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

FORM 10-Q

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

For the Quarterly Period ended September 30, 2009

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)

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 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 check if a smaller reporting company)	Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

As of November 10, 2009, there were 17,271,171 shares of common stock outstanding.

GlobalSCAPE Inc.

Quarterly Report on Form 10-Q
For the Quarter ended September 30, 2009

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Part I. Financial Information

Item 1. Financial Statements

GlobalSCAPE, Inc.
Condensed Balance Sheets

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 8,653,903	$ 6,318,604
Short term investments	1,405,000	—
Accounts receivable (net of allowance for doubtful accounts of $152,049 and $330,916 on September 30, 2009 and December 31, 2008, respectively)	2,005,216	2,021,293
Federal income tax receivable	—	19,244
Current deferred tax asset	132,182	—
Prepaid expenses	170,572	120,162
Total current assets	12,366,873	8,479,303
Fixed assets, net	1,786,785	1,642,776
Intangible assets, net	907,854	1,134,000
Goodwill	619,065	619,065
Deferred tax asset	—	297,183
Other assets	54,481	47,581
Total assets	$15,735,058	$12,219,908
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 301,959	$ 512,256
Accrued expenses	637,363	560,889
Federal income tax payable	299,415	—
Deferred revenue	3,738,475	2,755,698
Deferred compensation	—	215,858
Total current liabilities	4,977,212	4,044,701
Deferred tax liability	37,743	545,169
Other long term liabilities	1,164,375	151,497
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, 17,674,752 and 17,630,952 shares issued at September 30, 2009 and December 31, 2008, respectively	17,675	17,631
Additional paid-in capital	10,539,840	9,737,380
Treasury stock, 403,581 shares, at cost, at September 30, 2009 and December 31, 2008.	(1,451,805)	(1,451,805)
Retained earnings (deficit)	450,018	(824,665)
Total stockholders' equity	9,555,728	7,478,541
Total liabilities and stockholders' equity	$15,735,058	$12,219,908

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

GlobalSCAPE, Inc.
Condensed Statements of Operations
(Unaudited)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Operating Revenues:				
Software product revenues	$ 2,632,858	$ 2,514,188	$ 7,797,810	$ 8,414,181
Maintenance and support	1,663,502	1,227,268	4,483,934	3,596,160
Total Revenues	4,296,360	3,741,456	12,281,744	12,010,341
Operating Expenses:				
Cost of revenues	102,066	73,749	229,468	148,924
Selling, general and administrative expenses	2,396,307	2,235,397	7,825,359	7,889,961
Research and development expenses	728,685	843,013	2,093,862	2,172,221
Depreciation and amortization	187,202	217,602	537,073	576,247
Total operating expenses	3,414,260	3,369,761	10,685,762	10,787,353
Income from operations	882,100	371,695	1,595,982	1,222,988
Other (expense) income, net	3,252	18,899	(38,168)	71,935
Income before income taxes	885,352	390,594	1,557,814	1,294,923
Provision for income taxes	309,485	163,387	283,131	623,464
Net Income	$ 575,867	$ 227,207	$ 1,274,683	$ 671,459
Net income per common share—basic	$ 0.03	$ 0.01	$ 0.07	$ 0.04
Net income per common share—diluted	$ 0.03	$ 0.01	$ 0.07	$ 0.04
Weighted average shares outstanding:				
Basic	17,254,138	17,216,638	17,238,139	17,244,637
Diluted	18,243,295	17,765,178	17,799,851	17,849,898

The accompanying notes are an integral part of these financial statements

GlobalSCAPE, Inc.
Condensed Statement of Stockholders' Equity
(Unaudited)

	Common Stock		Additional paid-in Capital	Treasury Stock	Retained Earnings (Deficit)	Total
	Shares	Amount				
Balance at December 31, 2008	17,630,952	$17,631	$ 9,737,380	$(1,451,805)	$ (824,665)	$7,478,541
Shares issued upon exercise of stock options	43,800	44	33,660	—	—	33,704
Stock-based compensation expense	—	—	768,800	—	—	768,800
Net income	—	—	—	—	1,274,683	1,274,683
Balance at September 30, 2009	17,674,752	$17,675	$10,539,840	$(1,451,805)	$ 450,018	$9,555,728

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

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

	For the nine months ended September 30, 2009	2008
Operating Activities:		
Net income	$ 1,274,683	$ 671,459
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt (recoveries) expense	(164,464)	40,563
Depreciation and amortization	537,073	576,247
Loss on disposition of assets	53,064	13,598
Stock-based compensation	768,800	553,198
Deferred taxes	(342,425)	(105,199)
Changes in operating assets and liabilities:		
Accounts receivable	190,541	711,303
Prepaid expenses	(50,410)	125,725
Federal income tax	318,659	—
Other assets	(6,900)	27,315
Accounts payable	(210,297)	158,333
Accrued expenses	76,474	(140,376)
Deferred revenues	1,981,369	291,683
Deferred compensation	(215,858)	80,230
Other long-term liabilities	14,286	—
Net cash provided by operating activities	4,224,595	3,004,079
Investing Activities:		
Proceeds from sale of property and equipment	1,244	1,676
Purchase of property and equipment	(519,244)	(1,505,075)
Purchase of investments	(1,405,000)	—
Net cash used in investing activities	(1,923,000)	(1,503,399)
Financing Activities:		
Purchase of treasury stock	—	(978,383)
Proceeds from exercise of stock options	33,704	12,420
Net cash provided by (used in) financing activities	33,704	(965,963)
Net increase in cash	2,335,299	534,717
Cash at beginning of period	6,318,604	5,214,479
Cash at end of period	$ 8,653,903	$ 5,749,196
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ —	$ —
Income taxes	$ 311,249	$ 752,832
Noncash-shares issued for goods	$ —	$ 40,200

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

GlobalSCAPE, Inc.
Notes to Condensed Financial Statements
Nine Months Ended September 30, 2009
(Unaudited)

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 Services, 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. In addition, we released managed e-mail attachment and software-as-a-service, or SaaS, information sharing solutions in 2008. The e-mail attachment delivery and SaaS solutions broaden our product portfolio to address the substantial installed base of IT systems with e-mail attachment size limitations and other file delivery infrastructure constraints.

Our product portfolio facilitates delivery of critical information such as financial data, medical records, customer files and other similar documents while supporting a range of information protection approaches to meet privacy and other security requirements. In addition, these solutions ensure compliance with some 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 products also provide data replication, acceleration of file transfer, sharing/collaboration and continuous data backup and recovery to our customers. We believe that we are strongly 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. We believe these business-to-business, or B2B, aspects of our solution capabilities increasingly will allow us to address adjacent market demands beyond the traditional MFT market space. Examples of adjacent markets include those such as B2B or data loss prevention, or DLP, where our MFT solutions may be directly applicable or interoperate with other products offered by partners, acquired by GlobalSCAPE, or developed internally.

2. Basis of Presentation

The accompanying unaudited condensed 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 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 information included in this Form 10-Q should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as well as *Management's Discussion and Analysis of Financial Condition and Results of Operations* also included in our 2008 Form 10-K.

The Company follows accounting standards set by the Financial Accounting Standards Board, commonly referred to as the "FASB." The FASB sets generally accepted accounting principles ("GAAP") that the Company follows to ensure we consistently report our financial condition, results of operations, and cash flows.

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 the Company's financial statements; accordingly, 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 operations.

The Company evaluated its September 30, 2009 financial statements for subsequent events through November 10, 2009, the date the financial statements were issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Significant Accounting Policies

There have been no changes in our significant accounting policies during the nine months ended September 30, 2009 from those described in our 2008 Form 10-K. Listed below is a condensed version of the Company's critical accounting policies.

Revenue Recognition – The Company markets and distributes software products; revenue is recognized when the following conditions have been met:

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

If the Company determines that any one of the four criteria is not met, we will defer recognition of revenue until all the criteria are met.

License revenue is derived primarily from the licensing of various products and technology. Generally license revenue is recognized upon delivery of the product, assuming all other conditions for revenue recognition noted above have been met.

The Company also enters into perpetual software license agreements through direct sales to customers and indirect sales with distributors and resellers. The license agreements generally include product maintenance and support agreements, for which the related revenue is deferred and recognized ratably over the period of the agreements.

In arrangements that include multiple elements, including perpetual software licenses and maintenance and/or services, revenue is allocated and deferred for the undelivered items based on vendor specific objective evidence ("VSOE"). When VSOE of fair value exists for all elements in a multiple element arrangement, revenue is allocated to each element based on the relative fair value of each of the elements. VSOE of fair value is established by the price charged when the same element is sold separately. In a multiple element arrangement whereby VSOE of fair value of all undelivered elements exists but VSOE of fair value does not exist for one or more delivered elements, revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue, assuming collection is probable. Deferred revenue consists primarily of the unamortized balance of product maintenance.

Goodwill and Intangible Assets – The Company accounts for goodwill and certain indefinite-lived intangible assets by evaluating them at least annually for impairment. The determination of whether the carrying value of goodwill and other intangible assets has been impaired requires the Company to make estimates and assumptions about future business trends and growth. If an event occurs that would cause the Company to revise its estimates and assumptions used in analyzing the value of goodwill or other intangibles, such revision could result in an impairment charge that could have a material impact on the Company's financial condition or results of operations.

Income Taxes – The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Accruals for uncertain tax positions are provided for in accordance with FASB guidance.

Recent Accounting Pronouncements

In October 2009, the FASB amended its guidance regarding the accounting model for revenue arrangement that include both tangible products and software elements. This guidance requires that hardware components of a tangible product containing software components always be excluded from the software revenue recognition. This guidance also provides information on how to allocate consideration to deliverables in an arrangement that includes both tangible products and software. This guidance is effective in fiscal years beginning on or after June 15, 2010. We do not expect this guidance to have a material impact on our financial statements.

In October 2009, the FASB amended its guidance regarding revenue recognition on multiple-deliverable arrangements. This guidance amends the criteria for separating consideration in multiple-deliverable arrangements. This guidance also establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on VSOE if available, third-party evidence if VSOE is not available, or estimated selling price if neither VSOE nor third party evidence is available. This amendment also replaces the term *fair value* in the revenue allocation guidance with *selling price* to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. This guidance eliminates the residual method of allocation and requires arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The guidance also requires the best estimate of selling price be determined in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. Finally, this guidance significantly expands the disclosures related to multiple-deliverable revenue arrangements.

This guidance is effective in fiscal years beginning on or after June 15, 2010. We have not yet evaluated the effect of the adoption of this guidance on our financial statements.

In August 2009, the FASB amended its guidance regarding the fair value measurement of liabilities. The guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, the entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, the quoted prices for similar liabilities when traded as assets, a present value technique, or a market approach. The guidance also clarifies that when using the quoted price in an active market for the identical liability or the quoted price for the identical liability traded as an asset, these valuations are Level 1 fair value measurements. This guidance is effective as of the date of issuance. The implementation of this guidance did not have a material impact on our financial statements.

In May 2009, the FASB amended its guidance regarding subsequent events to incorporate the accounting and disclosure requirements for subsequent events into GAAP. The guidance introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance-sheet date. We adopted this guidance as of June 30, 2009, which was the required effective date.

In April 2009, the FASB amended its guidance regarding interim disclosures about fair value of financial instruments. This amendment requires companies to disclose in its interim and annual financial statements the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized. This guidance is effective for interim reporting periods ending after June 15, 2009. The implementation of this guidance did not have a material impact on our financial statements.

In April 2008, the FASB amended its guidance regarding the determination of the useful life of intangible assets, which amends the list of factors an entity should consider in developing renewal or extension assumptions in determining the useful life of recognized intangible assets. The new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. Under the new guidance entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. The new guidance will require certain additional disclosures beginning October 1, 2009 and prospective application to useful life estimates prospectively for intangible assets acquired after September 20, 2009. The implementation of this guidance did not have a material impact on our financial statements.

3. Goodwill and Other Intangible Assets

As of September 30, 2009, GlobalSCAPE had goodwill of approximately $619,000 associated with the acquisition of Availl, Inc. in 2006. No events occurred during the nine months ended September 30, 2009 that would have been considered a triggering event under current accounting guidance and require an impairment test as of that date.

Intangible assets represent amounts acquired in the acquisition of Availl, and consisted of the following as of September 30, 2009:

	Gross Carrying Amount	Accumulated Amortization	Life (Years)
Amortized intangible assets:			
Software acquired	$ 1,774,554	$ (979,914)	5
Customer list acquired	180,000	(72,000)	5
Patent acquired	7,501	(2,287)	18
Total	$ 1,962,055	$(1,054,201)	

Estimated Amortization Expense	
For remainder of 2009	$ 75,382
For the Year-ended 12/31/2010	301,531
For the Year-ended 12/31/2011	301,531
For the Year-ended 12/31/2012	226,311
For the Year-ended 12/31/2013	651
Thereafter	2,447
Total	$ 907,854

Acquired intangibles are generally amortized on a straight-line basis over their weighted average lives. Amortization expense was approximately $226,000 and $403,000 for the nine months ended September 30, 2009 and September 30, 2008, respectively. No events occurred during the nine months ended September 30, 2009 that would have caused the Company to evaluate the need to record an impairment.

4. Financial Instruments and Investments

Accounting guidance defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not an assumption specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including our own credit risk.

The Company’s investments currently consist of certificates of deposits with maturities less than one year. These investments along with accounts receivable and accounts payable are reflected in the accompanying financial statements, at cost, which approximate fair value because of the short term maturity of these instruments.

5. 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.

There was approximately $769,000 and $553,000 of compensation cost related to stock options and restricted stock awards recognized in operating results in the nine months ended September 30, 2009 and 2008, respectively.

Stock Options

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 stock options consistent with the requirements established by FASB:

	Three-months ended Sept 30, 2009	Nine-months ended Sept 30, 2009
Expected volatility	95%	91% - 99%
Expected annual dividend yield	0	0
Risk free rate of return	2.35%	1.65% - 3.19%
Expected option term (years)	6.01	5.53 - 6.01

The following table summarizes information about stock option activity for the nine months ended September 30, 2009:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Average Intrinsic Value ($M)
Outstanding at December 31, 2008	2,926,267	$ 1.70	8.31	$ —
Granted	547,240	0.86		
Exercised	43,800	0.77		
Forfeited	153,500	2.50		
Outstanding at September 30, 2009	3,276,207	$ 1.56	7.88	$ —
Exercisable at September 30, 2009	1,639,389	$ 1.68	6.75	

The weighted average fair value of options granted during the nine months ended September 30, 2009 was $0.75. 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 nine months ended September 30, 2009 was $36,216. During the nine months ended September 30, 2009, the amount of cash received from the exercise of stock options was $33,704.

The following table summarizes information about non-vested stock option awards as of September 30, 2009 and changes for the nine months ended September 30, 2009.

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2008	1,754,681	$ 1.50
Granted	547,240	0.75
Vested	(583,542)	1.79
Forfeited	(81,561)	1.81
Non-vested at September 30, 2009	1,636,818	$ 1.13

At September 30, 2009, there was approximately $1.5 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 three years.

Stock Awards

The 2006 Non-Employee Directors Long Term Incentive Plan allows for the issuance of either stock options or restricted stock awards. In June 2009, restricted stock awards for 58,080 shares of common stock were granted in accordance with the terms of the plan.

The fair value of stock awards is based upon the market price of the underlying common stock as of the date of grant. Stock awards are amortized over their applicable vesting period, one year, using the straight-line method.

The following table summarizes information about stock awards activity for the nine months ended September 30, 2009:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested balance at December 31, 2008	—	—
Granted	58,080	1.24
Vested	—	—
Forfeited	—	—
Nonvested balance at September 30, 2009	58,080	$ 1.24

At September 30, 2009, there was $48,000 of total unrecognized compensation cost related to stock awards which is expected to be recognized over a weighted-average period of one year.

6. Common Stock and Warrants

On November 13, 2006, GlobalSCAPE entered into a securities purchase agreement with accredited investors, who paid 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.

7. Income taxes

In June 2009, employees of the Company voluntarily elected to amend some or all of their stock option agreements to convert the grants from incentive stock options to non-qualified stock options. This conversion allowed the Company to record a deferred tax asset for the deduction the Company expects to receive when the options are exercised. The Company recorded a reduction to deferred tax expense of approximately $287,000 for the prior accumulated stock based compensation expense that was not deductible, and is the primary reason for the difference between the statutory tax rate of 34% and our effective rate of 18.2% for the nine months ended September 30, 2009.

8. Earnings per Common Share

The components of earnings per share are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Numerators				
Numerators for basic and diluted earnings per share:				
Net income	$ 575,867	$ 227,207	$ 1,274,683	$ 671,459
Denominators				
Denominators for basic and diluted earnings per				
Weighted average shares outstanding basic	17,254,138	17,216,638	17,238,139	17,244,637
Dilutive potential common shares				
Stock options and awards (1)	989,157	548,540	561,712	605,261
Common stock warrants (2)	—	—	—	—
Denominator for dilutive earnings per share	18,243,295	17,765,178	17,799,851	17,849,898
Net income per common share	$ 0.03	$ 0.01	$ 0.07	$ 0.04
Net income per common share—diluted	$ 0.03	$ 0.01	$ 0.07	$ 0.04

(1) For the three and nine months ended September 30, 2009, 939,967 and 1,746,567 options were not included in dilutive shares, as the effect would have been anti-dilutive. For the three and nine months ended September 30, 2008, 1,011,567 and 906,567 options were not included in dilutive shares, as the effect would have been anti-dilutive.

(2) For the three and nine months ended September 30, 2009 and 2008, no warrants have been included in dilutive shares, as the effect would have been anti-dilutive.

9. Severance and Restructuring Charges

In November 2008, the Company implemented a restructuring plan for its Andover, Massachusetts operations that resulted in the reduction of six positions as well as the closing of the office space. The Company has completed substantially all restructuring activities, except for the relocation of one employee, and recognized all anticipated restructuring charges as of September 30, 2009. The following table summarized activity related to the Company's restructuring:

	Employee Costs	Facility Costs	Total
Balance at January 1, 2009	$ 79,784	$ 55,860	$ 135,644
Restructuring charge	13,640	14,426	28,066
Cash payments	(83,424)	(63,829)	(147,253)
Balance at September 30, 2009	$ 10,000	$ 6,457	$ 16,457

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 2008 Form 10-K 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, distribute and maintain secure managed file transfer, or MFT, software for individuals and businesses to safely send files over the internet, within an enterprise, or to business partners. We have also developed Wide-Area File Services, or WAFS, collaboration and Continuous Data Protection, or CDP, software. These solutions 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 local network speeds. In addition, we released managed e-mail attachment and software-as-a-service, or SaaS, information sharing solutions in 2008. The e-mail attachment delivery and SaaS solutions broaden our product portfolio to address the substantial installed base of IT systems with e-mail attachment size limitations and other file delivery infrastructure constraints.

Our product portfolio facilitates delivery of critical information such as financial data, medical records, customer files and other similar documents while supporting a range of information protection approaches to meet privacy and other security requirements. In addition, these solutions ensure compliance with some 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 products also provide data replication, acceleration of file transfer, sharing/collaboration and continuous data backup and recovery to our customers. We believe that we are strongly 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. We believe these business-to-business, or B2B, aspects of our solution capabilities increasingly will allow us to address adjacent market demands beyond the traditional MFT market space. Examples of adjacent markets include those such as B2B or data loss prevention, or DLP, where our MFT solutions may be directly applicable or interoperate with other products offered by partners, acquired by GlobalSCAPE, or developed internally.

The following is a brief description of our products and solutions:

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 the following software: Enhanced File Transfer Server, or EFT Server; Enhanced File Transfer Server Enterprise, or EFT Server Enterprise; and CuteFTP Pro, CuteFTP Home, and CuteFTP Lite. During the first quarter of 2009, we announced a major new release of our EFT Server software. The introduction of EFT Server Version 6.0 marks a rebranding of the Company's flagship FTP solutions. Our legacy Secure FTP Server and EFT Server software solutions are now available as EFT Server and EFT Server Enterprise, respectively.

Wide-Area File Services and Continuous Data Protection Products — Our WAFS software products provide a file sharing, collaboration, and replication 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 prevent opening an old file version without user conflicts. Changes made to data on any server are mirrored on all other servers. WAFS technology can have CDP added to it to provide enterprises with a file access and data protection combination that centralizes data storage and IT administration facilities but doesn't compromise data sharing and protection. As files change, file 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.

Managed E-mail Attachment Solutions – Our managed e-mail attachment solution, Mail Express, addresses the needs of businesses that prefer to use their legacy e-mail infrastructure to deliver and manage e-mail attachments. E-mail traditionally has been ill-suited to delivery of certain attachments due to typical infrastructure and administrator-defined limitations on e-mail attachment size. In many cases, these limitations preclude sending or receiving e-mail attachments larger than even 10 or 20 MB. The Mail Express solution allows delivery of multi-GB files as e-mail attachments by seamlessly replacing the attachments with links to the files. This approach can ease the load on the e-mail infrastructure and the long-term storage requirements associated with e-mail attachments. Mail Express also allows enhanced tracking and auditing of the file attachments through read receipts and log files.

Software as a Service Solution — Our SaaS solution, CuteSendIt, is a file transfer service for individuals, professionals, and businesses. The CuteSendIt application uses cloud computing approaches to deliver files through a hosted web portal. This solution approach meets the needs of users who do not have, or wish to invest in, file transfer infrastructure such as FTP servers or even client application software. Users access the CuteSendIt application over the Internet using a standard web browser, securely upload files (up to multi-GB) through the portal, and compose a brief message to accompany the file delivery. CuteSendIt then sends the message to the recipients as the body of an e-mail message. This e-mail message also includes links to the files uploaded through the CuteSendIt web portal. Anyone with an Internet connection can access this service at www.cutesendit.com. There is no software to install with CuteSendIt and no specific knowledge of file transfer is needed to use it. CuteSendIt currently is free to use for a limited number of transfers, and offers various monthly and yearly fee-based plans that meet specific file transfer requirements.

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, and to expand into growing markets through strategic partnerships and future acquisitions of compatible companies and solutions.

Liquidity and Capital Resources

The Company continues to enjoy a strong working capital position resulting from net profits from operations over 20 of the last 22 quarters. At September 30, 2009, the Company had net working capital of $7.4 million. The primary component of current liabilities at September 30, 2009 was $3.7 million of deferred revenues which will be recognized over the remaining term (generally one to twelve months) of the maintenance and support contracts. At September 30, 2009, our principal commitments consisted of obligations outstanding under operating leases as well as royalty agreements with third parties, 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. At September 30, 2009, we had cash and short term investments available of $10.1 million.

Since our principal sources of capital are cash on hand, short term investments 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 may also sell equity securities or enter into credit arrangements in order to finance future acquisitions or licensing activities, to the extent available.

Net cash provided by operating activities for the nine months ended September 30, 2009 and 2008 was approximately $4,225,000 and $3,004,000, respectively. The increase in 2009 was largely due to an increase in our net income and an increase in deferred revenue associated with maintenance and support contracts. In addition, the Company received a large order from the U.S. Army in April, which included a three year contract for maintenance and support.

Net cash used in investing activities for the nine months ended September 30, 2009 and 2008 was approximately $1,923,000 and $1,503,000, respectively. Cash used in investing activities for 2009 was for additional furniture and fixtures and leasehold improvements as we made renovations to our office space, as well as investing in short term certificates of deposit.

Net cash provided by (used in) financing activities during the nine months ended September 30, 2009 and 2008 was approximately $34,000 and ($966,000), respectively. During 2008, cash was used to repurchase shares as part of a stock buyback program. This program ended in May 2008 and no further purchases of stock have been made. The cash provided during 2009 was proceeds from the exercise of stock options.

Contractual Obligations

There have been no significant changes in our contractual obligations during the nine months ended September 30, 2009 as compared to the contractual obligations disclosed in *Management's Discussion and Analysis of Financial Condition and Results of Operations*, set forth in Part II, Item 7, of our 2008 Form 10-K. Our obligations mainly consist of the lease on our office space and leases on equipment.

Comparison of the Three Months ended September 30, 2009 and 2008

	Three Months ended September 30, 2009	Three Months ended September 30, 2008	$ Change	% Change
Total revenues	$ 4,296,360	$ 3,741,456	554,904	14.83%
Cost of revenues	102,066	73,749	28,317	38.40%
Selling, general and administrative expenses	2,396,307	2,235,397	160,910	7.20%
Research and development expenses	728,685	843,013	(114,328)	-13.56%
Depreciation and amortization	187,202	217,602	(30,400)	-13.97%
Total operating expense	3,414,260	3,369,761	44,499	1.32%
Income from operations	882,100	371,695	510,405	137.32%
Other income	3,252	18,899	(15,647)	-82.79%
Income tax expense	309,485	163,387	146,098	89.42%
Net income	$ 575,867	$ 227,207	348,660	153.45%

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 September 30, 2009, total revenues increased by approximately $555,000 or 14.8% from the same quarter in 2008. Revenues increased largely due to a significant increase in the number of units sold. With the release of EFT 6.0 in March 2009, the Company was able to offer customers the ability to purchase individual modules and introduced one new module that had not been available in 2008. This increase was slightly offset by the continued decrease in sales of the CuteFTP and WAFS product lines.

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

Product	Revenue for the Three Months ended September 30, 2009		2008	
EFT Server Enterprise	$2,267,398	52.8%	$1,624,475	43.4%
EFT Server	992,920	23.1%	869,195	23.2%
CuteFTP Pro	367,535	8.6%	480,262	12.8%
CuteFTP Home	91,151	2.1%	168,735	4.5%
WAFS	470,979	11.0%	568,664	15.2%
CDP	25,207	0.6%	29,631	0.8%
All Others	81,170	1.9%	29,558	0.8%
Deferred Revenue adjustment	—	0.0%	(29,064)	-0.8%
Total Operating Revenues	$4,296,360	100.0	$3,741,456	100.0
Maintenance and support	$1,663,502	38.7%	$1,227,268	32.8%

Sales of our EFT Server Enterprise and EFT Server products increased by $767,000 or 30.7% for the quarter compared to the same quarter in 2008. These products represented approximately 75.9% of our total revenues in the three months ending September 30, 2009 as compared to 66.6%, before adjusting for deferred revenues, in the same period in 2008. The increase in EFT Server revenues was largely due to an increase in the number of units sold and particularly the number of modules. With the release of EFT Server 6.0 in March of 2009, customers were able to purchase individual modules. With this flexibility customers of the lower end EFT Server product were able to purchase modules which were not available in the previous version. Sales of the Web Transfer Client module increased over 200% from the third quarter of 2008. The Company also released the Advanced Workflow Engine ("AWE") module in February 2009, which contributed to the increase in unit sales.

Revenues from the CuteFTP Home and CuteFTP Pro products decreased by $190,000 or 29.3% in the quarter ended September 30, 2009, as compared to the same period in 2008, and accounted for approximately 10.7% and 17.3% of total revenues for the three months ended September 30, 2009 and 2008, respectively. This decline continues the general reduction in CuteFTP product revenues, both in absolute terms and as a percentage of revenue, experienced since 2006. The consumer FTP product market has substantial low-cost, and even free, solutions that have put increasing pressure on CuteFTP product revenues. Additional pressure on this product line comes from social media companies and services that allow consumers to share images and video. In addition, we believe the economic downturn has also reduced the spending capability of our customers. Our reliance on the current CuteFTP products will continue to decline as we emphasize sales of our more complex enterprise products.

Sales of our WAFS and CDP software decreased by $102,000 or 17.1% for the quarter. The WAFS and CDP products are largely used by architecture, engineering and construction firms to transfer large documents between offices. These firms have been significantly affected by the economic recession, and as a result sales of WAFS and CDP software decreased drastically at the beginning of the year as companies cut spending in order to stay in business. With some recovery in the economy and the release of WAFS version 3.6.1 in June, sales have stabilized through the end of the third quarter. These products accounted for approximately 11.5% of total revenue for the third quarter of 2009 compared to 16.0% for the same period in 2008, before adjusting for deferred revenues.

Because of the more complex nature of the EFT Server, EFT Server Enterprise, WAFS and CDP products, purchasers require increased maintenance and support. Our maintenance and support revenues for the quarter increased by 35.5% compared to the same period in 2008. Approximately $155,000 of the maintenance and support revenue earned each quarter is related to the sale to the U.S. Army in April 2009 and will continue into 2012. As our enterprise products become a larger portion of our total revenues, maintenance and support revenues will likely continue to increase, as well as represent a higher proportion of our total revenue as more enterprise product customers purchase support compared to our consumer product customers. Maintenance and support pricing is reflective of the license cost of the products and the additional support needed to maintain and support the products and customers. With higher maintenance and support sales, we currently recognize additional deferred revenue and earn the revenue over the term of the maintenance and support agreement.

Cost of Revenues. Cost of revenues consists primarily of royalties, a portion of our bandwidth costs and production, packaging and shipping costs for boxed copies of software products. The increase in cost of revenues is largely due to an approximately $39,000 increase in royalties. This increase was due to the addition of royalties paid on the new AWE module which was released in February 2009.

Selling, General and Administrative. Selling, general and administrative expenses consist primarily of personnel and related expenses, marketing, customer support, facility costs, bad debt and professional fees. The net increase in selling, general and administrative expenses of approximately $161,000 or 7.2% was caused by several items: salaries, commissions, compensation expense, consulting fees, public relations fees and product development allocations. These increases were offset by decreases in numerous other accounts, mainly due to the Company's concentrated cost control measures in the current year. Accounts with notable decreases were bonuses, office rent, professional fees, service fees, advertising, and bad debt.

The approximate $69,000 increase in salaries was due to three full months of salary for the CEO in 2009 as compared to one month in 2008 as well as the addition of a COO subsequent to the third quarter in 2008. Commissions increased by approximately $58,000 due to an increase in sales. The increase in compensation expense of approximately $237,000 is due to a large credit received in 2008 related to the forfeiture of approximately 250,000 options. Consulting fees increased approximately $57,000 due to the hiring of a consultant to specifically drive sales in the government industry. Public relations fees increased approximately $31,000 due to the hiring of an outside marketing communications company earlier in 2009. Finally, in 2008 approximately $25,000 of software development costs were capitalized; no amounts were capitalized in 2009 because there were no projects that were eligible for capitalization.

Bonus expense for the three months ended September 30, 2009 decreased approximately $49,000 as compared to the same period in 2008 due to a new bonus structure in 2009. With the closing of the Andover, MA office in December 2008 a reserve was established at that time for all expenses related to the closing. The rent for that office is being charged against the reserve established, and therefore, resulted in an approximate $18,000 decrease in rent expense for the current period as compared to the prior year. The remaining decrease in rent expense of approximately $19,000 was due to rent expense paid in 2008 for the final payment on the prior office rental space in San Antonio. Professional fees were approximately $25,000 higher in 2008 due to additional work done by our tax accountant in conjunction with the restatement of certain 2007 and 2008 financial statements. The reduction of approximately $14,000 in service fees was due to a larger portion of internet costs being classified in cost of revenues, as well as reduced fees with the closing of the Andover office. Advertising expense decreased by approximately $135,000 due to the optimization of Google search ads. The reduction in bad debt expense of approximately $51,000 as compared to the same period in 2008 was primarily due to a change in the methodology of calculation that better estimated our allowance based on the historical collection patterns of our customer base.

Research and Development. The decrease in research and development expenses of approximately $114,000 was mainly due to a decrease of approximately $89,000 due to a reduction in the number of offshore developers used for software development. Salaries and wages also decreased by approximately $19,000 due to a reduction of two software engineers in 2009.

Depreciation and Amortization. Depreciation and amortization expense consists of depreciation expense related to our fixed assets and amortization of capitalized development costs and intangible assets. Although depreciation and amortization combined has remained relatively stable between the years with a decrease of only $30,000, depreciation increased with more property additions in the current year and amortization has decreased due to the write down of intangible assets at the end of 2008, which resulted in a smaller amortizable base.

Other Income (Expense), net. The approximate $16,000 decrease in other income/expense consists of a $28,000 decrease in interest income due to lower interest rates in 2009, offset by a $15,000 loss on fixed assets in 2008 which did not recur in 2009.

Income Taxes. Our effective tax rates were 35 % and 41.8% for the three months ended September 30, 2009 and 2008, respectively. The decrease in 2009 was largely due to the large deduction the Company expects to receive as the result of the conversion of approximately 1.5 million stock options from incentive stock options to non-qualified stock options. For both 2009 and 2008, the most significant item that affects our effective income tax rate relates to granted incentive stock options, for which our recorded expense is generally not deductible.

Comparison of the Nine Months ended September 30, 2009 and 2008

	Nine Months ended September 30, 2009	2008	$ Change	% Change
Total revenues	$12,281,744	$12,010,341	271,403	2.26%
Cost of revenues	229,468	148,924	80,544	54.08%
Selling, general and administrative expenses	7,825,359	7,889,961	(64,602)	-0.82%
Research and development expenses	2,093,862	2,172,221	(78,359)	-3.61%
Depreciation and amortization	537,073	576,247	(39,174)	-6.80%
Total operating expense	10,685,762	10,787,353	(101,591)	-0.94%
Income from operations	1,595,982	1,222,988	372,994	30.50%
Other (expense) income	(38,168)	71,935	(110,103)	-153.06%
Income tax expense	283,131	623,464	(340,333)	-54.59%
Net income	$ 1,274,683	$ 671,459	603,224	90%

Revenue. For the nine months ended September 30, 2009, total revenues increased by approximately $271,400 or 2.3% from the same period in 2008. This increase was largely due to the sale to the U.S. Army in April 2009 and increased recognition of maintenance and support revenue. These developments more than offset the decline in CuteFTP and WAFS revenue.

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

Product	Revenue for the Nine Months ended September 30, 2009		2008	
Enhanced File Transfer Server Enterprise	$ 5,765,734	46.9%	$ 5,391,483	44.9%
Enhanced File Transfer Server	3,523,147	28.7%	2,578,230	21.5%
CuteFTP Pro	1,102,089	9.0%	1,563,859	13.0%
CuteFTP Home	358,827	2.9%	652,772	5.4%
WAFS	1,350,294	11.0%	1,869,904	15.6%
CDP	40,836	0.3%	63,430	0.5%
All Others	140,817	1.1%	217,549	1.8%
Deferred Revenue adjustment	—	0.0%	(326,886)	-2.7%
Total Operating Revenues	$12,281,744	100.0	$12,010,341	100.0
Maintenance and support	$ 4,483,934	36.5%	$ 3,596,160	29.9%

Sales of our EFT Server Enterprise and EFT Server products increased by $1,319,000 or 16.6% for the nine months ended September 30, 2009 as compared to the same period in 2008. These products represented approximately 75.6% of our total revenues in the nine months ending September 30, 2009 as compared to 66.4%, before adjusting for deferred revenues, in the same period in 2008. The increase was due to several factors: a sale to the U.S. Army for 20,000 units of the Secure FTP Server software, with FIPS-certified libraries and our SSH module plus related maintenance and support, an increase in EFT Server Enterprise and EFT Server maintenance and support sales and an increase in units sold. With the release of EFT Server 6.0 in March of 2009, customers were able to purchase individual modules. With this flexibility, customers of the lower end EFT Server product were able to purchase modules which were not available in the previous version. The Company also released the AWE module in February 2009, which contributed to the increase in unit sales.

Revenues from the CuteFTP Home and CuteFTP Pro products decreased by approximately $756,000 or 34.1% in the nine months ended September 30, 2009, as compared to the same period in 2008, and accounted for approximately 11.9% and 18.4% of total revenues, before adjusting for deferred revenues, for the nine months ended September 30, 2009 and 2008, respectively. This decline continues the general reduction in CuteFTP product revenues, both in absolute terms and as a percentage of revenues, experienced since 2006. The consumer FTP product market has substantial low-cost, and even free, solutions that have put increasing pressure on CuteFTP product revenues. Additional pressure on this product line comes from social media companies and services that allow consumers to share images and video. In addition, we believe the economic downturn has also reduced the spending capability of our customers. Our reliance on the current CuteFTP products will continue to decline as we emphasize sales of our more complex enterprise products.

Sales of our WAFS and CDP software decreased by approximately $542,000 or 28% from the nine month period ended September 30, 2008. The WAFS and CDP products are largely used by architecture, engineering and construction firms to transfer large documents between offices. These firms have been significantly affected by the economic recession, and as a result sales of WAFS and CDP software decreased drastically at the beginning of the year as companies cut spending in order to stay in business. With a slight recovery in the economy and the release of WAFS version 3.6.1 in June, sales have stabilized through the end of the third quarter. These products accounted for approximately 11.3% and 16.1% of total revenue, before adjusting for deferred revenues, for the first nine months of 2009 and 2008, respectively.

Because of the more complex nature of the EFT Server, EFT Server Enterprise, WAFS and CDP products, purchasers require increased maintenance and support. Our maintenance and support revenues for the nine months increased by 24.7% compared to the same period in 2008. Approximately $155,000 of the maintenance and support revenue earned each quarter is related to the sale to the U.S. Army in April 2009 and will continue into 2012. As our enterprise products become a larger portion of our total revenues, maintenance and support revenues will continue to increase, as well as represent a higher proportion of our total revenue as more enterprise product customers purchase support compared to our consumer product customers. Maintenance and support pricing is reflective of the license cost of the products and the additional support needed to maintain and support the products and customers. With higher maintenance and support revenues, we currently recognize additional deferred revenue and earn the revenue over the life of the maintenance and support agreement.

Cost of Revenues. Cost of revenues consist primarily of royalty, a portion of our bandwidth costs as well as production, packaging, and shipping costs for boxed copies of software products. The increase of approximately $81,000 in the cost of revenues was largely caused by an increase in royalty payments and bandwidth costs, offset by a decrease in payments made to the U.S. General Services Administration (GSA). The approximate $97,000 increase in royalties was due to the addition of royalty payments to two companies. The approximate $18,000 increase in bandwidth costs was due to a larger portion of these costs being recorded in cost of revenues as opposed to selling, general and administrative expenses. In 2008, all internet fees were recorded as a selling expense; however, as a significant portion of our revenues are from online sales, the Company determined that a portion of those costs should be recognized as a cost of revenue. The approximate $25,000 decrease in GSA payments is due to the Company not making any sales on a GSA schedule during 2009.

Selling, General and Administrative. Selling, general and administrative expenses consist primarily of personnel and related expenses, marketing, customer support, facility costs, bad debt and professional fees. The net decrease in selling, general and administrative expenses of approximately $65,000 or 0.8% was mainly due to the Company’s concentrated cost control measures in the current year. Accounts with notable decreases were bonuses, recruiting expense, business insurance, office rent expense, legal fees, service fees, billing fees, advertising expense, marketing expense, printing expense and bad debt. These decreases were offset by increases in several accounts including: salaries, commissions, compensation expense, professional fees, consulting fees, public relations fees and product development allocations.

The increase of approximately $117,000 in salaries was mainly attributable to the addition of a CEO and COO late in 2008. These positions were filled on an interim basis by one officer during approximately seven of the first nine months of 2008. The increase of approximately $32,000 in commissions was due to an increase in sales. The increase of approximately $262,000 in compensation expense was due to the increased amount of stock options granted at the beginning of the year in conjunction with pay increases. The increase of approximately $151,000 in professional fees was due to a change in auditors and work performed on the goodwill impairment, as well as hiring an investor relations firm. The increase of approximately $183,000 in consulting fees was due to the hiring of a consultant to specifically drive sales in the government industry. Public relations fees increased by approximately $26,000 due to the hiring of a marketing communications firm earlier in 2009. Finally, in 2008 $66,000 of software development costs were capitalized; no amounts were capitalized in 2009 because there were no projects that were eligible for capitalization.

Bonus expense decreased approximately $125,000 from the prior year due to the adoption of a new bonus structure in 2009. Recruiting expense was approximately $138,000 higher in 2008 due to the hiring of a senior accountant and several software engineers as well as fees paid for the search for a CEO. The Company was erroneously charged $18,000 in 2008 for business insurance. In 2009 the charge was not repeated and the Company received a credit related to the prior year amount. This activity resulted in a net decrease to business insurance expense of $36,000. With the closing of the Andover, MA office in December 2008 a reserve was established at that time for all expenses related to the closing. The rent for that office is being charged against the reserve established, and therefore, resulted in an approximate $35,000 decrease in rent expense for the current period as compared to the prior year. Legal fees were approximately $55,000 higher in 2008 due to the restructuring of legal entities, review of contract agreements and legal expenses for work performed on the post-effective amendment to a registration statement originally filed in 2006. The reduction of approximately $68,000 in service fees was due to a larger portion of internet costs being classified in cost of revenues, as well as reduced fees with the closing of the Andover office. The reduction of billing fees of approximately $52,000 was due to fewer online sales. Advertising expense decreased by approximately $107,000 due to the optimization of Google search ads. The decrease of approximately $43,000 in marketing expense was due to the discontinued use of several marketing firms. Printing expense decreased by approximately $27,000 due to a change in the company which processes SEC filings. The reduction in bad debt expense of approximately $205,000 was primarily due to a change in the methodology of calculation that better estimated our allowance based on the historical collection patterns of our customer base.

Research and Development. Research and development expenses decreased by approximately $78,000. The net decrease consists of reductions in the use of offshore developers by approximately $139,000 and a decrease in training expenses by approximately $31,000. These are offset by increased salaries of approximately $59,000 and $34,000 in costs that were capitalized as software development in 2008. No amounts were capitalized in 2009.

Depreciation and Amortization. Depreciation and amortization expense consists of depreciation expense related to our fixed assets and amortization of capitalized development costs and intangible assets. Although depreciation and amortization combined has remained relatively stable between the years, depreciation increased with more property additions in the current year and amortization has decreased due to the write down of intangible assets at the end of 2008, which resulted in a smaller amortizable base.

Other Income, Expense. The net decrease of approximately $110,000 in other income/expense is largely due to an approximate $71,000 decrease in interest income due to lower interest rates in 2009 and approximately $39,000 relating to the loss on disposal of assets. With the renovation of our office space in the current year and due to the current economic condition, we were not able to sell the furniture that we removed and had to completely write off the net book value of the property.

Income Taxes. Our effective tax rates were 18.2% and 48.2% for the nine months ended September 30, 2009 and 2008, respectively. This decrease was largely due to the large deduction the Company expects to receive as the result of the conversion of approximately 1.5 million stock options from incentive stock options to non-qualified stock options. For both 2009 and 2008, the most significant item that affects our effective income tax rate relates to granted incentive stock options, for which our recorded expense is generally not deductible.

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.

During the nine months ended September 30, 2009, approximately 25.5% of our revenues came from customers outside the United States. All revenues are received in U.S. dollars so we have no material exchange rate risk with regard to the sales. 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. The impact of this currency translation has not been material to our business.

Item 4T. Controls and Procedures

As of the end of the period covered by this report, our Chief Executive Officer and Chief 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 were effective.

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 2008 Form 10-K which could materially affect our business, financial condition or future results. The risks described in our 2008 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 6. Exhibits

(a) Exhibits

31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification 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.

November 10, 2009	By: /s/ Mendy Marsh
Date	Mendy Marsh Vice President and Chief Financial Officer (Principal Accounting Officer)

EXHIBIT 31.1

CERTIFICATIONS

I, James R Morris, 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. 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)) 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. 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: November 10, 2009

/s/ James R Morris
James R Morris
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Mendy Marsh, 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. 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)) 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. 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: November 10, 2009

/s/ Mendy Marsh
Mendy Marsh
Vice President and Chief Financial Officer

Exhibit 32

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 September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, James R Morris, Chief Executive Officer and Mendy Marsh, 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.

November 10, 2009

/s/ James R Morris
James R Morris
President and Chief Executive Officer

/s/ Mendy Marsh
Mendy Marsh
Vice President and Chief Financial Officer