# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the Quarterly Period ended June 30, 2008**

**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**<br>(State or other jurisdiction of incorporation or organization) | **74-2785449**<br>(I.R.S. Employer Identification No.) |
| **4500 Lockhill-Selma, Suite 150**<br>**San Antonio, Texas**<br>(Address of Principal Executive Office) | **78249**<br>(Zip Code) |

**(210) 308-8267**

(Registrant's Telephone Number, Including Area Code)

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

☒ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ (Do not mark if a smaller reporting company) 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

As of June 30, 2008, there were 17,210,704 shares of common stock outstanding.

**GlobalSCAPE Inc.**

**Quarterly Report on Form 10-Q**
**For the Quarter ended June 30, 2008**

## Index

## Part I. Financial Information

### Item1. Financial Statements

## GlobalSCAPE, Inc.
## Consolidated Balance Sheets

| | December 31, 2007 (Restated) | June 30, 2008 (Unaudited) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 5,214,479 | $ 5,000,955 |
| Accounts receivable (net of allowance for doubtful accounts of $113,201 and $174,805 on December 31, 2007 and June 30, 2008, respectively) | 2,232,927 | 1,958,473 |
| Federal income tax receivable | 940,327 | 914,626 |
| Prepaid expenses | 87,654 | 70,134 |
| Total current assets | 8,475,387 | 7,944,188 |
| Fixed assets, net | 262,745 | 1,433,520 |
| Intangible assets, net | 5,071,640 | 4,802,917 |
| Goodwill | 6,392,075 | 6,392,075 |
| Deferred tax asset | 80,044 | 183,775 |
| Other assets | 79,967 | 52,652 |
| Total assets | $ 20,361,858 | $ 20,809,127 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 329,817 | $ 555,742 |
| Accrued expenses | 742,946 | 725,424 |
| Deferred revenue | 2,329,117 | 2,574,070 |
| Deferred compensation | — | 165,395 |
| Total current liabilities | 3,401,880 | 4,020,631 |
| Long-term liabilities, net of current portion | 119,711 | — |
| Deferred Tax Liability | 1,750,637 | 1,645,190 |
| 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, 17,432,352 and 17,210,704 shares outstanding at December 31, 2007 and june 30, 2008, respectively | 17,432 | 17,210 |
| Treasury Stock, 159,873 and 403,581 shares at December 31, 2007 and June 30, 2008, respectively | (527,398) | (1,465,337) |
| Additional paid-in capital | 8,764,300 | 9,311,884 |
| Retained earnings | 6,835,296 | 7,279,549 |
| Total stockholders' equity | 15,089,630 | 15,143,306 |
| Total liabilities and stockholders' equity | $ 20,361,858 | $ 20,809,127 |

See accompanying notes.

**GlobalSCAPE, Inc.**
**Condensed Consolidated Statement of Operations**
(Unaudited)

| | Three months ended June 30, 2007 | Three months ended June 30, 2008 | Six months ended June 30, 2007 | Six months ended June 30, 2008 |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Software product revenues | $ 5,557,388 | $ 3,010,929 | $ 8,504,210 | $ 5,899,992 |
| Maintenance and support (net of deferred revenues) | 860,637 | 1,202,137 | 1,536,962 | 2,368,893 |
| Total Revenues | 6,418,025 | 4,213,066 | 10,041,172 | 8,268,885 |
| Operating Expenses: | | | | |
| Cost of revenues depreciation and amortization shown seperately below) | 60,230 | 45,170 | 119,170 | 75,176 |
| Selling, general and administrative expenses | 2,587,435 | 2,032,355 | 4,921,719 | 5,654,564 |
| Research and development expenses | 551,211 | 1,426,318 | 988,961 | 1,329,207 |
| Depreciation and amortization | 34,843 | 184,626 | 66,429 | 358,645 |
| Total operating expenses | 3,233,719 | 3,688,469 | 6,096,279 | 7,417,592 |
| Income from operations | 3,184,306 | 524,597 | 3,944,893 | 851,293 |
| Other income (expense) | 9,743 | 22,726 | (16,815) | 53,036 |
| Income before income taxes | 3,194,049 | 547,323 | 3,928,078 | 904,329 |
| Provision for income taxes | 1,079,173 | 255,004 | 1,339,986 | 460,076 |
| Net Income | $ 2,114,876 | $ 292,319 | $ 2,588,092 | $ 444,253 |
| Net income per common share - basic | $ 0.12 | $ 0.02 | $ 0.15 | $ 0.03 |
| Net income per common share - assuming dilution | $ 0.12 | $ 0.02 | $ 0.14 | $ 0.02 |
| Average shares outstanding: | | | | |
| Basic | 17,226,066 | 17,195,802 | 17,204,922 | 17,258,901 |
| Diluted | 18,061,782 | 17,804,464 | 18,036,354 | 17,901,229 |

See accompanying notes.

**GlobalSCAPE, Inc.**
**Condensed Consolidated Statements of Cash Flows**
(Unaudited)

| | For the six months ended June 30, 2007 | 2008 |
|---|---|---|
| Operating Activities: | | |
| Net income | $ 2,588,092 | $ 444,253 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Bad debt expense | (11,215) | 113,354 |
| Depreciation and amortization | 66,429 | 358,645 |
| Amortization of deferred loan costs | 36,345 | — |
| (Gain) loss on disposition of assets | — | (1,676) |
| Stock-based compensation | 435,858 | 538,986 |
| Stock issued for goods | — | 40,200 |
| Deferred taxes | (178,107) | (209,178) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (367,243) | 161,100 |
| Prepaid expenses | 40,811 | 43,221 |
| Other assets | — | 27,315 |
| Accounts payable | (63,521) | 225,925 |
| Accrued expenses | 607,475 | (17,522) |
| Federal income tax payable | 886,966 | — |
| Deferred revenues | 564,595 | 244,953 |
| Deferred compensation | 26,437 | 45,684 |
| Other long-term liabilities | (5,937) | — |
| Net cash provided by operating activities | 4,626,985 | 2,015,260 |
| Investing Activities: | | |
| Proceeds from sale of property and equipment | — | 1,676 |
| Purchase of property and equipment | (101,572) | (1,260,697) |
| Net cash used in investing activities | (101,572) | (1,259,021) |
| Financing Activities: | | |
| Loan payments | (4,610,212) | — |
| Proceeds from exercise of stock options | 329,702 | 8,620 |
| Purchase of treasury stock | (379,733) | (978,383) |
| Net cash used in financing activities | (4,660,243) | (969,763) |
| Net increase (decrease) in cash | $ (134,830) | $ (213,524) |
| Cash at beginning of period | 4,632,666 | 5,214,479 |
| Cash at end of period | $ 4,497,836 | $ 5,000,955 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | $ 31,151 | $ 1,683 |
| Income taxes paid | $ 565,000 | $ 710,500 |
| Noncash - Income tax receivable due to ISO's | $ — | $ 782,680 |

See accompanying notes.

**GlobalSCAPE, Inc.**

**Notes to Consolidated Financial Statements**

## 1. Nature of Business

GlobalSCAPE, Inc. ("GlobalSCAPE" or the "Company"), founded in April 1996, develops and distributes secure managed file transfer, or MFT, software for individuals and business users to safely send files over the internet. We have also developed Wide-Area File System, or WAFS, collaboration and Continuous Data Protection, or CDP, software which further enhance the ability to share and backup files within the infrastructure of a company's wide and local area networks, or WAN and LAN at WAN and LAN speeds. Our MFT products ensure the privacy of critical information such as financial data, medical records, customer files and other similar documents. In addition, these products ensure compliance with government regulations relating to the protection of information while allowing users to reduce IT costs, increase efficiency, track and audit transactions and automate processes. Our WAFS and CDP products provide data replication, acceleration of file transfer, sharing/collaboration and continuous data backup and recovery to our customers. We believe that we are uniquely 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.

During the six months ended June 30, 2008, approximately 64% of our revenues were generated from customers within the United States, with the remaining 36% concentrated mostly in Western Europe, Canada and Australia. During the six months ended June 30, 2008 virtually all of our revenues were derived from sales of software licenses and support agreements. The combined sales of CuteFTP Home and CuteFTP Pro accounted for 18% of our revenues for the first six months of 2007 and 19% of our revenues for the same period of 2008. The combined sales of our SecureFTP Server and Enhanced File Transfer products represented 69% and 66% of our revenues for the six months ended June 30, 2007 and 2008, respectively. The combined sales of WAFS and CDP products for the six months ended June 30, 2007 and 2008 represented 15% and 16% of the total, respectively.

## 2. Corporate Structure

Prior to September 22, 2006, all of the Company's operations were conducted by GlobalSCAPE Texas, LP, a Texas limited partnership. The partners of GlobalSCAPE Texas, LP were two Nevada limited liability companies, which were both wholly-owned subsidiaries of GlobalSCAPE, Inc., a Delaware corporation.

On September 22, 2006, GlobalSCAPE acquired one hundred percent (100%) of the issued and outstanding capital stock of Availl,Inc. a privately held corporation based in Andover, Mass, pursuant to an Agreement and Plan of Merger with Availl and its stockholders. Availl operated as a wholly-owned subsidiary of GlobalSCAPE, Inc. through the end of 2007.

Availl, Inc. and all of the partnerships and limited liability companies mentioned above were either dissolved or effectively merged into GlobalSCAPE, Inc. on December 31, 2007. The stock of GlobalSCAPE, Inc. is quoted on the American Stock Exchange. References to "GlobalSCAPE" or the "Company" refer collectively to all of these entities unless otherwise indicated.

## 3. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X, "Interim Financial Statements." Accordingly, they do not include all information and footnotes required under generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normally recurring accruals) considered necessary for a fair presentation have been made. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

The consolidated balance sheet at December 31, 2007 has been derived from the audited consolidated financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. For further information, refer to the consolidated financial statements and footnotes included in GlobalSCAPE's Annual Report on Form 10-K for the year ended December 31, 2007.

As discussed in Note 12 below, on August 15, 2008, GlobalSCAPE and its Board of Directors, after consultation with GlobalSCAPE's independent registered public accounting firm, concluded that GlobalSCAPE would restate its financial statements and financial information for the year ended December 31, 2007 and the quarter ended March 31, 2008.

**4. Principles of Consolidation**

The consolidated financial statements include all subsidiaries. All inter-company transactions and balances have been eliminated.

**5. Adoption of New Accounting Standards**

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." The Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. The provisions of SFAS No. 157 were to be effective for fiscal years beginning after November 15, 2007. On February 6, 2008, the FASB agreed to defer the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Effective January 1, 2008, the Company adopted SFAS No. 157 except as it applies to those nonfinancial assets and nonfinancial liabilities. The adoption of SFAS No. 157 did not have any material impact on the Company's results of operations or financial position.

Effective January 1, 2008, the Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115." SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement of certain financial assets and liabilities under an instrument-by-instrument election. Subsequent measurements for the financial assets and liabilities an entity elects to fair value will be recognized in the results of operations. SFAS No. 159 also establishes additional disclosure requirements. The Company did not elect the fair value option under SFAS No. 159 for any of its financial assets or liabilities upon adoption. The adoption of SFAS No. 159 did not have a material impact on the Company's results of operations or financial position.

**6. Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on operating income as previously reported.

**7. Sale / Disposal of Assets**

The Company had no asset disposals in the first six months ending June 30, 2007. During the six months ending June 30, 2008 the Company disposed of equipment with an original purchase price of $102,369 and accumulated depreciation of $102,369. GlobalSCAPE recognized a gain of $1,676 related to the disposal of these assets.

**8. Goodwill and Intangible Assets**

As of June 30, 2008, GlobalSCAPE had goodwill in the amount of $6.4 million associated with the acquisition of Availl. This acquisition was accounted for using the purchase method of accounting. See Acquisitions note for a description of the acquisition. In accordance with SFAS No. 142 *Goodwill and Other Intangible Assets*, the Company will assess the impairment of goodwill annually in the fourth quarter, or more frequently if other indicators of potential impairment arise.

The Company obtained a valuation report of it's acquisition of Availl, which determined that the acquisition included purchased software a customer list and a patent, which are a identifiable intangible assets. The purchased software had a market value of approximately $5,000,000, the customer list of $180,000 and the patent of $26,000 and these amounts have been allocated to their respective assets from Goodwill effective October 1, 2007. The assets are being amortized using the straight-line method over their estimated useful lives of 10 years, 5 years, and 18 years for the software, customer list and patent, respectively. In 2007 the Company amortized $134,360 for the period between October 1, 2007 and December 31, 2007. For the six months ended June 30, 2008 the Company amortized $268,723.

Intangible assets represent amounts acquired in the acquisition of Availl, and consisted of the following as of June 30, 2008:

| | Gross Carrying Amount | Accumulated Amortization | Life (Years) |
|---|---|---|---|
| **Amortized intangible assets:** | | | |
| Software acquired | $ 5,000,000 | $ 375,003 | 10 |
| Customer list acquired | 180,000 | 27,000 | 5 |
| Patent acquired | 26,000 | 1,080 | 18 |
| Total | $ 5,206,000 | $ 403,083 | |

| | |
|---|---|
| Estimated Amortization Expense | |
| For the six months ended 12/31/2008 | $ 268,721 |
| For Year-ended 12/31/2009 | 537,444 |
| For Year-ended 12/31/2010 | 537,444 |
| For Year-ended 12/31/2011 | 537,444 |
| For Year-ended 12/31/2012 | 528,444 |
| Thereafter | 2,393,420 |
| Total | $ 4,802,917 |

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations-Revised 2007. SFAS 141R provides guidance on improving the relevance, representational faithfulness, and comparability of information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies to business combinations where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. GlobalSCAPE is in the process of analyzing the effects SFAS 141R will have on the Company's financial statements.

In April 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under SFAS No. 142. The FSP amends paragraph 11(d) of SFAS No. 142 to require an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset.

The FSP also requires the following incremental disclosures for renewable intangible assets:

- The weighted-average period prior to the next renewal or extension (whether explicit and implicit) for each major intangible asset class
- The entity's accounting policy for the treatment of costs incurred to renew or extend the term of a recognized intangible asset
- For intangible asset renewed or extended during the period:
    - For entities that capitalize renewal or extension costs, the costs incurred to review or extend the asset, for each major intangible asset class
    - The weighted-average period prior to the next renewal or extension (whether explicit and implicit) for each major intangible asset class

The FSP is effective for financial statements for fiscal years beginning after December 15, 2008. The guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. Accordingly, the FSP would not serve as a basis to change the useful life of an intangible asset that was acquired prior to the effective date (January 1, 2009 for a calendar year company). However, the incremental disclosure requirements described above would apply to all intangible assets, including those recognized in periods prior to the effective date of the FSP. The Company is currently evaluating the impact that the adoption of this FSP will have on its consolidated financial statements.

## 9. Stock-Based Compensation

GlobalSCAPE has stock-based compensation plans available to grant incentive stock options, non-qualified stock options and restricted stock to employees and non-employee members of the Board of Directors.

Under the GlobalSCAPE, Inc. 2000 Stock Option Plan (the "Employees Plan"), which was approved by the Board of Directors and became effective on May 17, 2001, a maximum of 3,660,000 shares of GlobalSCAPE common stock may be awarded. During the six months ended June 30, 2008, 267,500 stock options were granted and at June 30, 2008, a total of 1,857,134 stock options were outstanding of which 925,179 were vested. The exercise price, term and other conditions applicable to each stock option granted under the Employees Plan are determined by 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 on that date. The Employees Plan options generally become exercisable over a three-year period and expire after ten years.

Under the GlobalSCAPE, Inc. 2006 Non-Employee Directors Long-term Equity Incentive Plan (the "Directors Plan"), which was approved by the stockholders and became effective on June 1, 2007, a maximum of 500,000 shares of GlobalSCAPE common stock may be awarded. During the six months ended June 30, 2008, 80,000 stock options had been granted and at June 30, 2008, a total of 160,000 stock options were outstanding of which 80,000 were vested. The exercise price, term and other conditions applicable to each stock option granted under the Directors Plan 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 on that date. The most recently awarded Directors Plan options become exercisable over a one-year period and expire after ten years. The Directors Plan provides that each year, at the first regular meeting of the Board of Directors following the Company's annual stockholders meeting, each non-employee director shall be granted awards of 20,000 shares of common stock for participation in the Board and Committee meetings during the prior year. The maximum annual award for any one person is 20,000 shares of common stock.

The Company accounts for stock options according to Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R) which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

There was $435,858 and $538,986 of compensation cost related to incentive stock options recognized in operating results in the six months ended June 30, 2007 and 2008, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility is based on historical volatility of GlobalSCAPE stock. We used the simplified method to derive an expected term. The expected term represents an estimate of the time options are expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. treasury yield curve in effect at the time of grant. The following table sets forth the assumptions used to determine compensation cost for our non-qualified stock options consistent with the requirements of SFAS No. 123R:

| | Six-months ended June 30, 2008 | Three-months ended June 30, 2008 |
|---|---|---|
| Expected volatility | 98.13% | 96.27% |
| Expected annual dividend yield | 0.00% | 0.00% |
| Risk free rate of return | 2.92% | 2.79% |
| Expected option term (years) | 5.89 | 5.53 |

The following table summarizes information about stock option activity for the six months ended June 30, 2008:

| | Number of Options | Weighted Average Share Price | Weighted Average Remaining Contractual | Average Intrinsic Value ($M) |
|---|---|---|---|---|
| Outstanding at December 31, 2007 | 1,734,528 | $ 1.94 | 7.64 | $ 6.17 |
| Granted | 347,500 | 3.45 | | |
| Exercised | (22,060) | 0.39 | | |
| Lapsed or canceled | (42,834) | 2.77 | | |
| Outstanding at June 30, 2008 | 2,017,134 | $ 2.17 | 7.52 | $ 4.28 |
| Exercisable at June 30, 2008 | 1,005,179 | $ 1.11 | 6.59 | $ 0.69 |

The weighted average fair value of options granted during the six months ended June 30, 2008 was $3.45. The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the six months ended June 30, 2008 was approximately $84,112. During the six months ended June 30, 2008, the amount of cash received from the exercise of stock options was $8,620 with no associated tax benefit.

The following table summarizes information about non-vested stock option awards for the six month period ended June 30, 2008:

| | Number of Options | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested at December 31, 2007 | 1,011,543 | $ 2.22 |
| Granted | 347,500 | $ 2.43 |
| Vested | (307,734) | $ 1.31 |
| Forfeited | (39,354) | $ 2.40 |
| Non-vested at June 30, 2008 | 1,011,955 | $ 2.56 |

At June 30, 2008, there was $1.8 million of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 2.8 years. There were 307,734 options that became vested during the six months ended June 30, 2008.

## 10. Common Stock and Warrants

On November 13, 2006, GlobalSCAPE entered into a securities purchase agreement with accredited investors, who paid it an aggregate of $3.4 million in gross proceeds in consideration for 1,352,000 shares of GlobalSCAPE common stock at a price of $2.50 per share. The Company also granted warrants to purchase 1,352,000 shares of its common stock to the investors with an exercise price of $3.15 per share, subject to certain adjustments. The exercise price will not, in any event, be adjusted to a price of less than $2.81 per share except in the event of stock dividends, stock splits or similar events. The warrants have a 5-year term and are currently exercisable. As part of this transaction, GlobalSCAPE filed a registration statement to register the resale of these shares by the investors. The registration statement was declared effective by the SEC on April 16, 2007 and a post-effective amendment to the registration statement was declared effective on April 20, 2008.

## 11. Earnings per Common Share

Basic and diluted net income per common share is presented in conformity with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128) for all periods presented. Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income (loss) available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding. Below is a reconciliation of the numerators and denominators of basic and diluted earnings per share for each of the periods presented:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2008 | 2007 | 2008 |
| **Numerators** | | | | |
| Numerators for basic and diluted earnings per share: | | | | |
| Net income | $ 2,114,876 | $ 292,319 | $ 2,588,092 | $ 444,253 |
| **Denominators** | | | | |
| Denominators for basic and diluted earnings per share: | | | | |
| Weighted average shares outstanding basic | 17,226,066 | 17,195,802 | 17,204,922 | 17,258,901 |
| **Dilutive potential common shares** | | | | |
| Stock options (1) | 835,176 | 608,662 | 831,432 | 642,328 |
| Common stock warrants (2) | — | — | — | — |
| Denominator for dilutive earnings per share | 18,061,782 | 17,804,464 | 18,036,354 | 17,901,229 |
| Net income per common share | $ 0.12 | $ 0.02 | $ 0.15 | $ 0.03 |
| Net income per common share – assuming dilution | $ 0.12 | $ 0.02 | $ 0.14 | $ 0.02 |

(1) For the three and six months ended June 30, 2007 445,000 options were not included as dilutive shares, as the effect would be anti-dilutive. For the three months ended June 30, 2008 1,166,567 options were not included as dilutive shares, as the effect would be anti-dilutive. For the six months ended June 30, 2008, there were 1,041,567 options not included as dilutive shares, as the effect would be anti-dilutive.

(2) For the three and six months ended June 30, 2007 and June 30, 2008, no warrants have been included in dilutive shares, as the effect would be anti-dilutive.

**Fair Value Measurements**

As described in “Adoption of New Accounting Standards,” the Company adopted SFAS No. 157 effective January 1, 2008. SFAS 157 established a framework for measuring fair value in GAAP and clarified the definition of fair value within that framework. SFAS 157 does not require assets and liabilities that were previously recorded at cost to be recorded at fair value or for assets and liabilities that are already required to be disclosed at fair value, SFAS 157 introduced, or reiterated, a number of key concepts which form the foundation of the fair value measurement approach to be used for financial reporting purposes. The fair value of the Company’s financial instruments reflects the amounts that the Company estimates to receive in connection with the sale of an asset or paid in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS 157 also established a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1—quoted prices in active markets for identical assets and liabilities.

Level 2—observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3—unobservable inputs.

The adoption of FAS 157 did not have an effect on the Company’s financial condition or results of operations, but SFAS 157 introduced new disclosures about how we value certain assets and liabilities. Much of the disclosure is focused on the inputs used to measure fair value, particularly in instances where the measurement uses significant unobservable (Level 3) inputs. As of June 30, 2008, the Company did not have financial assets or liabilities that would require measurement on a recurring basis based on the guidance in SFAS 157. At June 30, 2008 all financial assets consisted of cash and cash equivalents at financial institutions in the United States.

## 12. Restatement of Financial Statements

The Company intends to restate its 2007 financial statements from the amounts previously reported by the filing of an amended Annual Report on Form 10-K. The restatements include adjustments (a) to record a deferred tax liability, (b) to decrease previously recorded deferred tax assets (c) adjust income taxes and (d) adjust additional paid in capital. Following is a summary of the restatement adjustments:

| | As Reported | Adjustments | As Restated |
|---|---|---|---|
| 2007 Summary Balance Sheet | | | |
| Current Assets | $ 7,658,044 | 817,343 | $ 8,475,387 |
| Property and equipment (net) | 262,745 | — | 262,745 |
| Intangible assets, net | 5,071,640 | — | 5,071,640 |
| Goodwill | 4,595,755 | 1,796,320 | 6,392,075 |
| Deferred tax asset | 440,632 | (360,588) | 80,044 |
| Other assets | 79,967 | — | 79,967 |
| Total Assets | $ 18,108,783 | $ 2,253,075 | $ 20,361,858 |
| Current Liabilities | | | |
| Accounts payable | $ 329,817 | — | $ 329,817 |
| Accrued expenses | 742,946 | — | 742,946 |
| Deferred revenue | 2,329,117 | — | 2,329,117 |
| Total current liabilities | 3,401,880 | — | 3,401,880 |
| Long-term liabilities | 119,711 | — | 119,711 |
| Deferred tax liability | — | 1,750,637 | 1,750,637 |
| Stockholders' equity | | | |
| Preferred stock | — | — | — |
| Common stock | 17,432 | — | 17,432 |
| Treasury stock | (527,398) | — | (527,398) |
| Additional paid in capital | 7,981,620 | 782,680 | 8,764,300 |
| Retained earnings | 7,115,538 | (280,242) | 6,835,296 |
| Total liabilities and stockholders' equity | $ 18,108,783 | $ 1,435,733 | $ 20,361,858 |

| | As Reported | Adjustments | As Restated |
|---|---|---|---|
| 2007 Summary Consolidated Statement of Operations | | | |
| Software Product Revenues | $ 14,826,197 | $ — | $ 14,826,197 |
| Maintenance and support (net of deferred revenues) | 3,534,144 | — | 3,534,144 |
| Total Revenues | 18,360,341 | | 18,360,341 |
| Operating expenses | | | |
| Cost of revenues (exclusive of depreciation and amortization shown seperately below) | 250,439 | — | 250,439 |
| Selling, general and administrative expenses | 10,049,430 | — | 10,049,430 |
| Research and development expenses | 1,919,253 | — | 1,919,253 |
| Depreciation and amortization | 279,573 | — | 279,573 |
| Total operating expenses | 12,498,695 | | 12,498,695 |
| Income from operations | 5,861,646 | | 5,861,646 |
| Other income (expense) | 63,549 | — | 63,549 |
| Income before income taxes | 5,925,195 | | 5,925,195 |
| Income tax provision | 2,002,686 | 280,242 | 2,282,928 |
| Net Income | $ 3,922,509 | $ (280,242) | $ 3,642,267 |
| Basic per common share | $ 0.23 | | $ 0.21 |
| Diluted per common share | $ 0.21 | | $ 0.20 |

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

This Quarterly Report on Form 10-Q contains "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 describe management's beliefs and expectations about the future. We have identified forward-looking statements by using words such as "anticipate," "believe," "could," "estimate," "may," "expect," 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 our Annual Report on Form 10-K as amended and other documents filed with the Securities and Exchange Commission. GlobalSCAPE's actual results could differ materially from those discussed in any forward-looking statements included in this Quarterly Report.

**Overview**

We develop and distribute secure managed file transfer, or MFT, software for individuals and business users to safely send files over the internet. We have also developed Wide-Area File System, or WAFS, collaboration and Continuous Data Protection or CDP, software which further enhance the ability to share and backup files within the infrastructure of a company's wide and local area networks, or WAN and LAN at WAN and LAN speeds. Our MFT products ensure the privacy of critical information such as financial data, medical records, customer files and other similar documents. In addition, these products ensure compliance with government regulations relating to the protection of information while allowing users to reduce IT costs, increase efficiency, track and audit transactions and automate processes. Our WAFS and CDP products provide data replication, acceleration of file transfer, sharing/collaboration and continuous data backup and recovery to our customers. We believe that we are uniquely 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.

The following is a brief description of our products:

- File Management Products – Our File Management products are best known for the "CuteFTP" product line. They primarily consist of products that help users securely move and copy files on the internet. A substantial portion of our revenues are derived from licensing our File Management products. Some of our products encrypt the transfers for security using technology similar to a Web browser. The products consist of three product categories: client, server and compression transfer. Our File Management product line includes CuteFTP Home, Cute FTP Professional, SecureFTP Server, and Enhanced File Transfer.

- Wide-Area File System (WAFS) Products – Our WAFS products provide a file sharing and collaboration solution over multiple sites. By keeping all data updated on each location's file server, each site has instant access to the very latest version. Our WAFS products help ensure that no one can ever open an old file version without user conflicts. Changes made to data on any server are mirrored on all other servers.

- Continuous Data Protection (CDP) Products – Our CDP products consolidate remote backup for file servers. As files change, the servers backup in real time to the customer's backup site which can be at the same or a remote location. The backup server can keep any number of past versions of each file (and deleted files) which gives the customer immediate restore, as well as the ability to perform point-in-time snapshots.

We believe that the future success of our business will be dependent upon our ability to improve our current products and to introduce new products, through research and development, innovations by our employees, strategic partnerships, and acquisitions. We intend to continue enhancing our file transfer products to meet the demands of both individual and enterprise users, while improving the security features of our current product line, and to expand into growing markets through the acquisition of compatible companies and products and through strategic partnerships. For example, in 2007, we introduced upgrades to EFT 5.0, CuteFTP 8.0, the Secure Ad Hoc Transfer module, and the HS-PCI module ensuring compliance with DSS In 2006, we acquired Availl, a leading provider of Wide-Area File System (WAFS) collaboration and continuous data protection (CDP) products as part of this strategy. This acquisition expanded our technology base into data replication, acceleration of file transfer, sharing/collaboration and continuous data backup and recovery. We believe that these products have give us entry into two large and rapidly growing markets. Based upon estimates by Gartner, Inc., and other consulting groups in our markets, we believe that the WAN optimization/WAFS market is currently $300 million annually and growing at 20% - 30% per year, and the CDP market is of similar size but in the early stages of adoption and growing rapidly. In addition, we believe that the WAFS and CDP products are highly complementary to our traditional Secure File Transfer products facilitating cross sales and new customer penetration. As described below, our WAFS/CDP revenues have not increased as much as originally anticipated due to management's decision to delay the aggressive marketing of those products to our existing customer base and to the market in general as we had initially planned. The amount of time required to make improvements to our WAFS and CDP products that we believe are necessary has been greater than we had expected.

**Liquidity and Capital Resources**

The Company continues to enjoy a strong working capital position resulting from net profits from operations over the last seventeen consecutive quarters, including the quarter ended June 30, 2008. At June 30, 2008, current assets of $7.9 less current liabilities of $4 yielded a net working capital position of $3.9 million. The primary component of current liabilities at June 30, 2008 was $2.6 million of deferred revenues which will be recognized over the remaining term (generally one to twelve months) of the maintenance and support contracts. At June 30, 2008, our principal commitments consisted of obligations outstanding under operating leases as well as royalty agreements with third parties, federal income tax and trade accounts payable. 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 and may also use our cash to acquire or license technology, products or businesses related to our current business. We had cash available of $5.0 million and we continue to generate cash in excess of our operational needs. In addition, the Company has a $750,000 line of credit with Silicon Valley Bank which is unused at this time. We rely heavily on cash flows from operations to fund our business.

Net cash used in investing activities for the six months ended June 30, 2007 and 2008 was $101,572 and $1,259,000, respectively. Cash used in investing activity for 2008 was primarily for the purchase of computer equipment and software. Our capital requirements principally relate to our need to enhance our existing products and to develop new products, which primarily consist of research and development expenses and expenses for people and the elements that support their work. As had been expected, capital expenditures have been higher in the first six months of 2008 as a result of the company's move to new office space. Primary components included $499,000 in lease hold Improvements, $255,000 in furniture & fixtures, and $12,000 in equipment. In addition to the usual computer equipment and software of $116,000, expenditures of $151,000 and $125,000 were also made toward an Internal ERP System and new product development.

Our total revenues decreased by 18% in the six months ending June 30, 2008 when compared to the same period in 2007. The principal drivers of our sales are the enterprise level server products for MFT, which are EFT Server and SecureFTP Server. These products accounted for 66% of our sales in the six months ending June 30, 2008 . Prior to 2006, we were largely dependent upon sales of CuteFTP Home and CuteFTP Professional, which accounted for 51% of our revenue in the year ended December 31, 2005, and represented larger percentages of sales in earlier years. The actual sales of these products have remained relatively flat over the three years ended December 31, 2007 while becoming an increasingly smaller portion of our total revenue. In the first six months of 2007 and 2008, sales of these products represented approximately 18% and 19 % of our total revenues, respectively

Since 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 will also decline. If sales decline or if our liquidity is otherwise under duress, management may substantially reduce personnel and personnel-related costs, reduce or substantially eliminate capital expenditures and/or reduce or substantially eliminate research and development expenditures. We also have $750,000 of availability under our revolving line of credit and, if necessary, we may also sell equity securities or enter into other credit arrangements in order to finance future acquisitions or licensing activities.

Net cash provided by operating activities for the six months ended June 30 2007 and 2008 was $4,626,986 and $2,015,260, respectively. Were it not for nonrecurrent revenues from a sale to the U. S. Army of $2.8 million in 2007, 2008 cash provided by operating activites would have been slightly higher than that of 2007. Some of the major non-cash items that were charged against net income over this period are depreciation and amortization, stock-based compensation and deferred revenues. While these items are expensed according to Generally Accepted Accounting Principles, the cash impact from these charges has occurred or will occur in other accounting periods and the difference reflects a positive impact on cash in the Consolidated Statements of Cash Flows. The decrease in Accounts Receivables during this period and the Deferred Revenues during this period served to positively impact the cash from operations in those statements.

Our financing activities in the prior two years have primarily related to funding the acquisition of Availl. In 2006, we used $7.6 million in cash to acquire Availl. The cash used to make this acquisition came from a $5 million term loan from Silicon Valley Bank. The combination of cash generated from our operations and the stock offering completed in November 2006 allowed repayment of $400,000 of the loan in 2006 and $4.6 million in the six months ended June 30, 2007. We have also sold stock through the exercise of employee stock options. We received cash from stock option exercises of $329,702 and $8,620 for the periods ended June 30, 2007 and 2008, respectively. In the six month period ended June 30, 2008 Treasury stock in the amount of $40,200, complemented with $25,000 of cash was used in the purchase of new product code.

Net cash provided in financing activities during the six months ended June 30, 2007 and 2008 were $4,660,243 and $969,763 respectively. In 2007, the decrease in cash from financing activities was primarily the result of the payoff of the term loan with Silicon Valley Bank. In 2008, the decrease resulted through the use of cash in the purchase of shares of our common stock under our share purchase program.

In order to finance the cash portion of the purchase price in the merger with Availl, GlobalSCAPE entered into a Loan and Security Agreement dated September 22, 2006 with Silicon Valley Bank. The Loan Agreement with Silicon Valley Bank provides for a $5.0 million term loan and a $750,000 revolving credit facility. We repaid the balance of the term loan on March 1, 2007. The entire amount of the revolving credit facility remains available. The borrowings under the revolving credit facility bear interest at 1.00% above the Bank's prime rate and matures on September 22, 2008. Interest payments are due on the first day of each calendar month. There have been no borrowings under the revolving credit facility.

The revolving credit facility is secured by substantially all of the assets of GlobalSCAPE. The Loan Agreement contains customary covenants including covenants relating to maintaining legal existence and good standing, complying with applicable laws, delivery of financial statements, maintenance of inventory, payment of taxes, maintaining insurance, and protection of intellectual property rights. GlobalSCAPE is also prohibited from selling any of its assets other than in the ordinary course of business, acquiring any other entities, changing the types of business they are engaged in, incurring indebtedness other than that permitted by the Loan Agreement, incurring any liens on their assets other than those permitted by the Loan Agreement, making certain investments or paying any dividends on, or acquiring, any shares of its capital stock. The Loan Agreement contains two financial covenants. GlobalSCAPE and its subsidiaries must maintain:

- a ratio of (A) EBITDA less the sum of (i) cash taxes paid and (ii) non-financed capital expenditures (excluding non-cash stock options and taxes already accrued), to (B) the sum of (i) principal plus (ii) interest paid to Bank, of at least 1.5 to 1.00; and

- a ratio of total funded debt to EBITDA of not more than 2.00 to 1.00.

The loan agreement also contains customary events of default including the failure to make payments of principal and interests, the breach of principal and interests, the breach of any covenants, the occurrence of a material adverse change, certain bankruptcy and insolvency events, the breach of other agreements creating indebtedness of $50,000 or more and the entry of a judgment of $50,000 or more against GlobalSCAPE or any of its subsidiaries. At June 30, 2008, we were in compliance with these covenants.

**Contractual Obligations**

The following table sets forth the future minimum payments required under contractual commitments at June 30, 2008:

| | Payments Due by Fiscal Year | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **2008 (1)** | **2009** | **2010** | **Thereafter** | **Total** |
| Operating Lease | $ 306,438 | $ 606,465 | $ 537,692 | $ 4,968,160 | $ 6,418,755 |
| Equipment Leases | $ 3,696 | $ 7,392 | $ 7,392 | $ 9,056 | $ 27,536 |
| Deferred Compensation | $ 165,395 | $ — | $ — | $ — | $ 165,395 |
| Total Cash Obligations | $ 475,529 | $ 613,857 | $ 545,084 | $ 4,977,216 | $ 6,611,686 |

(1) Amounts for 2008 reflect the future minimum payments for the remaining six months of the fiscal year.

**Critical Accounting Policies**

Except as set forth below, there were no other changes in our critical accounting policies from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2007 during the six months ended June 30, 2008.

**Uncertain Tax Positions**

Effective at the beginning of the first quarter of 2007, the Company adopted the provision of FIN 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

As a result of the implementation of FIN 48, the Company has not changed any of its tax accrual estimates. The Company files U.S. federal and U.S. state tax returns.

**Comparison of the Three Months ended June 30, 2007 and 2008**

| | 2007 | 2008 | $ Change | % Change |
|---|---|---|---|---|
| Software product revenues | $ 6,418,025 | $ 4,213,066 | (2,204,959) | (34.36)% |
| Cost of revenues | 60,230 | 45,170 | (15,060) | (25.00)% |
| Selling, general and administrative expenses | 2,587,435 | 2,672,735 | 85,300 | 3.30% |
| Research and development expenses | 551,211 | 785,938 | 234,727 | 42.58% |
| Depreciation and amortization | 34,843 | 184,626 | 149,783 | 429.88% |
| Total operating expense | 3,233,719 | 3,688,469 | 454,750 | 14.06% |
| Income (loss) from operations | 3,184,306 | 524,597 | (2,659,709) | (83.53)% |
| Other Income (expense) | 9,743 | 22,726 | 12,983 | 133.25% |
| Income tax expense | 1,079,173 | 255,004 | (864,774) | (80.13)% |
| Net income (loss) | $ 2,114,876 | $ 292,319 | (1,781,952) | (84.26)% |
| Cost of Sales % of Sales | 0.9% | 1.1% | | |

***Revenue.*** We derive revenues primarily from software sales. Revenues are comprised of the gross selling price of software, including shipping charges and the earned portion of support and maintenance agreements. For the three months ended June 30, 2008, total revenues decreased by $2,204,959 or approximately 34.4% from the same quarter in 2007. Were it not for a sale in May of 2007 to the U. S. Army for $2.8 million, revenues would have been up by $595,000 or approximately 9% primarily as a result of an increase in sales of our Enhanced File Transfer product.

The following table reflects revenue by product including the related maintenance and support for each product:

| Product | Revenue for the Three Months ended June 30, 2007 | | 2008 | |
|---|---|---|---|---|
| Enhanced File Transfer | $ 1,501,613 | 23.4% | $ 2,030,984 | 48.2% |
| SecureFTP Server | 3,467,655 | 54.0% | 846,845 | 20.1% |
| CuteFTP Professional | 666,591 | 10.4% | 537,567 | 12.8% |
| CuteFTP Home | 282,508 | 4.4% | 234,934 | 5.6% |
| WAFS | 702,693 | 10.9% | 689,808 | 16.4% |
| CDP | 33,893 | 0.5% | 19,733 | 0.5% |
| All Others | 162,477 | 2.5% | 49,672 | 1.2% |
| Deferred Revenue adjustment | (399,405) | (6.2)% | (196,477) | (4.7)% |
| Total Operating Revenues | $ 6,418,025 | 100.0% | $ 4,213,066 | 100.0% |
| Maintenance and support (net of deferred revenues) | $ 860,637 | 19.6% | $ 1,202,137 | 28.5% |

Sales of our WAFS and CDP Systems were $737,000 and $710,000 for the three months ended June 30, 2007 and 2008, respectively, a decrease of $27,000 or 3.7% for the quarter. The decrease is largely due to the overall slowdown of the economy and the IT budgets of our customers being reduced as a result, which limits their purchases. These products accounted for approximately 11.5% of total revenue for the second quarter of 2007 compared to 16.8% for the same period in 2008.

Sales of our SecureFTP Server and Enhanced File Transfer products were $4,969,000 and $2,878,000 for the three months ended June 30, 2007 and 2008 respectively a decrease of $2,091,000 or 42.1% for the quarter. These products represented approximately 68% of our total revenues in the three months ending June 30, 2008 as compared to 77% in the same period in 2007. This decrease is largely due to the U.S. Army sale that occurred during the second quarter of 2007 and did not recur in 2008. Revenues from CuteFTP Home and CuteFTP Professional decreased by 19% as compared to the quarter ended June 30, 2007 and accounted for approximately 15% and 18% of total revenues for the three months ended June 30, 2007 and 2008, respectively.

Our reliance on the CuteFTP products will continue to decline as we emphasize sales of our more complex enterprise products. In addition, because of the more complex nature of SecureFTP Server, Enhanced File Transfer, WAFS and CDP, purchasers require increased maintenance and support. Our maintenance and support revenues decreased by 28% from the second quarter of 2007 compared to the same period in 2008. Maintenance and support revenues were $860,000 and $1,202,000, net of deferred revenue, for the three months ended June 30, 2007 and 2008, respectively. The increase in maintenance and support revenues is due to our focused efforts to expand sales of this product. Maintenance and support pricing is reflective of the license cost of the products and the additional support it takes to maintain and support the products and customers. With higher maintenance and support revenues, we will currently recognize additional deferred revenue and earn the revenue over the life of the maintenance and support agreement.

We have previously announced through press releases and investor conference calls that we believe our revenues will remain in a range of $4.0 million to $4.5 million for the next quarter. Beginning in the fourth quarter of 2008, we anticipate generating revenues from new products that we may build ourselves and/or resell from other software companies, and that our revenues will increase from prior periods due to these new products

***Cost of Revenues.*** Cost of revenues consists primarily of royalties, a portion of our bandwidth costs as well as production, packaging and shipping costs for boxed copies of software products. Cost of revenues decreased by approximately $15,000 or 25% between periods from $60,000 for the three months ended June 30, 2007 to $46,000 for the three months ended June 30, 2008. This change was due to a decrease in both royalties and production, packaging and shipping costs. Royalties that we pay on software products licensed from third parties, which we resell, are expensed as a cost of sale when the software product is sold or earlier if the recoverability of any prepaid royalties is in doubt. Cost of revenues as a percent of total revenues was 0.9% for the three months ended June 30, 2007 as compared to 1.1% for the same period in 2008.

***Selling, General and Administrative.*** Selling, general and administrative expenses consist primarily of personnel and related expenses, marketing, customer support, rents, bad debt and professional fees. For the three months ended June 30, 2007 and 2008, selling, general and administrative expenses were $2.6 million and $2.7 million, respectively, an increase of approximately $85,000. This net increase was due to additional recruiting costs, advertising, and bad debt write offs. The increased recruiting costs are due to the ongoing search for a CEO and also the new search for a CFO. These increases were offset by decreases in miscellaneous professional fees, business meals and entertainment, and the reallocation of certain expenses related to an internal software project.

The Company has recently relocated its offices into a larger, more expensive space. This additional occupancy expense will be reflected in SG&A in the future.

***Research and Development.*** Research and development expenses increased by $235,000 or 43% between periods, from $551,000 to $786,000. The increase was due to additional personnel needed to support our products. We anticipate that this expense will be higher in the future due to a more aggressive schedule of introducing new products for sale in 2008. We have hired several additional programmers to accomplish this work.

***Depreciation and Amortization.*** Depreciation and amortization expense consists of depreciation expense related to our fixed assets and amortization of capitalized development costs. Depreciation and amortization expense increased from $35,000 to $185,000, an increase of approximately 430%. This increase resulted from the capitalization of $255,000 of furniture & fixtures, approximately $19,000 of equipment, and $499,000 of lease hold improvements associated with the relocation to new office space. The impact of these items on the three months was minimal due to the timing in the period.

***Other Income, Expense.*** We earned $10,965 and $22,581 in interest income during the second quarter of 2007 and 2008, respectively, from investing our excess cash. For the three months ended June 30, 2007 and 2008, interest expense increased from $1,222 to $1,311, respectively. The interest expense incurred during the second quarter of 2008 was accrued on deferred income per an employment agreement between GlobalSCAPE and one of its key executives.

***Income Taxes.*** Decreased revenue of $2,205,000, increased operating expense of $455,000, and increased other income of $13,000 yielded approximately $2,647,000 less taxable income. The provision for federal income taxes for the quarter ended June 30, 2007 and 2008 was $1,037,000 and $235,000, respectively, a decrease of $802,000.

Beginning January 1, 2007, the state of Texas imposed a new margin tax equal to 1% of the Company's revenue less compensation expense (based on Texas source income). In the three months ended June 30, 2007 and 2008 the combined Margin Tax and Massachusetts State Income Tax was $41,000 and $20,000, respectively.

***Net Income.*** GlobalSCAPE recorded net income of $2.1 million and $292,000 for the three months ended June 30, 2007 and 2008, respectively. The $1.8 million decrease in net income was the result of the major difference in revenues. The second quarter of 2007 benefited by the non-recurrent sale to the Army of $2.8 million while 2008 did not.

**Comparison of the Six Months ended June 30, 2007 and 2008**

| | 2007 | 2008 | $ Change | % Change |
|---|---|---|---|---|
| Software product revenues | $ 10,041,172 | $ 8,268,885 | (1,772,287) | (17.65)% |
| Cost of revenues | 119,170 | 75,176 | (43,994) | (36.92)% |
| Selling, general and administrative expenses | 4,921,719 | 5,654,564 | 732,845 | 14.89% |
| Research and development expenses | 988,961 | 1,329,207 | 340,246 | 34.40% |
| Depreciation and amortization | 66,429 | 358,645 | 292,216 | 439.89% |
| Total operating expense | 6,096,279 | 7,417,592 | 1,321,313 | 21.67% |
| Income (loss) from operations | 3,944,893 | 851,293 | (3,093,600) | (78.42)% |
| Other Income (expense) | (16,815) | 53,036 | 69,851 | (415.41)% |
| Income tax expense | 1,339,986 | 460,076 | (943,991) | (70.45)% |
| Net income (loss) | $ 2,588,092 | $ 444,253 | (2,079,758) | (80.36)% |
| Cost of Sales % of Sales | 1.2% | 0.9% | | |

***Revenue.*** We derive revenues primarily from software sales. Revenues are comprised of the gross selling price of software, including shipping charges and the earned portion of support and maintenance agreements. For the six months ended June 30, 2008, total revenues decreased by $1,772,000 or approximately 17.7% from the same quarter in 2007. Were it not for a sale in May 2007 to the U. S. Army for $2.8, revenues would be up by $1,027,000 or approximately 10.2% primarily as a result of an increase in sales of our Enhanced File Transfer product.

The following table reflects revenue by product including the related maintenance and support for each product:

| | Revenue for the Six Months ended June 30, | | | |
|---|---|---|---|---|
| Product | 2007 | | 2008 | |
| Enhanced File Transfer | $ 2,745,726 | 27.3% | $ 3,767,007 | 45.6% |
| SecureFTP Server | 4,209,544 | 41.9% | 1,709,035 | 20.7% |
| CuteFTP Professional | 1,229,468 | 12.2% | 1,083,598 | 13.1% |
| CuteFTP Home | 597,881 | 6.0% | 484,038 | 5.9% |
| WAFS | 1,473,617 | 14.7% | 1,301,241 | 15.7% |
| CDP | 59,342 | 0.6% | 33,799 | 0.4% |
| All Others | 290,189 | 2.9% | 135,120 | 1.6% |
| Deferred Revenue adjustment | (564,595) | (5.6)% | (244,953) | (3.0)% |
| Total Operating Revenues | $ 10,041,172 | 100.0% | $ 8,268,885 | 100.0% |
| Maintenance and support (net of deferred revenues) | $ 1,536,692 | 20.9% | $ 2,368,895 | 28.6% |

Sales of our WAFS and CDP Systems were $1,533,000 and $1,335,000 for the six months ended June 30, 2007 and 2008 respectively, a decrease of $198,000 or 13%. The decrease is largely due to the overall slowdown of the economy and the IT budgets of our customers being reduced as a result, which limits their purchases. These products accounted for approximately 16.1% of total revenue for the first six months of 2008 compared to 15.3% for the same period in 2007.

Sales of our SecureFTP Server and Enhanced File Transfer products were $6,955,000 and $5,476,000 for the six months ended June 30, 2007 and 2008, respectively, a decrease of $1,479,000 or 21.3%. The decrease is largely due to the U.S. Army sale that occurred during the second quarter of 2007 and did not recur in 2008. These products represented approximately 66% of our total revenues in the six months ending June 30, 2008 as compared to 69% in the same period in 2007. Revenues from CuteFTP Home and CuteFTP Professional decreased by 13% as compared to the six months ended June 30, 2007 and accounted for approximately 15% and 16% of total revenues for the six months ended June 30, 2007 and 2008, respectively.

Our reliance on the CuteFTP products will continue to decline as we emphasize sales of our more complex enterprise products. In addition, because of the more complex nature of SecureFTP Server, Enhanced File Transfer, WAFS and CDP, purchasers require increased maintenance and support. As a result, our maintenance and support revenues increased by 13% from the first half of 2007 compared to the same period in 2008. Maintenance and support revenues were $1,536,000 and $2,369,000, net of deferred revenue, for the six months ended June 30, 2007 and 2008, respectively. Maintenance and support pricing is reflective of the license cost of the products and the additional support it takes to maintain and support the products and customers. With higher maintenance and support revenues, we will recognize additional deferred revenue as we earn the revenue over the life of the maintenance and support agreement.

We have previously announced through press releases and investor conference calls that we believe our revenues will remain in a range of $4.0 million to $4.5 million for the next quarter. Beginning in the fourth quarter of 2008, we anticipate generating revenues from new products that we may build ourselves and/or resell from other software companies, and that our revenues will increase from prior periods due to these new products

***Cost of Revenues.*** Cost of revenues consists primarily of royalties, a portion of our bandwidth costs as well as production, packaging and shipping costs for boxed copies of software products. Cost of revenues decreased by approximately $44,000 or 37% between periods from $119,000 for the first six months ended June 30, 2007 to $75,000 for the six months ended June 30, 2008. This change was largely caused by a decrease in royalty payments. Royalties that we pay on software products licensed from third parties, which we resell, are expensed as a cost of sale when the software product is sold or earlier if the recoverability of any prepaid royalties is in doubt. Cost of revenues as a percent of total revenues was 1.2% for the six months ended June 30, 2007 as compared to 0.9% for the same period in 2008.

***Selling, General and Administrative.*** Selling, general and administrative expenses consist primarily of personnel and related expenses, marketing, customer support, rents, bad debt and professional fees. For the six months ended June 30, 2007 and 2008, selling, general and administrative expenses were $4.9 million and $5.7 million, respectively, an increase of approximately $733,000. Of this increase, 42%, or $311,000, was attributable to expenses incurred in connection with increased salaries, payroll taxes, and other associated benefits, 19%, or $137,000, was incurred in recruiting expense and another 17%, or $125,000, in advertising. Coverage for health insurance, for example, increased by 8% in 2008 over the same period in 2007. We have hired new employees in order to support current and projected growth. Payment of commissions on current month sales rather than on collected sales caused $144,000 of the increase. In the six months ended June 30, 2007 and 2008, we expensed $435,858 and $538,986 respectively, for stock based compensation related to the granting of stock options to employees and directors as required by FAS123R. The expense for the Allowance for Doubtful Accounts increased from ($11,215) to $113,354 for the period ended June 30, 2007 and 2008, respectively.

The Company has recently relocated its offices into a larger, more expensive space. This additional occupancy expense will be reflected in SG&A in the future.

***Research and Development.*** Research and development expenses increased by $340,000 or 34% between periods, from $988,961 to $1,329,207. The increase was due to additional personnel needed to support our products. We anticipate that this expense will be higher in the future due to a more aggressive schedule of introducing new products for sale in 2008. We have hired several additional programmers to accomplish this work.

***Depreciation and Amortization.*** Depreciation and amortization expense consists of depreciation expense related to our fixed assets and amortization of capitalized development costs. Depreciation and amortization expense increased from $66,000 to $359,000, an increase of approximately 440%. In addition to the amortization of the intangible assets associated with the acquisition of Availl the increase resulted from the capitalization of $255,000 of furniture & fixtures, approximately $19,000 of equipment, and $499,000 of lease hold improvements associated with the relocation to new office space. The impact of these items on the six month period was minimal due to the timing in the period.

***Other Income, Expense.*** We earned $13,000 and $54,000 in interest income during the first half of 2007 and 2008 respectively from investing our excess cash. For the six months ended June 30, 2007 and 2008, interest expense decreased from $31,000 to $3,000, respectively, as a result of the payment during the first quarter of 2007 of the balance outstanding under our term loan with Silicon Valley Bank. The interest expense incurred during the first half of 2008 was paid on deferred income per an employment agreement between GlobalSCAPE and one of its key executives.

***Income Taxes.*** Decreased revenue of $1,772,000, increased operating expense of $1,321,000, and increased other income of $70,000 yielded approximately $3,024,000 less taxable income. The provision for federal income taxes for the six month period ended June 30, 2007 and 2008 was $1,274,000 and $415,000, respectively, a decrease of $859,000.

Beginning January 1, 2007, the state of Texas imposed a new margin tax equal to 1% of the Company's revenue less compensation expense (based on Texas source income). In the six months ended June 30, 2007 and 2008 the combined Margin Tax and Massachusetts State Income Tax was $66,128 and $45,047, respectively.

***Net Income.*** GlobalSCAPE recorded net income of $2,588,000 and $444,000 for the six months ended June 30, 2007 and 2008, respectively. The $2,140,000 decrease in net income was the result of increased expenses associated with building the infra-structure required to sustain future growth and the impact of a non-recurrent sale of $2.8 million to the U. S. Army in 2007.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

To date, we have not utilized derivative financial instruments or derivative commodity instruments. We do not expect to employ these or other strategies to hedge market risk in the foreseeable future. We may invest our cash in money market funds, which are subject to minimal credit and market risk. We believe that the interest rate risk and other relevant market risks associated with these financial instruments are immaterial.

In the first six months ended June 30, 2008, approximately 36% of our revenues came from customers outside the United States. All revenues are received in U.S. dollars so we have no exchange rate risk with regard to the sale. However, in July 2003, the European Union (EU) enacted Value Added Taxes (VAT) on electronic purchases. These taxes are charged to our non-business customers in the EU and, in our case, are remitted quarterly in pound sterling. We expect that the impact of this currency translation will not be material to our business.

**Item 4T. Controls and Procedures**

In connection with the Company's quarter-end accounting procedures, after consultation with the Company's independent registered public accounting firm, management and the Company's Board of Directors determined that there were errors in the calculation of deferred taxes for the year ended December 31, 2007 and for the quarter ended March 31, 2008. Based upon these discoveries, we evaluated the design and operation of our disclosure controls and procedures as of December 31, 2007 and March 31, 2008 to determine whether they were effective in ensuring that we disclose the required information in a timely manner and in accordance with the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the rules and forms of the Securities and Exchange Commission. Management, including our principal executive officer and principal financial officer, supervised and participated in the evaluation. Our principal executive officer and principal financial officer concluded, based on their review, that:

- All stock options previously granted had been accounted for as if they were incentive stock options and the $100,000 limitation had not been considered when booking the quarterly compensation expense.

- For employees that exercised their stock options and then subsequently sold the stock within a year, the information was not captured which was needed to calculate the appropriate tax deductions.

- Deferred taxes were not calculated on the identified intangible assets acquired as part of the Availl, Inc. purchase.

Our evaluation was concluded in August 2008, after the filing of our 10-K for the 2007 fiscal year and after the filing of our 10-Q for the quarter ended March 31, 2008 but before the filing of our 10-Q for the quarter ended June 30, 2008. As a result of our evaluation, we concluded that our year end financial statements for 2007 and our first quarter financial statements for 2008 would require adjustments. The corrections were made before closing the second quarter books and prior to any public reporting of our financial results for that period. The restatement will occur by the filing of a Form 10-K/A for our 2007 fiscal year, and a Form 10-Q/A for the three months ended March 31, 2008. The correction to our controls and procedures was accomplished by the hiring of a new Certified Public Accountant to assist in the preparation of our quarterly and annual tax accrual calculation as well as the preparation of our corporate tax returns.

Based upon the corrective action taken, our restatement of our 2007 financial results through the filing of a report on Form 10-K/A, and our restatement of our financial results for the three months ending March 31, 2008 through the filing of a report of Form 10-Q/A and the fact that corrections were made to subsequent financial results prior to their public disclosure, our principal executive officer and principal financial officer were able to conclude that our financial statements for our 2007 fiscal year, as included in our report on Form 10-K, as amended, and the subsequent fiscal periods covered by our quarterly reports on Form 10-Q fairly present in all material respects the financial condition, results of operations and cash flows of GlobalSCAPE.

As of the end of the period covered by this report, our principal executive officer and principal financial officer carried out an evaluation of the effectiveness of GlobalSCAPE's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e)and 15d-15(e)) and concluded that the disclosure controls and procedures, as corrected in connection with the investigation discussed above, were effective and designed to ensure that material information relating to GlobalSCAPE and our consolidated subsidiaries which is required to be included in our periodic Securities and Exchange Commission filings would be made known to them by others within those entities. There were no changes in our internal controls over financial reporting during the period covered by this report that could materially affect, or are reasonably likely to materially affect, our financial reporting.

There were no changes in our internal control over financial reporting during the last fiscal year and/or up to and including the date of this filing that we believe materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except for improvements in the internal controls to strengthen the process of calculating and reporting of stock based compensation expense, and calculating and reporting deferred taxes all of which have been made as of the date of this report.

## Part II. Other Information

### Item 1. Legal Proceedings

We are not currently involved in any material legal proceedings.

### Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing GlobalSCAPE. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Nmber of Shares Purchased as Part of a Publicly Announced Plan (1) | Maximum Number of Shares that may yet be Purchased Under the Plan |
|---|---|---|---|---|
| February, 2008 | 254,096 | $ 3.6830 | 254,096 | 437,914(2) |
| March, 2008 | 9,612 | $ 3.5998 | 9,612 | 684,934(3) |
| Total | | | | |

(1) On May 21, 2007, we announced a plan to purchase up to $3.0 million of our common stock. This plan terminated on May 20, 2008.
(2) At February 29, 2008, there were 437,914 shares yet to be purchased based on the price of $3.52 per share on that date.
(3) At March 31, 2008, there were 684,934 shares yet to be purchased based on the price of $2.20 per share on that date.

## Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of the Company was held in San Antonio, Texas on June 5, 2008 for the purpose of (1) electing one director for a three-year term and (2) ratifying the appointment of independent registered public accountants for 2008. Proxies for the meeting were solicited pursuant to the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's solicitation. Results of the stockholder voting were as follows:

| | Number of Shares | | | |
|---|---|---|---|---|
| | For | Against | Abstaining/ Withheld | Broker Non-Votes |
| (1) Election of Directors David L. Mann | 13,346,036 | 1,559,531 | — | 2,305,137 |
| (2) Ratify the appointment of independent registered public accountants for 2008 | 14,531,544 | 81,639 | 292,383 | 2,305,138 |

## Item 6. Exhibits

**(a)** Exhibits

31.1 Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

### Signatures

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

GLOBALSCAPE, INC.

August 19, 2008
Date

By: /s/ David L. Mann
David L. Mann
President

**EXHIBIT 31.1**

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER AND
PRINCIPAL FINANCIAL OFFICER

I, David L. Mann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of GlobalSCAPE, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. As registrant's certifying officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 quarterly report is being prepared;

b) 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 quarterly report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my 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: August 19, 2008

/s/David L. Mann
David L. Mann, President

**Exhibit 32.1**

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 Quarterly Report of GlobalSCAPE, Inc. on Form 10-Q for the period ending June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David L. Mann, President and 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.

/s/ David L. Mann
David L. Mann
President
August 19, 2008