the weighted-average number of common shares outstanding during the periods. We compute diluted earnings per share using the weighted-average number of common shares outstanding plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding. Awards of non-vested options are considered potentially dilutive common shares for the purpose of computing earnings per common share. In applying the treasury stock method to non-vested options, the assumed proceeds include the amount the employee must pay to exercise the option plus the amount of unrecognized cost attributable to future periods less any expected tax benefits.

Results of Operations

Comparison of Year Ended December 31, 2013 to Year Ended December 31, 2012

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>
	(\$ in thousands)		
Total revenues	\$ 24,339	\$ 23,372	\$ 967
Cost of revenues	1,011	1,296	(285)
Selling, general and administrative	14,881	16,761	(1,880)
Research and development	3,766	3,531	235
Affiliated entity asset impairment	-	3,264	(3,264)
TappIn intangible asset impairment and earnout liability elimination	(128)	(1,303)	1,175
Depreciation and amortization	908	1,217	(309)
Total operating expenses	<u>20,438</u>	<u>24,766</u>	<u>(4,328)</u>
Income from operations	3,901	(1,394)	5,295
Other income, net	(165)	(189)	24
Income tax expense	(104)	217	(321)
Net Income	<u>\$ 3,840</u>	<u>\$ (1,800)</u>	<u>\$ 5,640</u>

In the discussions below, we refer to the year ended December 31, 2013 as “2013” and the year ended December 31, 2012, as “2012”. The percentage changes cited in our discussions below comparing our results of operations for the year ended December 31, 2013, to the year ended December 31, 2012, are based on 2013 amounts compared to 2012 amounts.

Revenue. We derive our revenue primarily from the following activities:

- Software license revenue, which results from sales of our EFT Enterprise, EFT Standard, CuteFTP, Mail Express and WAFS products and solutions, which we typically recognize at the time of product shipment.
- Subscription revenues under a SaaS model from sales of our Managed Solutions, which include Managed Information Exchange, or MIX, Hosted Enhanced File Transfer, or Hosted EFT Server and TappIn, which is typically recognized on a monthly basis as the services are billed over the contract period and which ranges from one to three years.
- Maintenance and support revenue under contracts to provide ongoing product support and software updates to our customers who have purchased license software, which we typically recognize ratably over the contractual period, which is typically one year, but can be up to three years.
- Professional services revenue, which includes a variety of customization, implementation, and integration services, as well as delivery of education and training associated with our solutions, all of which are recognized as the services are performed and accepted by the client.

The components of our revenues are as follows (\$ in thousands):

Product	Revenue for the Year Ended December 31,			
	<u>2013</u>		<u>2012</u>	
EFT Enterprise	\$ 15,308	62.9%	\$ 14,742	63.1%
EFT Standard	3,946	16.2%	3,367	14.4%
Wide Area File Services	1,277	5.2%	1,577	6.7%
Professional Services	1,479	6.1%	1,547	6.6%
CuteFTP	1,205	5.0%	1,059	4.5%
Other	1,124	4.6%	1,080	4.6%
Total Operating Revenues	<u>\$ 24,339</u>	<u>100.0</u>	<u>\$ 23,372</u>	<u>100.0</u>
Maintenance and Support Included in Total Operating Revenue	<u>\$ 13,650</u>	<u>56.1%</u>	<u>\$ 11,298</u>	<u>48.3%</u>

Software license revenue from our EFT, WAFS and other software products (i.e. all software products other than CuteFTP) declined 14% primarily as a result of:

- Unanticipated delays during 2013 in introducing to the market certain new product features and functionality related to our EFT product line.
- Lower lead generation during the second half of 2012 and into 2013 that had the unintended effect of temporarily slowing the flow of new customer leads from online marketing activities.

In the second half of 2013, we made significant changes in personnel leading our sales and marketing groups. Under this new leadership, we have:

- Increased our sales staff headcount.
- Reconfigured the organization of our sales group to enhance their industry and geographic focus.
- Implemented new sales and marketing campaigns.
- Administered enhanced sales training programs.
- Engaged third party search engine optimization experts to redirect our efforts in that area.
- Launched a campaign to engage and leverage the resources of additional third-party resellers.
- Expanded our channel and distribution partner programs.

As a complement to these sales and marketing actions, we also made changes in personnel leading our software engineering group. Under this new leadership, we have revised the manner in which we assess the development of new technologies, our approach to managing those projects and the timelines over which we do that work.

We have made these changes with a goal of returning to a growth trend in software license revenue from our lead EFT products and solutions. By renewing the growth in our EFT software license sales, we believe we will concurrently contribute to continued growth of M&S revenue because substantially all purchasers of our EFT software licenses also purchase an M&S contract which in turn also makes them candidates for M&S renewals in future years.

The 19% decrease in Wide Area File Services, or WAFS, revenue was primarily due to the continuation of our plan, implemented in prior periods, to more selectively sell this product in environments that can be configured to operate within the data transmission volume and stored file size operating specifications of the software which we have found allow customers to effectively use the WAFS product without encountering legacy WAFS issues. We are continuing development of this product so that it functions effectively and efficiently in additional environments which would allow us to broaden its market opportunities.

Software license revenue from CuteFTP increased 17% primarily as a result of our release in November 2012 of CuteFTP Version 9 with an improved feature set to better address the user's higher performance and security demands.

Professional services revenue declined 4%. We earned a significant portion of this professional services revenue (15% in 2013 and 33% in 2012) under our contract supporting the Standard Army Maintenance System-Enhanced, or SAMS-E, logistics program. We completed the terms of the final option year of the MAT contract in September 2013 which gave rise to this revenue decline in 2013. As there is now a new primary contractor, we do not anticipate future revenue from these activities. We believe we can offset the effects of this event by continuing to increase deliveries of our higher margin, commercial (non-government) professional services as we increasingly bundle those services with new sales of our enterprise solutions and as we deliver additional services to existing customers.

Other revenue increased by 4.1%. We earn this revenue primarily from our Mail Express, MIX, Hosted EFT Server, and TappIn product and solution sales. This increase was due to our continued sales and marketing programs designed to increase the penetration of these products in the marketplace.

M&S revenue increased 21%. M&S revenue as a percent of our total revenue was 56% in 2013 and 48% in 2012. M&S revenue continued its trend over recent years of becoming an increasing percentage of our total revenue. Our M&S revenue growth and its increasing percentage of our total revenue are primarily due to our ongoing efforts to increase M&S contract renewal rates, the growing installed base of our software products in the marketplace and the decline in software license revenue in recent periods. The installed base growth creates a compounding effect for M&S renewals. This effect is due to the cumulative number of licensed software installations sold over multiple years that create M&S renewals in any single year predictably (and in line with our expectations) exceeding the number of new software licenses we sell in a single year. We expect this compounding effect to continue to grow, even as we potentially increase software license revenue in future periods. As our enterprise products become a larger portion of our total revenues, we believe M&S revenues will continue to increase. However, if sales of our on-premise, enterprise products were to decrease, then new sales of M&S contracts could decrease as well given the typical bundling of M&S contracts with enterprise software solution sales. We believe an increase in M&S revenue is a positive indicator of our customers' ongoing satisfaction with our products purchased in past years.

Cost of Revenues. Cost of revenues consists primarily of royalties, a portion of our bandwidth costs, hosted service expenses for our Managed Solutions, and expenses directly associated with professional services delivery. Cost of revenues decreased 22% primarily due to:

- Decreased labor costs of \$216,000 associated with professional services under the MAT contract as a result of the reduction in our level of participation in the MAT contract as described in our revenue discussions above.
- Decreased royalties of \$42,000 on certain product sales due to a favorable renegotiation of the terms of certain royalty agreements.

Offset by:

- Increased hosted server expenses of \$26,000 associated with the growth of MIX and Hosted EFT Server solutions.

Selling, General and Administrative. These expenses decreased 11.2% primarily due to the following decreases in expenses:

- Salaries and wages of \$628,000 resulting primarily (1) the consolidation of our chief executive officer and president/chief operating officer positions and (2) certain other officer and leadership positions being unfilled for a portion of 2013 while new personnel were being recruited.
- Stock-based compensation expense of \$244,000 resulting from forfeitures of vested stock options held by certain former employees.
- Legal fees of \$195,000 resulting from decreased patent litigation activities in 2013 compared to 2012.
- Health insurance of \$168,000 resulting from the employees paying a higher portion of employee benefits expense in the 2013 period.
- Travel and entertainment expense of \$102,000 due to increasing maturity of international sales relationships and enhanced general cost control policies resulting in less travel being required.
- Public relations expense of \$138,000 due to (1) increased use of in-house resources in 2013 as compared to the use of more expensive outside parties in 2012 and (2) more focused and optimized spending in the areas of international and trade show outreach costs.
- Sales commission expense of \$147,000 due primarily to a higher percentage of our sales being for M&S for which the commission rate is lower.
- Seminars and training expense of \$78,000 due to enhanced general cost control policies.

Research and Development. Research and development expense increased 6.7% primarily due to:

- An increase of \$541,000 for external research and development work performed primarily to upgrade the performance of our WAFS product.
- An increase of \$478,000 in salaries due to the hiring of additional software engineers.
- An increase of \$27,000 in recruiting expense incurred for assistance in finding experienced software engineers.

All offset by:

- An increase in capitalized software development costs of \$569,000 resulting from development of enhanced versions of EFT Standard and Enterprise Editions. Capitalized software development costs are excluded from expenses at the time of capitalization but are included in expenses in subsequent periods through amortization when the products to which the capitalized costs relate are completed and ready for sale.

Our capitalized software development costs were \$899,000 in 2013 and \$330,000 in 2012. This increase was due to a greater number of our software development projects having progressed to having a detailed program design or working prototype in 2013 than in 2012.

Affiliated Entity Asset Impairment. This expense in the 2012 relates to the elimination of the value of our investments in and notes receivable from CoreTrace Corporation due to that company selling a substantial portion of its assets to an unrelated third party and ceasing operations. There was no similar event in 2013.

TappIn Intangible Asset Impairment and Earnout Liability Elimination. This credit to expense in 2013 relates to the elimination of the TappIn intangible assets and earnout liability as discussed under Liquidity and Capital Resources above in the section titled TappIn Intangible Assets and Earnout Liability. This credit to expense in 2012 was due to TappIn revenue not being at least \$3.0 million in 2012, which was a milestone that had to be achieved for the former TappIn shareholders to receive an earnout payment previously included in our liabilities in the amount of \$1.34 million. Accordingly, we eliminated this liability as of December 31, 2012.

Depreciation and Amortization. Depreciation and amortization expense decreased 25.4% primarily due to (1) the 2012 amount including amortization of the software and customer list intangible assets arising from the Avall acquisition for that entire year while the 2013 period included amortization for only a portion of that year as a result of those intangible assets becoming fully amortized and (2) the elimination of the TappIn intangible assets during 2013 such that we incurred amortization expense related to those assets for a portion of 2013 while we incurred such expense for all of 2012.

Other Income (Expense), Net. Other income was lower during the 2013 period than during the 2012 period due to the amount for the 2012 period including interest income from CoreTrace notes receivable that did not exist in 2013. Other expense was further affected in the 2013 period compared to the 2012 period by the decrease in interest expense as a result of the outstanding principle balance on our notes payable declining throughout the year as we made the scheduled payments of principle and interest.

Income Taxes. For 2013, we had an income tax benefit at an effective tax rate of 2.8%, which differed from the statutory federal income tax rate of 34% primarily due to:

- The elimination of a \$1.3 million deferred tax liability as a result of the TappIn earnout liability of \$3.7 million being eliminated.
- A domestic production activities credit of \$99,000.
- A research and development tax credit of \$95,000.

All offset by:

- State income taxes of \$57,000.

For 2012, we had an income tax benefit at an effective rate of 13.7% which differed from the statutory federal income tax rate of 34% primarily due to:

- The TappIn earn out liability not earned of \$1.3 million in 2012 for which there is no associated income tax benefit which would have been \$443,000 at the statutory income tax rate.
- The reserve of \$125,000 provided in our financial statements related to research and development tax credits receivable currently under examination by the Internal Revenue Service.
- The valuation allowance of \$1.1 million provided in our financial statements as a result of the affiliated entity asset impairment related to CoreTrace Corporation.

Comparison of Year Ended December 31, 2012 to Year Ended December 31, 2011

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>
	(\$ in thousands)		
Total revenues	\$ 23,372	\$ 20,894	\$ 2,478
Cost of revenues	1,296	1,723	(427)
Selling, general and administrative	16,761	14,466	2,295
Research and development	3,531	3,124	407
Affiliated entity asset impairment	3,264	0	3,264
TappIn earnout liability not earned	(1,303)	0	(1,303)
Depreciation and amortization	1,217	790	427
Total operating expenses	<u>24,766</u>	<u>20,103</u>	<u>4,663</u>
Income from operations	(1,394)	791	(2,185)
Other income, net	(189)	13	(202)
Income tax expense	217	169	48
Net Income	<u>\$ (1,800)</u>	<u>\$ 635</u>	<u>\$ (2,435)</u>

In the discussions below, we refer to the year ended December 31, 2012 as “2012” and the year ended December 31, 2011, as “2011”. The percentage changes cited in our discussions below comparing our results of operations for the year ended December 31, 2012, to the year ended December 31, 2011, are based on 2012 amounts compared to 2011 amounts.

Revenue. We derive our revenue primarily from the following activities:

- Software license revenue, which results from sales of our EFT Enterprise, EFT Standard, CuteFTP, Mail Express and WAFS products and solutions, which we typically recognize at the time of product shipment.

- Subscription revenues under a SaaS model from sales of our Managed Solutions, which include Managed Information Exchange, or MIX, Hosted Enhanced File Transfer, or Hosted EFT Server and TappIn, which is typically recognized on a monthly basis as the services are billed over the contract period and which ranges from one to three years.
- Maintenance and support revenue under contracts to provide ongoing product support and software updates to our customers who have purchased license software, which we typically recognize ratably over the contractual period, which is typically one year, but can be up to three years.
- Professional services revenue, which includes a variety of customization, implementation, and integration services, as well as delivery of education and training associated with our solutions, all of which are recognized as the services are performed.

The components of our revenues are as follows (\$ in thousands):

Product	Revenue for the Year Ended December 31,			
	2012		2011	
EFT Enterprise	\$ 14,742	63.1%	\$ 12,167	58.2%
EFT Standard	3,367	14.4%	3,665	17.5%
Wide Area File Services	1,577	6.7%	1,533	7.3%
Professional Services	1,547	6.6%	1,772	8.5%
CuteFTP	1,059	4.5%	1,209	5.8%
Other	1,080	4.6%	548	2.6%
Total Operating Revenues	\$ 23,372	100.0	\$ 20,894	100.0
Maintenance and Support Included in Total Operating Revenue	\$ 11,298	48.3%	\$ 9,424	45.1%

Revenue from our EFT Enterprise and EFT Standard products and solutions collectively increased 14.4% as a result of our successful sales programs emphasizing enterprise solutions for businesses and a continuing growth in renewals of M&S contracts for this product line as users remained satisfied with the security and benefits of our M&S services. EFT Enterprise sales increased by approximately 21.2% primarily as a result of pricing pressure in the marketplace for this product that existed during 2011 not continuing into 2012 that allowed us to end our 2011 price discounting programs without negatively affecting the number of licenses sold in 2012. EFT Standard revenue decreased by approximately 8.1%, primarily as a result of our focus in 2012 on selling our higher margin EFT Enterprise product.

WAFS revenue increased by 2.9%. These sales were lower in 2011 due to the relatively slow introduction of WAFS Version 4, released in 2011, as a result of some customers experiencing difficulties while upgrading to Version 4 from prior version. These difficulties led us to scale back WAFS sales activities during the first half of 2012 while we assessed and addressed the upgrade issues. We resolved a substantial portion of these issues by mid-2012 resulting in an increase in this revenue for 2012 as a whole.

Professional services revenue decreased 12.7% primarily due to a decrease in revenue earned under our contract supporting the SAMS-E logistics program as a result of various budget actions and project scope decisions made by the U.S. Army and the primary contractor to the U.S. Army, whom we support under this contract. We completed the terms of the final option year of the MAT contract in September 2013. As there is now a new primary contractor, we do not anticipate future revenue from these activities. We believe we can offset the effects of this event by continuing to increase deliveries of our higher margin, commercial (non-government) professional services as we increasingly bundle those services with new sales of our enterprise solutions and as we deliver additional services to existing customers.

Revenues from CuteFTP decreased 12.4%. This decrease was a result of it being several years since the last release of a significant upgrade of the features and functionality of this product. Our release in November 2012 of CuteFTP Version 9, with an improved feature set to better address the user's higher performance and security demands, reversed this declining revenue trend in 2013.

Other revenue increased by 97.1%. We earn this revenue primarily from our Mail Express, MIX, Hosted EFT Server, and TappIn product and solution sales. The increase was largely due to an increase in MIX, Hosted EFT, Mail Express and TappIn revenue. This increase was due, in part, to 2012 being substantially the first year in which we had MIX and Hosted EFT contracts in place for the full year as well as 2012 being the first full year in which we earned TappIn revenue.

M&S revenue increased 21.4%. M&S revenue as a percent of our total revenue was 48% in 2012 and 45% in 2011. M&S revenue continued its trend over recent years of becoming an increasing percentage of our total revenue. Our M&S revenue growth and its increasing percentage of our total revenue are primarily due to our ongoing efforts to increase M&S contract renewal rates, the growing installed base of our software products in the marketplace and the decline in software license revenue in recent periods. The installed base growth creates a compounding effect for M&S renewals. This effect is due to the cumulative number of licensed software installations sold over multiple years that create M&S renewals in any single year predictably (and in line with our expectations) exceeding the number of new software licenses we sell in a single year. We expect this compounding effect to continue to grow, even as we potentially increase software license revenue in future periods. As our enterprise products become a larger portion of our total revenues, we believe M&S revenues will continue to increase. However, if sales of our on-premise, enterprise products were to decrease, then new sales of M&S contracts could decrease as well given the typical bundling of M&S contracts with enterprise software solution sales. We believe an increase in M&S revenue is a positive indicator of our customers' ongoing satisfaction with our products purchased in past years.

Cost of Revenues. Cost of revenues consists primarily of royalties, a portion of our bandwidth costs, hosted service expenses for our Managed Solutions, and expenses directly associated with professional services delivery. Cost of revenues decreased 24.8% primarily due to:

- A decrease of \$450,000 in labor costs associated with professional services provided under our subcontract supporting the U.S. Army SAMS-E logistics program, consistent with a reduction in our level services provided under that contract as described in our revenue discussion above.
- A decrease of \$137,000 in royalty expenses on certain product sales due to a favorable renegotiation of the terms of certain agreements.

Offset by:

- Increased hosted server expenses of \$129,000 associated with the growth in our MIX and Hosted EFT Server solutions, particularly as a result of our expansion of these services to international markets.

Selling, General and Administrative. These expenses increased 15.9% primarily due to:

- Direct TappIn expenses of \$1.1 million in 2012 for which there were no similar expenses in the 2011 period.
- Increased salaries for certain personnel of \$396,000 in order to retain them in a competitive environment for talent.
- Severance expense of \$290,000 incurred in connection with the retirement of our Chief Executive Officer.
- Increased employee health plan expenses of \$245,000 due to the rising costs of insurance and medical care.
- Increased legal fees of \$209,000 related to litigation in which we are involved as described elsewhere in this document and for additional SEC filings work primarily related to the TappIn acquisition.
- Increased sales commission expense of \$166,000 due to increased sales.
- Increased costs of SEC filings of \$50,000 due to those filings having additional XBRL tagging requirements in the 2012 that were not required in 2011.
- A reduction in the needed allowance for doubtful accounts that was higher in the 2011 period than the reduction that occurred in the 2012 period due to collections experience improving at a reduced rate in the 2012 period compared to the 2011 period which resulted in an increase of \$130,000 in 2012.

All offset by:

- Lower stock based compensation expense of \$117,000 due to a higher level of stock option forfeitures arising from normal personnel turnover.
- Lower advertising expense of \$94,000 due to a higher emphasis on Internet advertising through search engine optimization in lieu of other forms of advertising.
- A reduction to the bonus accrual of \$85,000 due to changes in the bonus structure.
- A reduction in expense of \$1.3 million due to this portion of the TappIn earnout liability not being earned.

Research and Development. Research and development expense increased 13.0% primarily due to:

- Costs of \$414,000 incurred for the continuing evolution of our TappIn products currently on the market for which we did not have such expenses in the 2011 prior to our acquisition of TappIn.
- Increased third-party quality assurance testing of our products under development of \$23,000 as we continue to enhance their features and functions.

All offset by:

- Decreased personnel costs of \$39,000 resulting from reassignment of certain personnel from research and development activities to selling, general and administrative activities and the related resulting adjustment to their compensation.

- Lower stock based compensation expense of \$71,000 due to a higher level of stock option forfeitures arising from personnel turnover.

We capitalized \$330,000 of software development costs in 2012. We did not capitalize any software development costs in 2011. This increase was due to a greater number of our software development projects having progressed to having a detailed program design or working prototype in 2012 than in 2011.

Affiliated Entity Asset Impairment. This expense in the 2012 relates to the elimination of the value of our investments in and notes receivable from CoreTrace Corporation due to that company selling a substantial portion of its assets to an unrelated third party and ceasing operations. There was no similar event in 2011.

TappIn Earnout Liability Not Earned. This credit to expense in 2012 was due to TappIn revenue not being at least \$3.0 million in 2012, which was a milestone that had to be achieved for the former TappIn shareholders to receive an earnout payment previously included in our liabilities in the amount of \$1.34 million. Accordingly, we eliminated this liability as of December 31, 2012. There was no similar event in 2011.

Depreciation and Amortization. Depreciation and amortization expense increased 54% primarily due to the amortization of intangible assets arising from the purchase of TappIn in December 2011. There was no such amortization in 2011.

Other Income (Expense), Net. Other income/expense increased primarily due to interest expense on the notes payable to a bank arising from the TappIn acquisition. We incurred this expense during all of 2012 but for only one month in 2011.

Income Taxes. For 2012, we had an income tax benefit at an effective rate of 13.7%, which differed from the statutory federal income tax rate of 34% primarily due to:

- The TappIn earn out liability not earned of \$1.3 million in 2012 for which there is no associated income tax benefit which would have been \$443,000 at the statutory income tax rate.
- The reserve of \$125,000 provided in our financial statements related to research and development tax credits receivable currently under examination by the Internal Revenue Service.
- The valuation allowance of \$1.1 million provided in our financial statements as a result of the affiliated entity asset impairment related to CoreTrace Corporation.

For 2011, we had an effective tax rate of 21.0%, which differed from the statutory federal income tax rate of 34% due to:

- A tax benefit of \$358,000 recorded in our financial statements in 2011 related to research and development tax credits claimed on federal income tax returns for the years 2008, 2009, 2010 and 2011.
- A tax expense of \$185,000 in our financial statements related to costs incurred in connection with the acquisition of Tappin, Inc. which are capitalized and not currently deductible for federal income tax purposes.

Item 8. Financial Statements and Supplementary Data

GlobalSCAPE, Inc.

Index to Consolidated Financial Statements

Years ending December 31, 2013, 2012 and 2011

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
GlobalSCAPE, Inc.

We have audited the accompanying consolidated balance sheets of GlobalSCAPE, Inc. (a Delaware corporation) and its wholly-owned subsidiary (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GlobalSCAPE, Inc. and its wholly-owned subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Houston, Texas
March 27, 2014

GlobalSCAPE, Inc.
Consolidated Balance Sheets
(in thousands except share amounts)

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,455	\$ 8,079
Accounts receivable (net of allowance for doubtful accounts of \$154 and \$171 in 2013 and 2012, respectively)	3,765	3,350
Federal income tax receivable	113	-
Current deferred tax asset	184	177
Prepaid expenses	349	426
Total current assets	<u>13,866</u>	<u>12,032</u>
Fixed assets, net	744	900
Long term investments	3,122	3,060
Intangible assets, net	1,028	4,308
Goodwill	12,712	12,712
Deferred tax asset	1,476	535
Other assets	144	41
Total assets	<u>\$ 33,092</u>	<u>\$ 33,588</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 655	\$ 432
Accrued expenses	898	1,353
Deferred revenue	9,092	8,293
Income taxes payable	-	46
TappIn earn out, current portion	-	500
Long term debt, current portion	1,397	1,335
Total current liabilities	<u>12,042</u>	<u>11,959</u>
Deferred revenue, non-current portion	1,708	1,480
TappIn earn out, non-current portion	-	3,694
Long term debt, non-current portion	2,989	4,389
Other long term liabilities	60	62
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001 per share, 10,000,000 authorized, no shares issued or outstanding	-	-
Common stock, par value \$0.001 per share, 40,000,000 authorized, 19,592,117 and 18,846,547 shares issued at December 31, 2013 and December 31, 2012, respectively	20	19
Additional paid-in capital	15,834	14,435
Treasury stock, 403,581 shares, at cost, at December 31, 2013 and December 31, 2012	(1,452)	(1,452)
Retained earnings	1,891	(998)
Total stockholders' equity	<u>16,293</u>	<u>12,004</u>
Total liabilities and stockholders' equity	<u>\$ 33,092</u>	<u>\$ 33,588</u>

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

GlobalSCAPE, Inc.
Consolidated Statements of Operations and Comprehensive Income (Loss)
(in thousands, except per share amounts)

	For the Year Ended December 31,		
	2013	2012	2011
Operating Revenues:			
Software licenses	\$ 8,086	\$ 9,447	\$ 9,149
Maintenance and support	13,650	11,298	9,424
Professional services	1,479	1,547	1,772
Other	1,124	1,080	549
Total revenues	<u>24,339</u>	<u>23,372</u>	<u>20,894</u>
Operating Expenses:			
Cost of revenues	1,011	1,296	1,723
Selling, general and administrative	14,881	16,761	14,466
Research and development	3,766	3,531	3,124
Affiliated entity asset impairment	-	3,264	-
TappIn intangible asset impairment and earnout liability elimination	(128)	(1,303)	-
Depreciation and amortization	908	1,217	790
Total operating expenses	<u>20,438</u>	<u>24,766</u>	<u>20,103</u>
Income (loss) from operations	3,901	(1,394)	791
Other income (expense):			
Interest expense	(227)	(289)	(25)
Interest income	62	100	38
Total other income (expense)	<u>(165)</u>	<u>(189)</u>	<u>13</u>
Income (loss) before income taxes	3,736	(1,583)	804
Provision for income taxes	(104)	217	169
Net income (loss)	<u>\$ 3,840</u>	<u>\$ (1,800)</u>	<u>\$ 635</u>
Comprehensive income (loss)	<u>\$ 3,840</u>	<u>\$ (1,800)</u>	<u>\$ 635</u>
Net income (loss) per common share - basic	<u>\$ 0.21</u>	<u>\$ (0.10)</u>	<u>\$ 0.04</u>
Net income (loss) per common share - diluted	<u>\$ 0.20</u>	<u>\$ (0.10)</u>	<u>\$ 0.03</u>
Weighted average shares outstanding:			
Basic	<u>18,626</u>	<u>18,358</u>	<u>18,081</u>
Diluted	<u>19,082</u>	<u>18,358</u>	<u>18,747</u>

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

GlobalSCAPE, Inc.
Consolidated Statements of Stockholders' Equity
(in thousands, except number of shares)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total
	Shares	Amount				
Balance at December 31, 2010	18,346,982	\$ 18	\$ 12,137	\$ (1,452)	\$ 1,456	\$ 12,159
Shares issued upon exercise of stock options	291,545	1	351	-	-	352
Tax (deficiency) from stock-based compensation	-	-	(13)	-	-	(13)
Stock-based compensation expense	-	-	1,003	-	-	1,003
Issuance of vested restricted stock	53,420	-	-	-	-	-
Net income	-	-	-	-	635	635
Balance at December 31, 2011	18,691,947	\$ 19	\$ 13,478	\$ (1,452)	\$ 2,091	\$ 14,136
Shares issued upon exercise of stock options	74,600	-	70	-	-	70
Tax (deficiency) from stock-based compensation	-	-	(28)	-	-	(28)
Stock-based compensation expense	-	-	915	-	-	915
Issuance of vested restricted stock	80,000	-	-	-	-	-
Common stock cash dividends	-	-	-	-	(1,289)	(1,289)
Net (loss)	-	-	-	-	(1,800)	(1,800)
Balance at December 31, 2012	18,846,547	\$ 19	\$ 14,435	\$ (1,452)	\$ (998)	\$ 12,004
Shares issued upon exercise of stock options	585,570	1	889	-	-	890
Tax (deficiency) from stock-based compensation	-	-	(156)	-	-	(156)
Stock-based compensation expense						
Stock options	-	-	527	-	-	527
Restricted stock	160,000	-	139	-	-	139
Common stock cash dividends	-	-	-	-	(951)	(951)
Net income	-	-	-	-	3,840	3,840
Balance at December 31, 2013	19,592,117	\$ 20	\$ 15,834	\$ (1,452)	\$ 1,891	\$ 16,293

GlobalSCAPE, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December 31,		
	2013	2012	2011
Operating Activities:			
Net income (loss)	\$ 3,840	\$ (1,800)	\$ 635
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Bad debt expense (recoveries)	29	68	(62)
Depreciation and amortization	908	1,217	790
Stock-based compensation	666	915	1,003
Deferred taxes	(948)	(377)	(352)
Excess tax deficiency from exercise of share based compensation	156	28	13
Affiliated entity asset impairment	-	3,264	-
TappIn intangible asset impairment and earnout liability elimination	(128)	(1,343)	-
Other	-	40	-
Changes in operating assets and liabilities:			
Accounts receivable	(444)	(60)	(78)
CoreTrace receivable	-	(150)	(463)
Prepaid expenses	77	(187)	108
Federal income taxes	(315)	292	(52)
Other assets	(103)	(11)	-
Accounts payable	223	(159)	341
Accrued expenses	(455)	(43)	1
Deferred revenues	1,027	2,141	690
Other long-term liabilities	(2)	9	252
Net cash provided by operating activities	<u>4,531</u>	<u>3,844</u>	<u>2,826</u>
Investing Activities:			
Software development costs	(899)	(330)	-
Purchase of property and equipment	(139)	(213)	(201)
Purchase of TappIn, Inc. and earnout payments	(500)	(1,500)	(9,190)
Purchase of long-term investments	-	(60)	(3,000)
Interest on long term investments	(62)	-	-
Net cash provided by (used in) investing activities	<u>(1,600)</u>	<u>(2,103)</u>	<u>(12,391)</u>
Financing Activities:			
Proceeds from exercise of stock options	890	70	352
Tax deficiency (benefit) from stock-based compensation	(156)	(28)	(13)
Notes payable principle payments	(1,338)	(1,276)	-
Proceeds from note payable	-	-	7,000
Dividends paid	(951)	(1,289)	-
Net cash provided by (used in) financing activities	<u>(1,555)</u>	<u>(2,523)</u>	<u>7,339</u>
Net increase (decrease) in cash	1,376	(782)	(2,226)
Cash at beginning of period	8,079	8,861	11,087
Cash at end of period	<u>\$ 9,455</u>	<u>\$ 8,079</u>	<u>\$ 8,861</u>
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	<u>\$ 234</u>	<u>\$ 294</u>	<u>\$ -</u>
Income taxes	<u>\$ 1,161</u>	<u>\$ 271</u>	<u>\$ 1,225</u>
Noncash - TappIn earn out	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,997</u>

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

GlobalSCAPE, Inc.
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

1. Nature of Business and Corporate Structure

We provide secure information exchange capabilities for enterprises and consumers through the development and distribution of software, delivery of managed and hosted solutions, and provisioning of associated services. We operate primarily in the Managed File Transfer, or MFT, industry. Our solution portfolio addresses data and information management, movement, security and accessibility across a broad range of environments encompassing data and information in motion (for example, with traditional MFT solutions delivered as on-premises software or as a cloud service) and at rest (for example, through securely deleting or purging files or securely accessing stored data from mobile tablet or smartphone devices).

Our solution portfolio facilitates transmission of critical information such as financial data, medical records, customer files, vendor files, personnel files, transaction activity, and other similar documents between diverse and geographically separated network infrastructures while supporting a range of information protection approaches to meet privacy and other security requirements. In addition to enabling secure, flexible transmission of critical information using servers, desktop and notebook computers, and a wide range of network-enabled mobile devices, our products also provide customers with the ability to monitor and audit file transfer activities.

Throughout these notes unless otherwise noted, our references to 2013, 2012 and 2011 refer to the years ended December 31, 2013, 2012 and 2011, respectively.

2. Significant Accounting Policies

Basis of Presentation

We follow accounting standards set by the Financial Accounting Standards Board. This board sets generally accepted accounting principles in the United States, or GAAP, that we follow in preparing financial statements that report our financial position, results of operations, and sources and uses of cash. We also follow the reporting regulations of the United States Securities and Exchange Commission, or SEC.

The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of our financial statements. It is possible the actual results could differ from these estimates and assumptions and could have a material effect on the reported amounts of our financial position and results of operations.

Principles of Consolidation

The accompanying consolidated financial statements of GlobalSCAPE, Inc. and its wholly-owned subsidiary (collectively referred to as the “Company” or “we”) are prepared in conformity with GAAP. All intercompany accounts and transactions have been eliminated.

Revenue Recognition

We develop, market and sell software products. We recognize revenue from a sale transaction when the following conditions are met:

- Persuasive evidence of an arrangement exists.
- Delivery has occurred or services have been rendered.
- The amount is fixed or determinable.
- Collection is reasonably assured.

For a sale transaction not meeting any one of these four criteria, we defer recognition of revenue related to that transaction until all the criteria are met.

We earn the majority of our software license revenue from software products sold under perpetual software license agreements. At the time our customers purchase these products, they typically also purchase a product maintenance and support, or M&S, agreement. These transactions are multiple element software sales for which we assess the presence of vendor specific objective evidence (“VSOE”) of the fair value of the undelivered elements to determine the portion of these sales to recognize as revenue upon delivery of the software product and the portion of these sales to record as deferred revenue at the time the product is delivered. We amortize the deferred revenue component to revenue in future periods as we deliver the related future services to the customer. For transactions, if any, for which we cannot establish VSOE of fair value of the undelivered elements, we initially record the entire transaction as deferred revenue and amortize that amount to revenue in future periods as we deliver the related future services to the customer.

Our deferred revenue consists primarily of revenue to be earned in the future as we deliver services under M&S agreements. Certain of our customers will accept, and sometimes pay, our invoices for M&S services prior to the commencement of the M&S period. In such cases, we record accounts receivable and deferred revenue in the same amount at the time we submit an invoice to the customer and commence recognition of the deferred revenue as revenue only after the M&S period begins.

For our products delivered under a software-as-a-service transaction on a monthly or other periodic subscription basis, we recognize subscription revenue, including initial setup fees, on a monthly basis over the contractual term of the customer contract as we deliver our products and services. These amounts are in other revenue. Amounts invoiced or paid prior to this revenue recognition are presented as deferred revenue until earned.

We provide professional services to our customers consisting primarily of software installation support, operations support and training. We recognize revenue from these services as they are completed and accepted by our customers.

We collect sales tax on many of our sales. We do not include sales tax collected in our revenue. We record it as a liability payable to taxing authorities.

Concentrations of Credit Risk and Significant Customers

Our cash, cash equivalents and long term investments are on deposit in banks and are collectively insured by the Federal Deposit Insurance Corporation for \$750,000. Our balances in excess of that amount are not insured. With the exception of our long-term investment in certificate of deposit pledged as collateral for our notes payable, we may withdraw our cash deposits upon demand. We maintain our cash with multiple financial institutions of reputable credit to minimize our risk of loss.

We generally provide credit to our customers under typical invoice payment terms (for example, net 30) that gives rise to trade accounts receivable from those customers. We do not require collateral from our customers. We perform ongoing evaluations of the credit risk related to offering these payment terms. We provide an allowance for uncollectible accounts based on our historical collections experience and the profile of our accounts receivable.

In 2013, 2012 and 2011, no single customer accounted for more than 10% of revenues. As of December 31, 2013, we had one customer, Lifeboat, which accounted for 14% of our total accounts receivable. In 2012, we had no customer from whom accounts receivable from them individually comprised 10% or more of our total accounts receivables.

Other Concentrations

Sales in Foreign Markets. In 2013, 2012 and 2011, approximately 27%, 26% and 31%, respectively, of our revenues came from sales to customers in foreign countries. We received substantially all of our revenues from foreign countries in U.S. dollars resulting in limited exchange rate risks. Our foreign sales are concentrated mostly in Canada, Australia and Western Europe.

Labor. We use software developers outside the United States to perform a portion of the coding for the development and maintenance of our software products. If we were unable to continue using these developers because of political or economic instability, we may have difficulty finding comparably skilled developers or may have to pay considerably more for the same work, which could have a material adverse impact on our financial position and results of operations.

Cash and cash equivalents

Cash and cash equivalents includes all cash and highly liquid investments with original maturities of three months or less. Our cash balance as of December 31, 2013, is insured by the Federal Deposit Insurance Corporation for \$750,000.

Property and Equipment

Property and equipment is comprised of furniture and fixtures, software, computer equipment and leasehold improvements which are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Furniture, fixtures and equipment have a useful life of 5 to 7 years, computer equipment and software have a life of 3 years and leasehold improvements are depreciated over the shorter of the term of the lease under which the improvements were made or the estimated useful life of the asset.

Expenditures for maintenance and repairs are charged to operations as incurred.

Goodwill

Goodwill is not amortized. On at least an annual basis, we test goodwill for impairment at the reporting unit level. We operate as a single reporting unit.

When testing goodwill, we first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of our reporting unit is less than its carrying amount, including goodwill. In performing this qualitative assessment, we assess events and circumstances relevant to us including, but not limited to:

- Macroeconomic conditions.
- Industry and market considerations.
- Cost factors and trends for labor and other expenses of operating our business.
- Our overall financial performance and outlook for the future.
- Trends in the quoted market value and trading of our common stock.

In considering these and other factors, we consider the extent to which any adverse events and circumstances identified could affect the comparison of our reporting unit's fair value with its carrying amount. We place more weight on events and circumstances that most affect our reporting unit's fair value or the carrying amount of our net assets. We consider positive and mitigating events and circumstances that may affect our determination of whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount. We evaluate, on the basis of the weight of the evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount.

If, after assessing the totality of these qualitative events and circumstances, we determine it is not more likely than not that the fair value of our reporting unit is less than its carrying amount, we conclude there is no impairment of goodwill and perform no further testing in accordance with GAAP. If we conclude otherwise, we proceed with performing the first step, and if necessary, the second step, of the two-step goodwill impairment test prescribed by GAAP.

As of December 31, 2013, after assessing the totality of the relevant events and circumstances, we determined it not more likely than not that the fair value of our reporting unit was less than its carrying amount. Accordingly, we concluded there was no impairment of goodwill as of that date.

Capitalized Software Development Costs

When we complete research and development for a software product and have completed a detail program design or a working model of that software product, we capitalize production costs incurred for that software product from that point forward until it is ready for general release to the public. Thereafter, we amortize capitalized software production costs to expense using the straight-line method over the estimated useful life of that product, which is generally three years.

Intangible Assets – Patent, Customer Relationships and Developed Technology

During a portion of 2013 and all of 2012, we had intangible assets, other than goodwill, consisting of a patent, customer relationships and developed technology that we acquired through the purchase of other companies. We determined the value of those intangible assets at the time of acquisition through discounted cash flow and other similar valuation methods. We amortized these intangible assets on straight-line basis over their estimated useful lives that range from seven to eighteen years. As of December 31, 2013, the balance of these intangible assets had been reduced to zero as a result of the combination of this amortization and a determination that the unamortized portion of these intangible assets was of nominal value.

Contingent Consideration

Our TappIn acquisition in 2011 included future contingent milestone payments based on achieving certain levels of sales in the future and the introduction of new products (i.e. the TappIn earn out). We estimate the fair value of the TappIn earn out contingent consideration liability based on our assessment of the probabilities of achieving the prescribed milestones. These estimates involve significant judgment. Changes in the fair value of the TappIn earn out contingent consideration liability may result from changes in discount periods, changes in the timing and amount of sales and/or other specific milestone estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. At each reporting date, we assess the fair value of this contingent consideration liability. Changes in the fair value of these liabilities related are reflected in our net income and could materially affect our operating results.

Research and Development

We expense research and development costs as incurred.

Royalty Expense

Certain of our products contain software components that we license from others. We pay royalties under those licenses which we record as a cost of revenues when our product containing the applicable component is sold. Our royalties expense was \$288,000, \$329,000 and \$466,000, in royalty expense in 2013, 2012 and 2011, respectively.

Advertising Expense

We expense advertising costs as incurred as a component of our selling, general and administrative expenses. Advertising expense was \$729,000, \$493,000 and \$582,000 in 2013, 2012 and 2011, respectively.

Stock-Based Compensation

We measure the cost of share-based payment transactions at the grant date based on the calculated fair value of the award. We recognize this cost as an expense ratably over the recipient's requisite service period during which that award vests or becomes unrestricted.

For stock option awards, we estimate their fair value at the grant date using the Black-Scholes option-pricing model considering the following factors:

- We estimate expected volatility based on historical volatility of our common stock.
- We use primarily the simplified method to derive an expected term which represents an estimate of the time options are expected to remain outstanding. We use this method because our options are plain-vanilla options, and we believe our historical option exercise experience is not adequately indicative of our future expectations.
- We base the risk-free rate for periods within the contractual life of the option on the U.S. treasury yield curve in effect at the time of grant.

For restricted stock awards, we use the quoted price of our common stock on the grant date as the fair value of the award.

Income Taxes

We account for income taxes using the asset and liability method. We record deferred tax assets and liabilities based on the difference between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes, as measured by the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are carried on the balance sheet with the presumption that they will be realizable in future periods in which we generate taxable income.

We assess the likelihood that deferred tax assets will be realized from future taxable income. Based on this assessment, we provide any necessary valuation allowance on our balance sheet with a corresponding increase in the tax provision on our statement of operations. Any valuation allowances we establish are determined based upon a number of assumptions, judgments, and estimates, including forecasted earnings, future taxable income, and the relative proportions of revenue and income before taxes in the various domestic jurisdictions in which we operate.

We account for uncertainty in income taxes using a two-step process to determine the amount of tax benefit to be recognized. First, we evaluate the tax position to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed “more-likely-than-not” to be sustained, we assess the tax position to determine the amount of benefit to recognize in the financial statements. The amount of the benefit we recognize is the largest amount that we believe has a greater than 50% likelihood of being realized upon ultimate settlement. Unrecognized tax benefits represent tax positions for which reserves have been established.

Earnings Per Share

We compute basic earnings per share using the weighted-average number of common shares outstanding during the periods. We compute diluted earnings per share using the weighted-average number of common shares outstanding plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding. Awards of non-vested options are considered potentially dilutive common shares for the purpose of computing earnings per common share. In applying the treasury stock method to non-vested options, the assumed proceeds include the amount the employee must pay to exercise the option plus the amount of unrecognized cost attributable to future periods less any expected tax benefits. Below is a reconciliation of the numerators and denominators of basic and diluted earnings per share for each of the following years (in thousands except share amounts):

	Year ended December 31,		
	2013	2012 (1)	2011
Numerators			
Numerator for basic and diluted earnings per share:			
Net income (loss)	\$ 3,840	\$ (1,800)	\$ 635
Denominators			
Denominators for basic and diluted earnings per share:			
Weighted average shares outstanding basic	18,626	18,358	18,081
Dilutive potential common shares			
Stock options and awards	456	-	666
Denominator for dilutive earnings per share	19,082	18,358	18,747
Net income (loss) per common share - basic	\$ 0.21	\$ (0.10)	\$ 0.04
Net income (loss) per common share – diluted	\$ 0.20	\$ (0.10)	\$ 0.03

(1) For the year ended December 31, 2012, options to purchase 531,634 shares and all of the warrants have been excluded in computing dilutive shares, as the effect would be anti-dilutive.

Recent accounting pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2013-11, *Income Taxes (Topic 740)- Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except under certain circumstances when one or more of these items is not available at the reporting date under the tax law of the applicable jurisdiction. ASU 2013-11 is applicable for fiscal years beginning after December 15, 2013. We do not expect adoption of this ASU to have a material impact on our financial statements.

In February 2013, the FASB issued FASB ASU No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements to the extent such obligations are not already addressed within existing guidance under GAAP. ASU 2013-04 is applicable for fiscal years beginning after December 15, 2013. We do not expect adoption of this ASU to have a material impact on our financial statements.

In July 2012, the FASB issued FASB ASU No. 2012-02, *Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. If an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. ASU 2012-02 became effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Our adoption of this ASU did not have a material impact on our financial statements.

In December 2011, the FASB issued FASB ASU No. 2011-11, *Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities are required to disclose both gross and net information about these instruments. ASU 2011-11 became effective for annual reporting periods beginning on or after January 1, 2013. Our adoption of this ASU did not have a material impact on our financial statements.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements. It is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of the Company's financial position and results of operation.

Reclassifications

Capitalized software development costs are included in intangible assets at December 31, 2013, and December 31, 2012 in the accompanying financial statements. That balance as of December 31, 2012, of \$303,000 was previously included in fixed assets.

4. Accounts Receivable

Accounts receivable, which are primarily from sales of software licenses, are presented net of an allowance for doubtful accounts. The activity of the Company's allowance for the years ended December 31, 2013, 2012 and 2011 is as follows (\$'s in thousands):

	Year Ended December 31,		
	2013	2012	2011
Balance, beginning of period	\$ 171	\$ 170	\$ 237
Bad debt expense or (recovery)	29	68	(62)
Uncollectible accounts receivable	(46)	(67)	(5)
Balance, end of period	<u>\$ 154</u>	<u>\$ 171</u>	<u>\$ 170</u>

5. Fixed Assets

Fixed assets, at cost, consist of the following (\$'s in thousands):

	December 31,	
	2013	2012
Furniture and equipment	\$ 648	\$ 646
Software	788	750
Equipment	939	844
Leasehold improvements	590	590
	<u>2,965</u>	<u>2,830</u>
Less accumulated depreciation	(2,221)	(1,930)
Fixed assets, net	<u>\$ 744</u>	<u>\$ 900</u>

6. Capitalized Software Development Costs

Our capitalized software development costs profile is as follows: (\$'s in thousands):

	December 31,	
	2013	2012
Gross capitalized cost	\$ 1,229	\$ 330
Accumulated amortization	(201)	(27)
Net balance	<u>\$ 1,028</u>	<u>\$ 303</u>
	Year Ended December 31,	
	2013	2012
Amount capitalized	\$ 889	\$ 330
Amortization expense	(174)	(27)
	Released Products	Unreleased Products
Gross capitalized amount at December 31, 2013	<u>\$ 408</u>	<u>\$ 620</u>
Future amortization expense for the year ending December 31,		
2014	\$ 203	
2015	175	
2016	30	
Total	<u>\$ 408</u>	

We include capitalized software development costs in intangible assets on our balance sheet. The future amortization expense of the gross capitalized software development costs related to unreleased products will be determinable at a future date when those products are ready for general release to the public.

7. Acquired Intangible Assets and TappIn Earnout Liability

Intangible assets resulting from our acquisition of Avail, Inc. in 2006 and TappIn, Inc. in 2011 consisted of the following (\$'s in thousands):

	Life (Years)	December 31, 2013			December 31, 2012			
		Gross	Accumulated Amortization	Reduction to Zero	Net	Gross	Accumulated Amortization	Net
TappIn, Inc.								
Customer relationship	10	\$ 1,863	\$ (342)	\$ (1,521)	\$ -	\$ 1,863	\$ (202)	\$ 1,661
Developed technology	7	2,771	(726)	(2,045)	-	2,771	(429)	2,342
Avail, Inc.								
Software	5	1,775	(1,775)	-	-	1,775	(1,775)	0
Customer List	5	180	(180)	-	-	180	(180)	-
Patent	18	7	(7)	-	-	7	(4)	3
Total		<u>\$ 6,596</u>	<u>\$ (3,030)</u>	<u>\$ (3,566)</u>	<u>\$ -</u>	<u>\$ 6,596</u>	<u>\$ (2,590)</u>	<u>\$ 4,006</u>

We amortize acquired intangible assets on a straight-line basis over their weighted average lives. This amortization expense was \$614,000, \$895,000, and \$350,000 in 2013, 2012, and 2011, respectively. There is no future amortization expense associated with these acquired intangibles.

When we acquired TappIn in December 2011, we allocated the total purchase price of this acquisition to assets and liabilities based on their estimated fair values at the acquisition date. That allocation resulted in the TappIn intangible assets set forth in the table above. We have since evaluated input from our customers and the marketplace as a whole relative to the TappIn product line and concluded that our future emphasis will be on merging the TappIn technology and functionality with our EFT Standard Edition and EFT Enterprise Edition products to create a TappIn Enterprise solution. We believe offering the TappIn technology through this integration will maximize the return on our investment in this product line. While we will continue to offer TappIn as a standalone product in its Standard and Professional Editions, we have concluded that revenue earned from the TappIn product line sold in those configurations will not be significant to our results of operations and financial position in the future.

For accounting and financial statement presentation purposes, the value assigned to the developed technology intangible asset as of the date we acquired TappIn and subsequent thereto relates only to the TappIn Standard Edition developed technology that existed on the date we acquired TappIn. Under GAAP, none of the value of this intangible asset can be derived from the TappIn Professional Edition or from other uses of the TappIn technology. Specifically, none of the TappIn core technology, enabling technology or the migration of that technology, including the application of that technology to our EFT Standard Edition and EFT Enterprise Edition product lines as mentioned above, can be relied upon to ascribe value to the developed technology intangible asset. Since we believe revenue earned from the TappIn Standard Edition will not be significant to our results of operations and financial position in the future, we have concluded it to be more-likely-than-not that the intangible asset arising from this developed technology is of nominal future value. Accordingly, we have reduced its value to zero on our balance sheet as of December 31, 2013, and have recorded a corresponding expense for the year ended December 31, 2013.

For accounting and financial statement purposes, the value assigned to the customer relationship intangible asset relates to one contract with a third-party as it stood and was in place on the date we acquired TappIn. Under GAAP, none of the value of this intangible can be derived from future modifications of this contract or from other, subsequent customer relationships. The value of the contract that gave rise to this customer relationship intangible is dependent upon both (1) continued shipments of that customer's products as they existed at the time we acquired TappIn and (2) the purchasers of that customer's products subscribing to TappIn Professional Edition. We believe revenue earned from the activities upon which the value of the customer relationship intangible asset was derived will not be significant to our results of operations and financial position in the future. Our relationship with that customer remains in place relative to products it is currently selling that did not exist at the time we acquired TappIn and that were not part of determining the intangible value of this customer relationship at that time. We have concluded it to be more-likely-than-not that the intangible asset arising from this customer relationship and the products it covered as they existed at the time we acquired TappIn is of nominal future value. Accordingly, we have reduced its value to zero on our balance sheet as of December 31, 2013, and have recorded a corresponding expense for the year ended December 31, 2013.

Our acquisition of TappIn provides for the possible payment of \$4.5 million of contingent consideration remaining as of December 31, 2013, to the former shareholders of TappIn if our TappIn product line achieves certain revenue milestones by no later than December 31, 2014. Based on our past estimates of the probability and likelihood of this earn out ultimately being paid, our balance sheet has previously included a liability of \$3.7 million for these possible payments. We evaluated the likelihood of the TappIn product lines achieving the revenue milestones by December 31, 2014, necessary for the remaining earnout to be paid. We concluded the likelihood that those revenue milestones will be achieved to be remote and that the contingent consideration will not have to be paid. Accordingly, we reduced the TappIn earn out liability on our balance sheet to zero as of December 31, 2013 and recorded a corresponding credit to income in 2013.

When we acquired TappIn, Inc. in December 2011, we recorded a deferred tax liability resulting from our recording of the intangible assets described above as of the acquisition date for which there was no corresponding change in the tax basis of the TappIn common stock that we purchased. The balance of this deferred tax liability was \$1.2 million as of December 31, 2012. Our reduction of the TappIn intangible assets to zero eliminated this deferred tax liability with a corresponding credit to federal income tax expense during the year ended December 31, 2013.

The effects of the above items are summarized as follows (\$'s in thousands):

Reduction of intangible assets:		
Customer relationship	\$	(1,521)
Developed technology		(2,045)
Elimination of earnout liability		<u>3,694</u>
Net TappIn asset impairment and earnout liability elimination before taxes		128
Federal income taxes		<u>1,213</u>
Net TappIn asset impairment and earnout liability elimination after taxes	\$	<u><u>1,341</u></u>

8. Notes Payable

In December 2011, we borrowed \$7 million under loan agreements with The Bank of San Antonio to fund a portion of the purchase price of TappIn. These loan agreements provide for the following notes payable:

- A note payable with an original principal balance of \$4 million bearing interest at 4.75% per annum and secured by substantially all of our assets.
- A note payable with an original principal balance of \$3 million bearing interest at 4.25% per annum and secured by a certificate of deposit with The Bank of San Antonio of \$3.0 million bearing interest at 2.0% per annum. This certificate of deposit is included in long-term investments on our balance sheet.

At December 31, 2013, the total principal balance outstanding under these notes payable was \$4.4 million.

Interest and principal are payable under both notes payable in 60 equal monthly installments aggregating \$131,000 each that will fully amortize the notes as of their December 2, 2016 maturity date. The loans may be prepaid at any time without premium or penalty.

Scheduled future principal payments under the loan agreements as of December 31, 2013, are as follows (\$ in thousands):

Year Ending December 31,	
2014	\$ 1,397
2015	1,462
2016	1,527
Total	<u>\$ 4,386</u>

The Loan Agreements contain the following financial covenants:

- We must maintain a debt service coverage ratio of at least 1.25. This ratio is defined in the loan agreements as (1) net income plus depreciation, interest and non-cash charges divided by (2) the sum of the current portion of long-term debt plus interest expense. As of December 31, 2013, this debt service coverage ratio was 2.44.
- We must maintain a maximum debt to tangible net worth ratio of 4.00:1. This ratio is defined in the loan agreements as (1) total liabilities less deferred revenues divided by (2) total assets, excluding intangible assets, minus total liabilities, excluding deferred revenues. As of December 31, 2013, this debt to tangible net worth ratio was 0.45:1.
- We must maintain liquid assets (cash and marketable securities) of at least \$3.2 million as of December 31, 2013, and \$2.2 million thereafter. As of December 31, 2013, cash and marketable securities were \$9.5 million.

The loan agreements contain customary events of default including the failure to make payments of principal and interest, the breach of any covenants, the occurrence of a material adverse change, and certain bankruptcy and insolvency events.

9. Stock Options, Restricted Stock and Share-Based Compensation

We have stock-based compensation plans under which we have granted, and may grant in the future, incentive stock options, non-qualified stock options, and restricted stock to employees and non-employee members of the Board of Directors. Our share-based compensation expense was as follows (\$ in thousands):

	Year Ended December 31,		
	2013	2012	2011
Share-based compensation expense	\$ 666	\$ 915	\$ 1,003

Stock Options

The GlobalSCAPE, Inc. 2010 Employee Long-Term Equity Incentive Plan is our current stock-based incentive plan for our employees. Provisions and characteristics of this plan include the following:

- It authorizes the issuance of up to three million shares of common stock for stock-based incentives including stock options and restricted stock awards.
- The exercise price, term and other conditions applicable to each stock option or stock award granted are determined by the Compensation Committee of the Board of Directors.
- The exercise price of stock options is set on the grant date and may not be less than the fair market value per share of our stock at market close on that date.
- Stock options we issue generally become exercisable ratably over a three year period and expire ten years from the date of grant.
- We issued no restricted stock awards under this plan in 2013, 2012 or 2011.
- As of December 31, 2013, stock-based incentives for up to 1,596,540 shares remained available for issuance in the future under this plan.

During a portion of 2010 and in earlier years, we issued stock options under the GlobalSCAPE, Inc. 2000 Stock Option Plan. We no longer issue stock options under this plan.

Our stock option activity has been as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Terms (Years)</u>	<u>Aggregate Intrinsic Value (000's)</u>
Outstanding at December 31, 2010	3,260,327	\$ 1.83	7.63	\$ 1,480
2011				
Granted	1,293,500	\$ 2.00		
Forfeitures	203,962	\$ 2.28		
Exercised	<u>291,545</u>	\$ 1.21		
Outstanding at December 31, 2011	4,058,320	\$ 1.91	6.39	\$ 540
2012				
Granted	422,000	\$ 1.93		
Forfeitures	755,625	\$ 4.09		
Exercised	<u>74,600</u>	\$ 0.94		
Outstanding at December 31, 2012	<u>3,650,095</u>	\$ 1.91	6.14	\$ 300
2013				
Granted	424,740	\$ 1.66		
Forfeitures	371,520	\$ 2.17		
Exercised	<u>585,570</u>	\$ 1.52		
Outstanding at December 31, 2013	<u>3,117,745</u>	\$ 1.92	4.46	\$ 1,808
Exercisable at December 31, 2013	<u>2,437,135</u>	\$ 1.96	3.33	\$ 1,436

Additional information about our stock options is as follows:

	2013	2012	2011
Weighted average fair value of options granted during the year	\$ 0.87	\$ 1.09	\$ 1.08
Intrinsic value of options exercised during the year	\$ 238,905	\$ 63,820	\$ 185,258
Cash received from stock options exercised during the year	\$ 889,000	\$ 70,000	\$ 352,000
Number of options that vested during the year	519,175	382,772	376,409
Fair value of options that vested during the year	\$ 632,000	\$ 737,000	\$ 946,000
Unrecognized compensation expense related to non-vested options at end of year	\$ 526,000	\$ 963,000	\$ 1,700,000
Weighted average years over which non-vested option expense will be recognized	1.97	1.84	2.36

As of December 31, 2013

Range of Exercise Prices	Underlying Shares Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Underlying Shares	Weighted Average Exercise Price
\$ 0.15 - \$ 0.33	53,000	1.2	\$ 0.26	53,000	\$ 0.26
\$ 0.85 - \$ 1.41	605,040	2.4	\$ 1.09	605,040	\$ 1.09
\$ 1.43 - \$ 2.16	1,700,685	5.7	\$ 1.80	1,084,915	\$ 1.80
\$ 2.18 - \$ 4.10	759,020	3.6	\$ 3.02	694,180	\$ 3.09
Total options	3,117,745			2,437,135	

We used the following assumptions to determine compensation expense for our stock options using the Black-Scholes option-pricing model:

	Year Ended December 31,		
	2013	2012	2011
Expected volatility	55%	63%	77%
Expected annual dividend yield	0	0	0
Risk free rate of return	1.48%	0.98%	2.46%
Expected option term (years)	6.00	6.00	6.00

Restricted Stock Awards

The 2006 Non-Employee Directors Long Term Incentive Plan provides for the issuance of either stock options or restricted stock awards for up to 500,000 shares of our common stock. Provisions of this plan included the following:

- It authorizes the issuance of up to 500,000 shares of our common stock for stock-based incentives including stock options and restricted stock awards.
- The exercise price, term and other conditions applicable to each stock option or stock award granted are determined by the Compensation Committee of the Board of Directors.
- Restricted stock awards are initially issued with a legend restricting transferability of the shares until the recipient satisfies the vesting provision of the award, which is generally continuing service for one year subsequent to the date of the award.
- We issued no stock options under this plan in 2013, 2012 or 2011.
- As of December 31, 2013, stock-based incentives for up to 148,500 shares remained available for issuance in the future under this plan.

Our restricted stock awards activity has been as follows:

	Number of Shares	Grant Date Fair Value Per Share	Total Fair Value of Shares That Vested
Restricted Shares Outstanding at December 31, 2010	53,420	\$ 2.01	
2011			
Shares granted with restrictions	80,000	\$ 2.16	
Shares vested and restrictions removed	<u>(53,420)</u>	\$ 2.01	\$ 107,000
Restricted Shares Outstanding at December 31, 2011	80,000	\$ 2.16	
2012			
Shares granted with restrictions	80,000	\$ 1.97	
Shares vested and restrictions removed	<u>(80,000)</u>	\$ 2.16	\$ 158,000
Restricted Shares Outstanding at December 31, 2012	<u>80,000</u>	\$ 1.97	
2013			
Shares granted with restrictions	80,000	\$ 1.65	
Shares vested and restrictions removed	<u>(80,000)</u>	\$ 1.97	\$ 133,600
Restricted Shares Outstanding at December 31, 2013	<u>80,000</u>	\$ 1.65	

At December 31, 2013, we had \$58,000 of unrecognized compensation expense related to non-vested restricted stock awards. We expect to recognize that expense in the future over a weighted-average period of five months.

10. Common Stock Purchase Warrants

We had a securities purchase agreement with certain accredited investors under which we granted them warrants to purchase 1,352,000 shares of our common stock at an exercise price of \$3.15 per share. These warrants expired unexercised in May 2012.

11. Income Taxes

The components of our income tax expense (benefit) are as follows (\$ in thousands):

	2013			2012			2011		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
Federal	\$ 898	\$ (1,090)	\$ (192)	\$ (574)	\$ 741	\$ 167	\$ 460	\$ (352)	\$ 108
State	85	3	88	55	(5)	50	61	-	61
Total	<u>\$ 983</u>	<u>\$ (1,087)</u>	<u>\$ (104)</u>	<u>\$ (519)</u>	<u>\$ 736</u>	<u>\$ 217</u>	<u>\$ 521</u>	<u>\$ (352)</u>	<u>\$ 169</u>

Deferred income taxes on our balance sheet reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows (\$ in thousands):

	As of December 31,	
	2013	2012
Deferred tax assets:		
Capital loss carryforward	\$ 1,099	\$ 1,099
Share-based compensation	1,005	1,017
Deferred revenue	503	470
Net operating loss carryforward	270	386
Compensation and benefits	84	102
Allowance for doubtful accounts	52	58
Other	2	24
Total gross deferred tax assets	3,015	3,156
Valuation allowance	(1,099)	(1,099)
Net deferred tax assets	1,916	2,057
Deferred tax liabilities:		
Intangible assets	193	1,142
Depreciation	65	203
Total gross deferred tax liabilities	258	1,345
Net deferred tax assets	\$ 1,658	\$ 712

As of December 31, 2013, we had federal income tax net operating loss carry forwards of \$794,000 available to offset future federal taxable income, if any. These carry forwards arose from TappIn operations before we purchased TappIn, Inc. and became available to us at the time we acquired that company. These carry forwards expire in 2030 and 2031.

In assessing the realizability of deferred tax assets, we consider whether it is more-likely-than-not that a deferred tax asset will not be realized. Our assessment of the likelihood of having sufficient taxable income in the future to support deduction or utilization of the items giving rise to our deferred tax assets indicates it is more-likely-than-not that we will realize the deferred tax assets listed in the table above with the exception of the \$1.1 million deferred tax asset related to the capital loss carry forward resulting from the reduction to zero of our investments in and notes receivable from CoreTrace Corporation in 2012. We can realize this capital loss carry forward deferred tax asset to the extent we have capital gains in future periods against which this capital loss can be deducted. We believe it uncertain that we will have sufficient capital gains in the future to support this deduction and have recorded a valuation allowance of \$1.1 million for the capital loss carry forward deferred tax asset.

We claimed research and experimentation tax credits, or R&D tax credit, on certain of our tax returns and have included the effect of those credits in our provision for income taxes. Certain of those returns, and in particular the R&D tax credit claimed on those returns, are under routine examination by the Internal Revenue Service. We believe it more-likely-than-not this examination could result in \$125,000 of such credits we claimed not being allowed by the Internal Revenue Service. During 2012, we recorded a valuation allowance for this amount due to the uncertainty of this item.

The R&D tax credit for 2012 was extended by legislation passed in 2013. GAAP requires that this credit related to 2012 be recorded in the year in which this legislation passed (i.e. 2013). Accordingly, the effects of the R&D credit related to 2012 are included in our 2013 financial statements, and our 2012 financial statements do not include an R&D credit.

The aggregate changes in the balance of our gross unrecognized tax benefits were as follows (\$ in thousands):

	2013	2012
Balance, beginning of year	\$ 125	\$ -
Increases for tax positions related to the current year	-	-
Increases for tax positions related to prior years	-	125
Decreases for tax positions related to prior years	-	-
Reductions due to lapsed statute of limitations	-	-
Balance, end of year	\$ 125	\$ 125

Our federal income tax returns for 2009 and prior years are no longer subject to examination by the Internal Revenue Service except for the R&D tax credit component of our 2008 and 2009 federal income tax returns. Our 2010 federal income tax return is under routine examination by the Internal Revenue Service with the results of this examination not yet reported by the Internal Revenue Service.

To the extent they arise, we record interest and penalty expense related to income taxes as an other expense in our statement of operations. We incurred no such expenses in 2013, 2012 or 2011.

We file state tax returns in Texas, Massachusetts, New Hampshire and Pennsylvania. The taxes resulting from these filings are included in income tax expense. Taxes we pay to these states are not material to our results of operations or financial position.

Our income tax expense (benefit) reconciles to an income tax expense resulting from applying an assumed statutory federal income rate of 34% to income before income taxes as follows (\$ in thousands):

	Year Ended December 31,		
	2013	2012	2011
Income tax expense (benefit) at federal statutory rate	\$ 1,270	\$ (538)	\$ 291
Increase (decrease) in taxes resulting from:			
State taxes, net of federal benefit	57	32	40
Other	20	(16)	26
Capital loss carryforward valuation allowance	-	1,099	-
R&D tax credit uncertain tax position	-	125	-
Costs to acquire TappIn, Inc.	-	-	185
Share-based compensation	(1)	1	60
Research and development credit	(95)	-	(358)
Domestic production activities deduction	(99)	(43)	(75)
Tappin earnout liability not earned	(1,256)	(443)	-
Income tax expense (benefit) per the statement of operations	\$ (104)	\$ 217	\$ 169

12. Employee Benefit Plan

We provide our employees a 401(k) plan under which we make employer matching contributions in amounts determined by our Board of Directors. Our matching contributions were \$111,000, \$102,000, and \$88,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

13. Investment in and Notes Receivable From Affiliated Entity

During 2012 and prior years, we had an investment as a shareholder in and notes receivable from CoreTrace Corporation. We also had a joint development and reseller agreement with CoreTrace for our appShield product. In 2012, CoreTrace sold a substantial portion of its assets to an unrelated third party and ceased operations. As a result of that event, the value of our investment in and notes receivable from CoreTrace was eliminated. Accordingly, we reduced to zero the carrying value of those assets related to CoreTrace and recorded a corresponding affiliated entity asset impairment expense of \$3.3 million during 2012.

14. Commitments and Contingencies

Minimum rental commitments under operating leases at December 31, 2013, are as follows (\$ in thousands):

Year Ending December 31,	
2014	\$ 473
2015	357
2016	347
2017	347
2018	347
Thereafter	115
Total	<u>\$ 1,986</u>

Rent expense under operating leases was \$473,000 in 2013, \$468,000 in 2012 and \$356,000 in 2011. We had a deferred rent credit of \$60,000 at December 31, 2013, that we amortize as a credit to rent expense on a straight-line basis over the remaining life of the applicable lease.

We have employment agreements with certain officers and employees under which we are obligated to pay them compensation of \$471,000 and \$145,000 during the years ending 2014 and 2015, respectively.

15. Acquisition of TappIn, Inc.

In December 2011, we acquired all of the issued and outstanding shares TappIn, Inc. At the time of the acquisition, we paid the TappIn selling shareholders \$9 million cash for the outstanding common stock of that company and \$190,000 cash for TappIn's working capital acquired at closing. We also agreed to pay the former shareholders of TappIn, Inc. up to \$8 million of additional payments upon achieving certain revenue milestones by December 31, 2014.

For financial statement purposes, we determined and recorded the purchase price as follows (\$'s in thousands):

Cash paid at acquisition close date:	
Sourced from cash on hand	\$ 2,000
Sourced from note payable to a bank	7,000
Total	<u>9,000</u>
Contingent consideration	6,997
Additional cash paid for net working capital	190
Total purchase price	<u>\$ 16,187</u>

We determined the contingent consideration portion of the purchase price we recorded based on our assessment at that time as to the amount of such consideration we estimated we would most-likely pay.

We allocated the total purchase price to assets and liabilities based on their estimated fair values at the acquisition date. In allocating the purchase price to intangible assets and goodwill, our first allocation was to identifiable intangible assets, including developed technology and customer relationships, after which we allocated the remainder to goodwill. These allocations were as follows (\$ in thousands):

Accounts receivable	\$ 169
Current assets	28
Property and equipment, net	20
Intangibles	4,634
Goodwill	11,343
Assumed liabilities	(3)
Deferred revenue	(4)
Net assets acquired	<u>\$ 16,187</u>

The contingent consideration provides for the following possible milestone payments to the former shareholders of TappIn, Inc.:

- \$2.0 million upon the completion of the development of a certain product. This milestone was achieved in 2012 for which we paid those former shareholders \$1.5 million in 2012 and \$500,000 in 2013.
- \$1.5 million upon the achievement of a certain revenue milestone during 2012. This milestone was not achieved. Based on our prior estimates of the likelihood of achieving this milestone, we had recorded a liability of \$3.3 million for this event. We eliminated this liability from our balance sheet as of December 31, 2012, and recorded a corresponding credit to operating expense during 2012.
- \$8.0 million upon achieving certain revenue milestones by no later than December 31, 2014. Our balance sheet at December 31, 2012, included a liability of \$4.2 million for these possible payments. During 2013, we concluded the likelihood that those revenue milestones will be achieved to be remote and that the contingent consideration will not have to be paid. Accordingly, we reduced the TappIn earn out liability on our balance sheet to zero as of December 31, 2013 and recorded a corresponding credit to income in 2013.

The change in the TappIn earn out liability is as follows (\$ in thousands):

	Year Ended December 31,	
	2013	2012
Beginning balance	\$ 4,194	\$ 6,997
Earn out paid in cash	-	(1,500)
Earn out liability not earned	(4,194)	(1,303)
Ending balance	<u>\$ -</u>	<u>\$ 4,194</u>
TappIn earnout liability, current portion	\$ -	\$ 500
TappIn earnout liability, non-current portion	-	3,694
	<u>\$ -</u>	<u>\$ 4,194</u>

The following table presents unaudited, pro forma consolidated results of operations for 2011 as if the TappIn acquisition had been completed on January 1, 2010. The comparative amounts for 2013 and 2012 are as they appear in our consolidated statement of operations and require no proforma adjustments since they already include the results of Tappin operations:

	Year Ended December 31,		
	2013	2012	2011
Total revenues	\$ 24,339	\$ 23,372	\$ 21,170
Net income (loss)	\$ 3,840	\$ (1,800)	\$ (1,276)
Net loss per share:			
Basic	\$ 0.21	\$ (0.10)	\$ (0.07)
Diluted	\$ 0.20	\$ (0.10)	\$ (0.07)

The pro forma consolidated results of operations for 2011 include adjustments to:

- Include the results of TappIn for the periods presented.
- Include the incremental amortization expense associated with the finite-lived intangible assets from January 1, 2010.
- Include additional interest expense related to financing the acquisition as if the notes began on January 1, 2010.
- Include acquisition expenses associated with the purchase of TappIn as if the purchase occurred January 1, 2010.
- Reflect the pro forma tax adjustments resulting from the acquisition as if the purchase occurred January 1, 2010.

The pro forma information is not necessarily indicative of the results of operations that would have occurred had the transaction been made at the beginning of the periods presented or the future results of the combined operations.

16. Quarterly Consolidated Financial Information (unaudited)

	Fiscal Year 2013			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenues	\$ 5,879	\$ 5,925	\$ 6,337	\$ 6,197
Total operating expenses	\$ 5,132	\$ 5,297	\$ 4,802	\$ 5,207
Other income (expense)	\$ (47)	\$ (43)	\$ (39)	\$ (35)
Net income (loss) before provision for income taxes	\$ 700	\$ 585	\$ 1,496	\$ 955
Net income (loss)	\$ 517	\$ 381	\$ 2,287	\$ 655
Net income (loss) per share:				
Basic	\$ 0.03	\$ 0.02	\$ 0.12	\$ 0.04
Diluted	\$ 0.03	\$ 0.02	\$ 0.12	\$ 0.03
Weighted average shares outstanding				
Basic	18,444	18,502	18,761	18,873
Diluted	18,982	18,955	19,158	19,461
	Fiscal Year 2012			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenues	\$ 5,393	\$ 5,702	\$ 6,078	\$ 6,199
Total operating expenses	\$ 5,728	\$ 5,774	\$ 8,867	\$ 4,397
Other income (expense)	\$ (66)	\$ (61)	\$ (11)	\$ (51)
Net income (loss) before provision for income taxes	\$ (401)	\$ (133)	\$ (2,800)	\$ 1,751
Net income (loss)	\$ (253)	\$ (140)	\$ (2,714)	\$ 1,307
Net income (loss) per share:				
Basic	\$ (0.01)	\$ (0.01)	\$ (0.15)	\$ 0.07
Diluted	\$ (0.01)	\$ (0.01)	\$ (0.15)	\$ 0.07
Weighted average shares outstanding				
Basic	18,288	18,320	18,398	18,421
Diluted	18,288	18,320	18,398	18,959

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our President and Chief Operating Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls are met. No evaluation of controls can provide absolute assurance that the system of controls has operated effectively in all cases. Our disclosure controls and procedures are designed to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer evaluated, with the participation of management, the effectiveness of our disclosure controls and procedures. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(e). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to audit by our independent registered public accounting firm pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law on July 21, 2010 that permits us to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to GlobalSCAPE's Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013.

GlobalSCAPE has adopted a Code of Ethics that applies to all its employees, including its Chief Executive Officer and its Chief Financial Officer. GlobalSCAPE will provide a copy of its Code of Ethics to any person without charge upon written request to:

James W. Albrecht, Jr.
Chief Financial Officer
GlobalSCAPE, Inc.
4500 Lockhill-Selma, Suite 150
San Antonio, Texas 78249

Item 11. Executive Compensation

The information required by this item is incorporated by reference to GlobalSCAPE's Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to GlobalSCAPE's Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to GlobalSCAPE's Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference to GlobalSCAPE's Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements and Schedules

The following financial statements of GlobalSCAPE, Inc. are included in Item 8:

- Consolidated Balance Sheets — December 31, 2013 and 2012
- Consolidated Statements of Operations — Years ended December 31, 2013, 2012 and 2011
- Consolidated Statements of Stockholders' Equity — Years ended December 31, 2013, 2012 and 2011
- Consolidated Statements of Cash Flows — Years ended December 31, 2013, 2012 and 2011
- Notes to Consolidated Financial Statements — December 31, 2013 and 2012

(2) Schedules not listed above have been omitted because they are not applicable or required, or the information required to be set forth therein is included in the Financial Statements or Notes thereto.

(3) Exhibits

Exhibit Number	Description
3.1	Amended Restated Certificate of Incorporation (Filed as Exhibit 3.1 to Form 8-K filed November 17, 2006).
3.2	Amended and Restated Bylaws of the Company effective as of October 30, 2008 (Filed as Exhibit 3.2 to Form 8-K filed November 5, 2008).
4.1	Specimen of Stock Certificate (Filed as Exhibit 4.1 to Form 10-K filed April 2, 2001).
*10.1	1998 Stock Option Plan as amended May 13, 1999 (Filed as Exhibit 4.2 to Form 10-K filed May 12, 2000).
*10.2	2000 Stock Option Plan dated May 8, 2000 (Filed as Exhibit 4.3 to Form 10-K filed May 12, 2000).
*10.3	Form of 1998 Stock Option Plan Rights Termination Letter Agreement of Directors to Agree Not to Claim Any Right of Adjustment dated February 4, 2000 (Filed as Exhibit 4.6 to Form 10 filed May 12, 2000).
*10.4	Form of 1998 Stock Option Plan Rights Termination Letter Agreement for Employees and Consultants to Cancel Options dated February 8, 2000 (Filed as Exhibit 4.7 to Form 10, filed May 12, 2000).
*10.5	Form of 1998 Stock Option Plan Rights Termination Letter of Officer to Agree Not to Claim Any Right of Adjustment dated February 8, 2000 (Filed as Exhibit 4.8 to Form 10 filed May 12, 2000).
*10.6	Form of 1998 Stock Option Plan Rights Termination Letter Agreement of Officer to Agree Not to Exercise Options dated February 8, 2000 (Filed as Exhibit 4.9 to Form 10 filed May 12, 2000).
*10.7	Form of 1998 Stock Option Plan Reinstatement and Adjustment Letter for Employees dated December 19, 2000 (Filed as Exhibit 10.17 to Annual Report on Form 10-K filed April 2, 2001).
*10.8	Form of Release and Indemnity Agreement between GlobalSCAPE, Inc. and Employees dated December 19, 2000 (Filed as Exhibit 10.18 to Form 10-K filed April 2, 2001).
*10.9	Form of Incentive Stock Option Agreement under GlobalSCAPE, Inc. 2000 Stock Option Plan (Filed as Exhibit 10.21 to Form 10-K filed April 1, 2002).
*10.10	Form of Non-Qualified Stock Option Agreement under the GlobalSCAPE, Inc. 2000 Stock Option Plan (Filed as Exhibit 10.2 to Form 10-Q filed November 13, 2006)

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*10.11	GlobalSCAPE, Inc. 2006 Non-Employee Directors Long-Term Equity Incentive Plan (Filed as Exhibit 10.1 to Form 8-K filed June 5, 2007).
*10.12	Form of Non-Statutory Stock Option Agreement under GlobalSCAPE, Inc. 2006 Non-Employee Directors Long-Term Equity Incentive Plan (Filed as Exhibit 10.1 to Form 10-Q filed November 14, 2007).
*10.13	Form of Employment Agreement for Executive Officers at Vice President-level and above (Filed as Exhibit 10.1 to Form 8-K filed August 19, 2009).
*10.14	2010 Employee Long Term Equity Incentive Plan dated June 3, 2010 (Filed as Appendix A to the Definitive Proxy Statement filed April 22, 2010).
10.15	Business Loan Agreement dated December 2, 2011, by and between GlobalSCAPE, Inc. and San Antonio National Bank (\$4,000,000 Loan). (Filed as Exhibit 10.1 to Form 8-K filed December 8, 2011).
10.16	Business Loan Agreement dated December 2, 2011, by and between GlobalSCAPE, Inc. and San Antonio National Bank (\$3,000,000 Loan). (Filed as Exhibit 10.2 to Form 8-K filed December 8, 2011).
10.17	Employment Agreement dated as of September 9, 2013 by and between GlobalSCAPE and Matthew Goulet (Filed herewith).
14.1	Code of Ethics (Filed as Exhibit 14.1 to Form 10-K filed March 27, 2008)
21.1	Subsidiaries of GlobalSCAPE, Inc. (Filed as Exhibit 21.1 to Form 10-K filed March 29, 2012).
23.1	Consent of Grant Thornton LLP (Filed herewith).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
32.1	Certification of Chief Executive and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith)
101	Interactive Data File.

* Management Compensatory Plan or Agreement

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in San Antonio, Texas on March 27, 2014.

GlobalSCAPE, Inc.

By: /s/ James L. Bindseil
James L. Bindseil
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on March 27, 2014.

Signature	Title
<u>/s/ James L. Bindseil</u> James L. Bindseil	President and Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ James W. Albrecht, Jr.</u> James W. Albrecht, Jr.	Chief Financial Officer (Principal Finance and Accounting Officer)
<u>/s/ Thomas W. Brown</u> Thomas W. Brown	Chairman of the Board and Director
<u>/s/ David L. Mann</u> David L. Mann	Director
<u>/s/ Frank M. Morgan</u> Frank M. Morgan	Director
<u>Philip M. Renfro</u> Philip M. Renfro	Director

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), executed as of September 9, 2013 ("Effective Date"), is between GlobalSCAPE, Inc., a Delaware corporation ("GlobalSCAPE" or the "Company"), and Matthew Goulet ("Employee").

RECITALS

WHEREAS, the Board of Directors (the "Board") of the Company, has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of certain employees to their assigned duties; and

WHEREAS, in order to induce Employee to remain in the employ of the Company, and in consideration of Employee's agreement to continue employment with the Company, the parties desire to enter into this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Terms of Agreement. Except in the event of a Change in Control (as defined in Section 4 hereof), at all times Employee's employment shall be and remain at will and may be terminated by the Company for any reason without notice or Cause (as hereinafter defined). From and after the occurrence of a Change in Control, this Agreement shall continue in effect for a period beginning on the effective date of the Change in Control (the "Change in Control Date") and ending on the first anniversary of the Change in Control Date (the "Initial Term") and shall automatically be extended for an additional one-year period following the Initial Term (each, an "Extended Term" and collectively with the Initial Term, the "Term") unless, not later than 90 days prior to the end of the then current Term, the Company shall have given notice to Employee that it does not wish to extend the Term.

2. Position. Employee agrees to be a full-time employee of the Company serving in the position of Vice President of Sales, to devote substantially all of his working time and attention to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities associated with his position, to use his best efforts to perform faithfully and efficiently such responsibilities. In addition, Employee agrees to serve in such other capacities or offices to which he may be assigned, appointed or elected from time to time by the Board.

3. Compensation. As compensation for his services under this Agreement, Employee shall be entitled to receive base salary and other compensation to be determined from time to time by the Board in its sole discretion. In addition, Employee shall be entitled to participate in any additional bonus, incentive compensation or employee benefit arrangement which may be established from time to time by the Company in its sole discretion. Notwithstanding anything to the contrary provided in this Agreement, prior to a Change in Control Employee shall not be entitled to receive any compensation from the Company upon termination, voluntary or involuntary, of his employment with the Company, regardless of the reason for such termination.

4. Change in Control. For purposes of this Agreement, a Change in Control shall be deemed to have occurred if (a) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act as in effect on the date hereof, except that a person shall be deemed to be the "beneficial owner" of all shares that any such person has the right to acquire pursuant to any agreement or arrangement or upon exercise of conversion rights, warrants, options or otherwise, without regard to the sixty day period referred to in such Rule), directly or indirectly, of securities representing 50% or more of the combined voting power of GlobalSCAPE 's then outstanding securities; provided, however, that if Thomas W. Brown and/or David Mann acquire, directly or indirectly, securities representing 50% or more of the combined voting power of Employer's then outstanding securities it shall not be deemed a Change in Control, (b) any person or group (other than Thomas W. Brown or David Mann or entities controlled by either) shall make a tender offer or an exchange offer for 50% or more of the combined voting power of GlobalSCAPE 's then outstanding securities, (c) at any time during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constituted the board of directors of GlobalSCAPE and any new directors, whose election by the board of directors of GlobalSCAPE or nomination for election by GlobalSCAPE's stockholders was approved by a vote of at least two-thirds (2/3) of GlobalSCAPE's directors then still in office who either were GlobalSCAPE's directors at the beginning of the period or whose election or nomination for election was previously so approved ("Current Directors"), cease for any reason to constitute a majority thereof, (d) GlobalSCAPE shall consolidate, merge or exchange securities with any other entity and the stockholders of GlobalSCAPE immediately before the effective time of such transaction do not beneficially own, immediately after the effective time of such transaction, shares or other equity interests entitling such stockholders to a majority of all votes (without consideration of the rights of any class of stock or other equity interests entitled to elect directors by a separate class vote) to which all stockholders of the corporation or owners of the equity interests of any other entity issuing cash or securities in the consolidation, merger or share exchange would be entitled for the purpose of electing directors or where the Current Directors immediately after the effective time of the consolidation, merger or share exchange would not constitute a majority of the board of directors or similar governing body of the corporation or other entity issuing cash or securities in the consolidation, merger or share exchange, or (e) any person or group acquires all or substantially all of GlobalSCAPE' s assets.

Notwithstanding the foregoing, however, a Change in Control shall not be deemed to occur merely by reason of (1) an acquisition of GlobalSCAPE securities by, or any consolidation , merger or exchange of securities with, any entity that, immediately prior to such acquisition, consolidation , merger or exchange of securities, was a "subsidiary," as such term is defined below or (2) an acquisition of Company securities by Thomas W. Brown or David Mann. For these purposes, the term "subsidiary" means (i) any corporation, limited liability company or other entity of which 80% of the capital stock or other equity interests of such entity is owned, directly or indirectly, by GlobalSCAPE and (ii) any unincorporated entity in respect of which GlobalSCAPE has, directly or indirectly, an equivalent degree of ownership.

5. Termination of Employment Following Change in Control. Prior to a Change in Control, Employee's employment shall remain at will and may be terminated by the Company for any reason without notice or Cause. From and after a Change in Control, Employee shall be entitled to the benefits provided in Section 6 hereof upon the subsequent termination of his employment during the Term unless such termination is because of Employee 's death or Retirement, by the Company for Cause or Disability, or by Employee other than for Good Reason.

(a) Disability. Termination by the Company or by Employee of his employment based on "Disability" shall be deemed to have occurred where within thirty (30) days after written Notice of Termination (as hereinafter defined) is given, Employee shall not have returned to the full-time performance of his duties. For purposes hereof, "Disability" shall be deemed to exist if Employee (A) meets the definition of either "totally disabled" or "total disability" (or terms with like meaning) under the terms of the Company's long-term disability benefit program, and (B) is suffering from any medical or mental condition that in the Board's reasonable opinion would prevent him from carrying out his normal duties. Any refusal to submit to a reasonable medical examination by an independent physician to determine whether Employee is so totally disabled shall be deemed to constitute conclusive evidence of his disability. The determination of such physician made in writing to the Company and to Employee shall be final and conclusive for all purposes of this Agreement.

(b) Retirement. Termination by the Company or Employee of his employment based on "Retirement" shall mean termination in accordance with the Company's retirement policy, generally applicable to its salaried employees or in accordance with any retirement arrangement established with Employee's consent.

(c) Cause. Termination by the Company of Employee's employment for "Cause" shall mean termination upon (i) the continued failure by Employee to substantially perform his duties with the Company (other than any such failure resulting from his incapacity due to Disability or any such actual or anticipated failure resulting from termination by Employee for Good Reason) after a written demand for substantial performance is delivered to Employee by the Board, which demand specifically identifies the manner in which the Board believes that Employee has not substantially performed his duties; (ii) Employee engages in conduct which is demonstrably and materially injurious to the Company or any of its affiliates, monetarily or otherwise; (iii) Employee commits fraud, bribery, embezzlement or other material dishonesty with respect to the business of the Company or any of its affiliates, or the Company discovers that Employee has committed any such act in the past with respect to a previous employer; (iv) Employee is indicted for any felony or any criminal act involving moral turpitude, or the Company discovers that Employee has been convicted of any such act in the past; (v) Employee commits a breach of any of the covenants, representations, terms or provisions of this Agreement; (vi) Employee violates any instructions or policies of the Company with respect to the operation of its business or affairs; or (viii) Employee uses illegal drugs.

(d) Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without Employee's express written consent, either:

(i) the material failure by the Company, without Employee's consent, to pay to Employee any portion of his current compensation within ten (10) days of the date any such compensation payment is due;

(ii) the Company commits a material breach of any of the covenants, representations, terms or provisions of this Agreement; or

(iii) if, following a Change of Control, there is any material diminution of Employee's title, function, duties, authority or responsibilities (including reporting requirements) if such diminution occurs during the Initial Term; provided that Employee provides notice to the Company upon the initial occurrence of such material diminution or within one year thereafter.

Employee must provide notice to the Company within 90 days of the initial existence of the condition giving rise to "Good Reason". Upon the receipt of such notice, the Company shall have 30 days to remedy the condition giving rise to "Good Reason". After a Change in Control, if Employee terminates employment with the Company after such condition giving rise to "Good Reason" is remedied, Employee will not be entitled to the benefits under Section 6(d).

(e) Notice of Termination. Prior to a Change in Control, Employee may be terminated with or without notice, with or without Cause or for any other reason as Employee's employment is at will. From and after a Change in Control, any purported termination of Employee's employment by the Company or by Employee shall be communicated by written notice to the other party hereto in accordance with Section 8 hereof ("Notice of Termination"). Such Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under the provisions so indicated.

(f) Date of Termination, Etc. Prior to a Change in Control, "Date of Termination" shall mean the date Employee's employment is terminated. From and after a Change in Control, "Date of Termination" shall mean (i) if Employee's employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that Employee shall not have returned to the full-time performance of his duties during such thirty (30) day period), or (ii) if Employee's employment is terminated pursuant to Subsections 5(c) or 5(d) above or for any other reason (other than Disability), the date specified in the Notice of Termination as the date on which it is reasonably anticipated that no further services would be performed by Employee for the Company, as an employee or independent contractor (which, in the case of a termination pursuant to Subsection 5(d) above, shall not be less than two (2) weeks nor more than two (2) months from the date such Notice of Termination is given).

6. Compensation Upon Termination or During Disability. Prior to a Change in Control, Employee shall not be entitled to any benefits upon termination of Employee's employment. From and after a Change in Control, upon termination of Employee's employment or during a period of Disability, Employee shall be entitled to the following benefits:

(a) During any period that Employee fails to perform his full-time duties with the Company as a result of his Disability, Employee shall continue to receive his base salary at the rate in effect at the commencement of any such period, together with all compensation payable to Employee under the Company's disability plan or other plan during such period from the date that written Notice of Termination is given until thirty (30) days thereafter as further provided in Subsection 5(a) hereof. Thereafter, if Employee has not returned to the full-time performance of his duties and employment terminates pursuant to Subsection 5(a), Employee shall be provided with disability benefits that shall be no less than the benefits that Employee would have been entitled to pursuant to the Company's long-term disability plan as in effect immediately prior to a Change in Control.

(b) If Employee's employment shall be terminated by the Company for Cause or by Employee other than for Good Reason, Disability, death or Retirement, the Company shall pay Employee his full base salary through the Date of Termination at the rate in effect at the time the Notice of Termination is given and any amounts to be paid to him pursuant to the Company's retirement and other benefits plans of the Company then in effect, and the Company shall have no further obligations to Employee under this Agreement.

(c) If Employee's employment shall be terminated by the Company or by Employee for Retirement, or by reason of Employee's death, Employee's benefits shall be determined in accordance with the Company's retirement, benefit and insurance programs then in effect.

(d) If Employee's employment by the Company shall be terminated by the Company other than for Cause, by Employee for Good Reason or otherwise because of Employee's death, Disability or Retirement then, effective as of the Date of Termination, in lieu of any severance benefits which he otherwise would be eligible to receive under the Company's severance plan or policy, the Company shall pay Employee:

(i) if prior to a Change of Control, his full base salary through the Date of Termination at the rate in effect at the time the Notice of Termination is given, plus all other amounts to which Employee is entitled under any compensation or benefit plan of the Company (excluding any severance benefits under the Company's severance plan or policy) at the time such payments are due under the terms of such plans; or

(ii) if after a Change of Control, (A) the Employee's full base salary through the Date of Termination at the rate in effect at the time the Notice of Termination is given, plus all other amounts to which Employee is entitled under any compensation or benefit plan of the Company as in effect immediately prior to the Change in Control (excluding any severance benefits under the Company's severance plan or policy) at the time such payments are due under the terms of such plans plus (B) the Employee's then current base salary for a period commencing on the Date of Termination and ending twelve (12) months after the Date of Termination (collectively, the "Severance Benefit"); provided, however in lieu of any further salary payments to Employee for periods subsequent to the Date of Termination, the Company may pay to Employee a lump sum payment equal to the Severance Benefit.

Notwithstanding any other provision of this Agreement, if any amount payable hereunder ("Payments") would, individually or together with any other amounts paid or payable, constitute an "excess parachute payment," within the meaning of Section 280G of the Internal Revenue Code of 1986 and any applicable regulations thereunder (the "Code") which would require the payment by Employee of the excise tax imposed by Section 4999 of the Code or any interest or penalty (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then he shall be entitled to receive an additional Payment (the "Gross-Up Payment") in an amount such that after the payment by Employee of all taxes (including any interest or penalties imposed with respect to such taxes) including, without limitation, any income taxes (and any interest and penalties with respect thereto) and the Excise Tax imposed upon the Gross-Up Payment, Employee shall retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the total Payments to be received by Employee pursuant to this Agreement. The determination of whether the Gross-Up Payment shall be paid shall be made by a nationally recognized accounting firm selected by Employee and such determination shall be binding upon him and the Company for purposes of this Agreement. The costs and expenses of such accounting firm shall be paid by the Company.

(e) Except as specifically provided in this Section 6, Employee shall not be required to mitigate the amount of any payment provided for in this Section 6 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 6 be reduced by any compensation earned by him as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise.

(f) Notwithstanding anything else herein, in the event that any payments under this Section 6 or elsewhere in this Agreement are determined to be subject to Section 409A of the Code, and Employee is a "specified employee" as defined in Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation §1.409A-1(i), no such payments shall be made prior to the date that is six (6) months following the Date of Termination.

(g) Employee acknowledges and agrees that (i) Employee is solely responsible for all obligations arising as a result of the tax consequences associated with payments under this Agreement, including without limitation, any taxes, interest or penalties associated with Section 409A of the Code, (ii) Employee is not relying upon any written or oral statement or representation the Company, any of its Affiliates, or any of their respective employees, directors, officers, attorneys or agents (collectively, the "Company Parties") regarding the tax effects associated with the execution of the this Agreement and the payment under this Agreement, and (iii) in deciding to enter into this Agreement, Employee is relying on his or her own judgment and the judgment of the professionals of his or her choice with whom Employee has consulted. Employee hereby releases, acquits and forever discharges the Company Parties from all actions, causes of actions, suits, debts, obligations, liabilities, claims, damages, losses, costs and expenses of any nature whatsoever, known or unknown, on account of, arising out of, or in any way related to the tax effects associated with the execution of this Agreement and any payment under the Agreement.

(h) Employee must execute a full release of all claims within 10 days following the Date of Termination in order to be eligible for the Severance Benefit. Without limiting the remedies available to the Company for breach by Employee of its obligations related to the Company's intellectual property or proprietary information, if Employee violates such obligations after the termination of Employee's employment with the Company in a manner reasonably determined by the board to be injurious to the Company or any of its affiliates, then Employee will forfeit the right to any payments under this Section 6 which are unpaid at the time such violation occurs.

7. Successors: Binding Agreement. (a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Such assumption and agreement shall be obtained prior to the effectiveness of any such succession. As used in this Agreement, "Company" shall mean the Company as herein before defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. Prior to a Change in Control, the term "Company" shall also mean any affiliate of the Company to which Employee may be transferred and Company shall cause such successor employer to be considered the "Company" bound by the terms of this Agreement and this Agreement shall be amended to so provide. Following a Change in Control the term "Company" shall not mean any affiliate of the Company to which Employee may be transferred unless Employee shall have previously approved of such transfer in writing, in which case the Company shall cause such successor employer to be considered "Company" bound by the terms of this Agreement and this Agreement shall be amended to so provide.

(b) This Agreement shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amount would still be payable to Employee hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such designee, to his estate.

8. Notice. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt:

If to Employer or GlobalSCAPE, to:

GlobalSCAPE, Inc.
Attn: Board of Directors and President
4500 Lockhill Selma Road, Suite 150
San Antonio, Texas 78249
Facsimile: (210) 690-8824

If to Employee, to Employee's last known address appearing on Employer's records

9. Miscellaneous. No provision of this Agreement shall be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. Whenever the context requires, the gender of all words used in this Agreement shall include the masculine, feminine and neuter and the number of all words shall include the singular and plural. THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF TEXAS.

10. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

11. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

12. Arbitration. THIS AGREEMENT IS SUBJECT TO ARBITRATION UNDER THE FEDERAL ARBITRATION ACT. Without limiting either party's right to seek equitable remedies, Company and Employee agree that any dispute or controversy arising under or in connection with this Agreement shall be settled by arbitration. Arbitration under this Agreement shall be governed by the Federal Arbitration Act and proceed in San Antonio, Texas, in accordance with the rules of the American Arbitration Association ("AAA"). Arbitration will be conducted before a panel of three neutral arbitrators selected from an AAA list of proposed arbitrators with business law experience. Either party may take any legal action needed to protect any right pending completion of the arbitration. The arbitrator will determine whether an issue is arbitrable and will give effect to applicable statutes of limitation. The arbitrator has the discretion to decide, upon documents only or with a hearing, any motion to dismiss for failure to state a claim or any motion for summary judgment. Discovery shall be governed by the Federal Rules of Civil Procedure and the Federal Rules of Evidence. All information developed by the arbitration or litigation shall be held in confidence subject to such protective orders, as the arbitrator deems useful to ensure complete confidentiality. The decision of the arbitrator shall be final and binding on all parties to this Agreement (and any third party beneficiaries of this Agreement), and judgment thereon may be entered in any court having jurisdiction over the parties. All costs of the arbitration proceeding or litigation to enforce the arbitration award shall be paid by the party against whom the arbitrator decides. The arbitrator shall have no right to award punitive, consequential, exemplary or analogous damages.

13. Entire Agreement. This Agreement contains the entire agreement by the parties with respect to the matters covered herein and supersedes any prior agreement (including, without limitation, any prior employment or severance agreement), condition, practice, custom, usage and obligation with respect to such matters insofar as any such prior agreement, condition, practice, custom, usage or obligation might have given rise to any enforceable right.

14. Employee Representations. Employee represents and certifies to Company that he: (i) has received a copy of this Agreement for review and study and has had ample time to review it before signing; (ii) has read this Agreement carefully; (iii) has been given a fair opportunity to discuss and negotiate the terms of this Agreement; (iv) understands its provisions; (v) has had the opportunity to consult his attorney; and (vi) enters into this Agreement knowingly and voluntarily.

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EXECUTED as of the date first above written.

GLOBALSCAPE, INC.

By: /s/ James Bindseil
James Bindseil, President

/s/ Matthew Goulet
Employee Printed Name: Matthew Goulet

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 27, 2014, with respect to the consolidated financial statements included in the Annual Report of GlobalSCAPE, Inc. on Form 10-K for the year ended December 31, 2013. We hereby consent to the incorporation by reference of said report in the Registration Statements of GlobalSCAPE, Inc. on Forms S-8 (File No. 333-61180, effective May 17, 2001; File No 333-61160, effective May 17, 2001, File No. 333-145771, effective August 29, 2007, and File No. 333-168871, effective August 16, 2010).

/s/ Grant Thornton LLP

Houston, Texas
March 27, 2014

CERTIFICATIONS

I, James L. Bindseil, certify that:

1. I have reviewed this annual report on Form 10-K of GlobalSCAPE, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2014

/s/James L. Bindseil

James L. Bindseil
President and Chief Executive Officer

CERTIFICATIONS

I, James W. Albrecht, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of GlobalSCAPE, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2014

/s/James W. Albrecht, Jr.
James W. Albrecht, Jr.
Chief Financial Officer

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of GlobalSCAPE, Inc. on Form 10-K for the period ending December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Craig A. Robinson, Chief Executive Officer and James W. Albrecht, Jr., Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of GlobalSCAPE, Inc.

March 27, 2014

/s/ James L. Bindseil

James L. Bindseil
President and Chief Executive Officer

/s/ James W. Albrecht, Jr.

James W. Albrecht, Jr.
Chief Financial Officer