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

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**FORM 10-Q**

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

For the Quarterly Period ended March 31, 2015

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

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**GlobalSCAPE, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**4500 Lockhill-Selma, Suite 150**  
**San Antonio, Texas**  
(Address of Principal Executive Office)

**74-2785449**  
(I.R.S. Employer  
Identification No.)

**78249**  
(Zip Code)

**(210) 308-8267**  
(Registrant's Telephone Number, Including Area Code)

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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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

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

As of May 8, 2015, there were 20,762,186 shares of common stock outstanding.

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**GlobalSCAPE Inc.**  
**Quarterly Report on Form 10-Q**  
**For the Quarter ended March 31, 2015**

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## Part I. Financial Information

## Item 1. Financial Statements

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

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 12,345	\$ 11,358
Accounts receivable (net of allowance for doubtful accounts of \$500 and \$511 in 2015 and 2014, respectively)	4,715	5,938
Current deferred tax asset	312	402
Prepaid expenses	378	488
<b>Total current assets</b>	<b>17,750</b>	<b>18,186</b>
Fixed assets, net	598	616
Long term investments	3,201	3,185
Intangible assets, net	3,771	3,298
Goodwill	12,712	12,712
Deferred tax asset	302	290
Other assets	100	100
<b>Total assets</b>	<b>\$ 38,434</b>	<b>\$ 38,387</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 555	\$ 1,111
Accrued expenses	1,284	1,590
Deferred revenue	10,962	11,411
Income taxes payable	182	2
<b>Total current liabilities</b>	<b>12,983</b>	<b>14,114</b>
Deferred revenue, non-current portion	3,310	3,393
Other long term liabilities	51	52
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, 21,163,767 and 20,989,267 shares issued at March 31, 2015, and December 31, 2014, respectively	21	21
Additional paid-in capital	18,817	18,370
Treasury stock, 403,581 shares, at cost, at March 31, 2015 and December 31, 2014	(1,452)	(1,452)
Retained earnings	4,704	3,889
<b>Total stockholders' equity</b>	<b>22,090</b>	<b>20,828</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 38,434</b>	<b>\$ 38,387</b>

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

**GlobalSCAPE, Inc.**  
**Condensed Consolidated Statements of Operations and Comprehensive Income**  
(In thousands, except per share amounts)  
(Unaudited)

	<b>Three months ended March 31</b>	
	<b>2015</b>	<b>2014</b>
Operating Revenues:		
Software licenses	\$ 2,458	\$ 1,912
Maintenance and support	4,034	3,579
Professional services	388	237
Total Revenues	<u>6,880</u>	<u>5,728</u>
Operating Expenses:		
Cost of revenues	248	204
Selling, general and administrative	4,578	4,049
Research and development	513	527
Depreciation and amortization	288	141
Total operating expenses	<u>5,627</u>	<u>4,921</u>
Income from operations	1,253	807
Other income (expense), net	11	(20)
Income before income taxes	1,264	787
Income tax expense	449	253
Net income	<u>\$ 815</u>	<u>\$ 534</u>
Comprehensive income	<u>\$ 815</u>	<u>\$ 534</u>
Net income per common share -		
Basic	\$ 0.04	\$ 0.03
Diluted	\$ 0.04	\$ 0.03
Weighted average shares outstanding:		
Basic	20,647	19,534
Diluted	21,099	20,394

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

**GlobalSCAPE, Inc.**  
**Condensed Consolidated Statement of Stockholders' Equity**  
(In thousands, except share amounts)  
(Unaudited)

	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Treasury Stock</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>				
Balances at December 31, 2014	20,989,267	\$ 21	\$ 18,370	\$ (1,452)	\$ 3,889	\$ 20,828
Shares issued upon exercise of stock options	174,500	-	290	-	-	290
Stock-based compensation expense:						
Stock options	-	-	101	-	-	101
Restricted stock	-	-	47	-	-	47
Net increase in excess tax benefit from stock-based compensation	-	-	9	-	-	9
Net income	-	-	-	-	815	815
Balances at March 31, 2015	<u>21,163,767</u>	<u>\$ 21</u>	<u>\$ 18,817</u>	<u>\$ (1,452)</u>	<u>\$ 4,704</u>	<u>\$ 22,090</u>

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

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Operating Activities:		
Net income	\$ 815	\$ 534
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	87	108
Depreciation and amortization	288	141
Stock-based compensation	148	126
Deferred taxes	78	414
Excess tax benefit from share-based compensation	(9)	173
Subtotal before changes in operating assets and liabilities	1,407	1,496
Changes in operating assets and liabilities:		
Accounts receivable	1,136	251
Prepaid expenses	110	75
Deferred revenue	(532)	(84)
Accounts payable	(556)	38
Accrued expenses	(306)	42
Other long-term liabilities	(1)	(4)
Income tax receivable and payable	189	(157)
Net cash provided by operating activities	1,447	1,657
Investing Activities:		
Software development costs capitalized	(691)	(751)
Purchase of property and equipment	(52)	(63)
Interest reinvested in long term investments	(16)	(16)
Net cash (used in) investing activities	(759)	(830)
Financing Activities:		
Proceeds from exercise of stock options	290	919
Excess tax benefit from share-based compensation	9	(173)
Notes payable principal payments	-	(341)
Net cash provided by financing activities	299	405
Net increase in cash	987	1,232
Cash at beginning of period	11,358	9,455
Cash at end of period	\$ 12,345	\$ 10,687
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ -	\$ 49
Income taxes	\$ 174	\$ 45

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

GlobalSCAPE, Inc.

Notes to Condensed Consolidated Financial Statements

As of March 31, 2015 and For the Three Months Then Ended

(Unaudited)

**1. Nature of Business**

We provide secure information exchange capabilities for enterprises and consumers through the development and distribution of software, delivery of managed and hosted solutions, and provisioning of associated services. Our solution portfolio facilitates transmission of critical information such as financial data, medical records, customer files, vendor files, personnel files, transaction activity, and other similar documents between diverse and geographically separated network infrastructures while supporting a range of information protection approaches to meet privacy and other security requirements. In addition to enabling secure, flexible transmission of critical information using servers, desktop and notebook computers, and a wide range of network-enabled mobile devices, our products also provide customers with the ability to monitor and audit file transfer activities. Our primary product is Enhance File Transfer, or EFT. We have other products that complement our EFT product.

Throughout these notes unless otherwise noted, our references to the 2015 quarter and the 2014 quarter refer to the three months ended March 31, 2015 and 2014, respectively.

**2. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X, "Interim Financial Statements", as prescribed by the Securities and Exchange Commission, or SEC. Accordingly, they do not include all information and footnotes required under generally accepted accounting principles in the United States, or GAAP, for complete financial statements. In the opinion of management, all accounting entries necessary for a fair presentation of our financial position and results of operations 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which we refer to as the 2014 Form 10-K, as well as *Management's Discussion and Analysis of Financial Condition and Results of Operations* also included in our 2014 Form 10-K and in this report.

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

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

**3. Significant Accounting Policies**

There have been no changes in our significant accounting policies during the 2015 quarter compared to the 2014 quarter or from those described in our 2014 Form 10-K. Listed below is a condensed version of our significant accounting policies.

### ***Principles of Consolidation***

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

### ***Revenue Recognition***

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

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

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

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

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

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

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

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

### ***Revenue Classifications***

Amounts previously reported as other revenue in the Condensed Consolidated Statements of Operations and Comprehensive Income for the 2014 quarter have been reclassified to software licenses revenue to conform to the presentation for the 2015 quarter.

### ***Goodwill***

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



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

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

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

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

As of December 31, 2014, after assessing the totality of the relevant events and circumstances, we determined it not more likely than not that the fair value of our reporting unit was less than its carrying amount. Accordingly, we concluded there was no impairment of goodwill as of that date. There have been no material events or changes in circumstances since that time indicating that the carrying amount of goodwill may exceed its fair market value and that interim testing needed to be performed.

#### ***Capitalized Software Development Costs***

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

#### ***Research and Development***

We expense research and development costs as incurred.

#### ***Share-Based Compensation***

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

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

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

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

### **Income Taxes**

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

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

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

### **Use of Estimates**

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

### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09 entitled *Revenue from Contracts with Customers (Topic 606)*. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. We are subject to this guidance effective with financial statements we issue for the year ending December 31, 2017, and the quarterly periods during that year. We do not expect the amounts or timing of revenue we report in those future periods under this guidance to be materially affected relative to current guidance.

## **4. Capitalized Software Development Costs**

Our capitalized software development costs profile was as follows: (\$ in thousands):

	<b>March 31 2015</b>	<b>December 31 2014</b>
Gross capitalized cost	\$ 4,768	\$ 4,077
Accumulated amortization	(997)	(779)
Net balance	<u>\$ 3,771</u>	<u>\$ 3,298</u>
	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Amount capitalized	\$ 691	\$ 751
Amortization expense	218	68

	<b>Released Products</b>	<b>Unreleased Products</b>
Gross capitalized amount at March 31, 2015	\$ 2,973	\$ 1,795
Future amortization expense:		
Nine months ending December 31, 2015	716	
Year ending December 31,		
2016	817	
2017	414	
2018	29	
Total	\$ 1,976	

The future amortization expense of the gross capitalized software development costs related to unreleased products will be determinable at a future date when those products are ready for general release to the public.

## 5. Stock Options, Restricted Stock and Share-Based Compensation

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Share-based compensation expense	\$ 148	\$ 126

### *Stock Options*

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

- It authorizes the issuance of up to three million shares of common stock for stock-based incentives including stock options and restricted stock awards.
- The exercise price, term and other conditions applicable to each stock option or stock award granted are determined by the Compensation Committee of the Board of Directors.
- The exercise price of stock options is set on the grant date and may not be less than the fair market value per share of our stock at market close on that date.
- Stock options we issue generally become exercisable ratably over a three year period and expire ten years from the date of grant.
- We issued no restricted stock awards under this plan during the 2015 quarter or the 2014 quarter.
- As of March 31, 2015, stock-based incentives for up to 1,032,840 shares remained available for issuance in the future under this plan.

Our stock option activity has been as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Term in Years</b>	<b>Aggregate Intrinsic Value (000's)</b>
Outstanding at December 31, 2014	2,022,175	\$ 2.12	6.07	\$ 710
Granted	362,000	\$ 3.16		
Forfeited	(53,200)	\$ 1.97		
Exercised	(174,500)	\$ 1.66		
Outstanding at March 31, 2015	<u>2,156,475</u>	\$ 2.33	6.55	\$ 2,431
Exercisable at March 31, 2015	<u>1,287,629</u>	\$ 2.20	4.83	\$ 1,663

Additional information about our stock options is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Weighted average fair value of options granted	\$ 1.38	\$ 1.30
Intrinsic value of options exercised	\$ 255,116	\$ 266,013
Cash received from stock options exercised	\$ 289,566	\$ 919,204
Number of options that vested	130,654	92,080
Fair value of options that vested	\$ 150,114	\$ 93,579
Unrecognized compensation expense related to non-vested options at end of year	\$ 916,372	\$ 745,759
Weighted average years over which non-vested option expense will be recognized	\$ 2.33	\$ 2.24

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Expected volatility	57%	56%
Expected annual dividend yield	2.40%	0
Risk free rate of return	1.58%	1.95%
Expected option term (years)	6.00	6.00

Based upon our dividend payment activity in recent years, beginning in the 2015 quarter, we added an expected annual dividend yield to these assumptions.

*Restricted Stock Awards*

The 2006 Non-Employee Directors Long Term Incentive Plan (“2006 Directors Plan”) that was in place during the 2015 quarter provides for the issuance of either stock options or restricted stock awards for up to 500,000 shares of our common stock. Provisions of this plan included the following:

- The exercise price, term and other conditions applicable to each stock option or stock award granted are determined by the Compensation Committee of the Board of Directors.
- Restricted stock awards are initially issued with a legend restricting transferability of the shares until the recipient satisfies the vesting provision of the award, which is generally continuing service for one year subsequent to the date of the award.
- We issued no stock options or restricted stock under this plan during the 2015 quarter or the 2014 quarter.

On May 14, 2015, the Company’s stockholders approved the adoption and implementation of the 2015 Non-Employee Directors Long Term Incentive Plan. The provisions of this plan are substantially the same as the 2006 Directors Plan it replaces. We will not issue any additional stock or stock options under the 2006 Directors Plan.

Our restricted stock awards activity has been as follows:

	<b>Number of Shares</b>	<b>Grant Date Fair Value Per Share</b>	<b>Total Fair Value of Shares That Vested</b>
Restricted Shares Outstanding at December 31, 2014	80,000	\$ 2.32	
Shares granted with restrictions			
Shares vested and restrictions removed			
Restricted Shares Outstanding at March 31, 2015	<u>80,000</u>		
Shares remaining available under the plan for future issuance	-		
Unrecognized compensation expense for non-vested shares as of March 31, 2015			
Expense to be recognized in future periods	\$ 30,933		
Weighted average number of months over which expense is expected to be recognized	2.28		

**6. Income Taxes**

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Income tax expense (benefit) at federal statutory rate	\$ 430	\$ 268
Increase (decrease) in taxes resulting from:		
Domestic production activities deduction	(30)	(17)
State taxes, net of federal benefit	16	(3)
Other	33	5
Income tax expense (benefit) per the statement of operations	<u>\$ 449</u>	<u>\$ 253</u>

As of March 31, 2015, we had federal income tax net operating loss carry forwards of \$575,000 available to offset future federal taxable income, if any. These carry forwards expire in 2030 and 2031.

Legislation has not yet been passed to extend the R&D tax credit into 2015. Accordingly, we have not recorded a benefit for that credit in the 2015 quarter. The R&D tax credit was in effect for all of 2014 and, accordingly, the effects of the R&D tax credit are included for the 2014 quarter.

**7. Earnings per Common Share**

Earnings per share for the periods indicated were as follows (in thousands except per share amounts):

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net income	\$ 815	\$ 534
Weighted average shares outstanding - basic	20,647	19,534
Stock options	452	860
Weighted average shares outstanding - diluted	21,099	20,394
Net income per common share - basic	\$ 0.04	\$ 0.03
Net income per common share - diluted	\$ 0.04	\$ 0.03

**8. Commitments and Contingencies**

We have agreements with key personnel that provide for severance payments to them in the event of a change in control of the Company, as defined in those agreements, and their employment is terminated in connection with that change in control. In such event, our aggregate severance payments to those employees would be \$951,000.

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

This Quarterly Report on Form 10-Q and any documents incorporated by reference herein contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. "Forward-looking statements" are those statements that are not of historical fact but describe management's beliefs and expectations. We have identified many of the forward-looking statements in this Quarterly Report by using words such as "anticipate," "believe," "could," "estimate," "may," "expect," "potentially" and "intend." Although we believe these expectations are reasonable, our operations involve a number of risks and uncertainties, including those described in the "Risk Factors" section of our 2014 Form 10-K and other documents filed with the Securities and Exchange Commission. Therefore, GlobalSCAPE's actual results could differ materially from those discussed in this Quarterly Report.

In the following discussion, our references to the 2015 quarter and the 2014 quarter refer to the three months ended March 31, 2015 and 2014, respectively.

### Overview

We provide secure information exchange capabilities for enterprises and consumers through the development and distribution of software, delivery of managed and hosted solutions, and provisioning of associated services. We have thousands of enterprise customers and more than one million individual consumers in over 150 countries.

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

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

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

Our Enhanced File Transfer, or EFT, solutions are currently our primary product. These "server side" solutions provide a common, scalable MFT platform that accommodates a broad family of add-on modules to provide small and medium-sized businesses, or SMBs, as well as larger enterprise customers, with increased security, automation, and performance when compared to traditional FTP-based and e-mail delivery systems. The add-on modules allow customers to select the solution configuration most applicable to their requirements for auditing and reporting, encryption, ad hoc and web-based file transfers, operability in or through a DMZ network, and integration with back-end business processes, including workflow automation capabilities.

Our Wide-Area File Services, or WAFS, software product uses data synchronization to further enhance the ability to replicate, share and backup files within a wide area network or local area network allowing users to access their data at higher speeds than possible with alternate approaches. We believe this technology enables collaboration at greater efficiency levels than solutions available from our competitors or with native operating system connectivity.

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

CuteFTP was our original product. It is a file transfer program used mostly by individuals and small businesses that was first distributed in 1996 over the Internet. It remains popular today and generates revenue for us at a relatively low cost.

Secure content mobility integrates aspects of ad hoc file transfer, broader MFT capabilities, cloud services, and remote accessibility to address the growing market demand for secure, “anytime and anywhere”, device-independent access to distributed content. We believe that the inclusion of secure content mobility capability in our portfolio, and specifically the introduction of this capability to enterprise-level organizations, will contribute to the future growth of our business due to the continuing adoption of tablet computers and smartphones. scConnect is our on-premises, enterprise file synchronization and sharing solution that we introduced to the market in April 2015. scConnect provides users with secure content mobility and the ability to share and access data anytime on any device. At the same time, scConnect provides information technology department administrators with the tools necessary to maintain the security of sensitive enterprise information and to control and monitor user access and activity. Designed to replicate today’s cloud experience without the risk, reliability or confidentiality concerns of shared infrastructures, scConnect enables secure collaboration and content mobility without involving third-party servers. Created with both the information technology team and end user in mind, scConnect offers benefits that exceed many cloud-based, file sharing services.

We also offer, both directly and through our partners, our software products in both a software-as-a-service, or SaaS, and cloud-based subscription solutions for information sharing. Our SaaS and cloud-based subscription solutions allow customers to reduce their upfront and total cost of ownership and achieve other recognized benefits of cloud-based solutions, including service elasticity and strong service level agreements for IT infrastructure reliability and performance. We believe that our managed, cloud-based subscription solutions could become a larger part of our future revenue because these solutions provide recurring revenue which potentially builds over time, as compared to sales of on-premises software licenses which must be reconstituted every period. We have the capability to deliver these services in North America as well as internationally in Europe and Latin America.

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

- In 2015:
  - 5-Star rating in The Channel Company’s CRN 2015 Partner Program Guide.
  - Named by *Texas Monthly* magazine as one of the best companies to work for in Texas for the fifth year in a row with a ranking of #3 in the medium size category.
- In 2014:
  - Info Security Product Guide Global Excellence Gold and Bronze Awards.
  - CISCO Developer-Preferred Solution Award.
  - Named one of the best places to work in the information technologies small business category by *Computerworld* for the third time.
  - Named as one of San Antonio’s top employers in the Top Workplaces survey conducted by the San Antonio Express-News.
- In 2013:
  - Named in Software Magazine’s Software 500 revenue-based ranking of the world’s largest software and service providers for the third year in a row.
  - Listed in the highest ranking category of “Champion” in Info-Tech Research Group’s Vendor Landscape Report for managed file transfer for the second year in a row.
  - Recognized by the San Antonio Business Journal for fast growth in revenue for the second consecutive year and as a top-ranked, public company based on revenue growth.

### **Key Business Metrics**

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

**Revenue Growth**

We provide products and solutions to small, medium and large multinational corporations as well as to individual consumers. We have a broad product line that has allowed us to grow revenue through software products and solutions either installed at a customer's location or delivered through a hosted, SaaS model. We have grown our professional services capabilities to enhance our customers' implementation, training and overall user experience. Sales of our enterprise products, solutions, and services comprise a substantial majority of our revenue. While our CuteFTP software and other consumer products are a relatively minor component of our overall revenue, they are recognized brands in the marketplace that we believe continue to have a positive effect on our overall product offerings and corporate franchise.

We believe annual revenue growth is a key metric for monitoring our continued success in developing our business in future periods. Given our diverse solution portfolio, we review our revenue mix and changes in revenue, across all solutions, on a regular basis to identify key trends and adjust resource allocations. We believe our revenue growth is primarily dependent upon executing our business strategies which include:

- Continuing innovation of core products and introducing enhanced collaboration and sharing tools.
- Enhancing marketing programs to expand solution awareness.
- Leveraging and expanding third party, channel distribution partnerships.

To support product innovation, we continue to enhance our software engineering group and our focus on optimizing the manner in which we assess the development of new technologies, our approach to managing those projects, and the timelines over which we do that work. Beginning in 2014, we increased our research and development spending to create and introduce new features, functions and capabilities for our products.

In sales and marketing, we have made and continue to make ongoing changes including:

- Increasing sales staff headcount as needed to address our markets.
- Aligning our sales group to enhance its industry and geographic focus.
- Implementing new sales and marketing campaigns.
- Using third party search engine optimization experts to enhance our efforts in that area.
- Using third party lead-generation experts to increase our sales staff's exposure to potential purchasers.
- Recruiting industry channel partners and enabling them to sell our products through training and orientation programs.

As part of growing revenue in total, we are focused on increasing license revenue both in terms of absolute dollars and as a percent of total revenue. When we sell our licensed products, we also typically create a recurring revenue stream from M&S since almost all purchasers of our licensed products, particularly EFT, also purchase an M&S contract. Our M&S contracts are typically for one year, with some customers buying two year or three year contracts. The customer pays us the M&S fee for the entire term of the agreement at the time the contract begins. We recognize that amount as revenue ratably in future periods over the term of the contract. We typically experience a high renewal rate for M&S services so long as a customer continues using the licensed product they purchased from us. As a result, growing license revenue not only contributes to increasing revenue growth at the time the license is sold but also provides a foundation for future recurring revenue as the purchasers of our licensed products renew M&S agreements to support their ongoing product support needs. This pattern of activity can create a cumulative effect for M&S renewals as a result of the cumulative number of licensed software installations sold over multiple years that create M&S renewals in any single year predictably (and in line with our expectations) exceeding the number of new software licenses we sell in a single year. We expect this cumulative effect to continue to grow if we continue to increase software license revenue in future periods.

For more information, see *Comparison of the Statement of Operations for the Three Months Ended March 31, 2015 and 2014*.

**Bookings (Non-GAAP Measurement)**

We consider business "booked" when we issue an invoice to a customer for their purchase of our products or services. Bookings consist of invoiced amounts for which we recognize revenue currently and invoiced amounts for which we defer revenue recognition to future periods. Our bookings trends and the reconciliation of bookings to revenue are as follows:

	<b>Three Months Ending March 31</b>	
	<b>2015</b>	<b>2014</b>
Bookings	\$ 6,348	\$ 5,644
Change in deferred revenue	532	84
Revenue	<u>\$ 6,880</u>	<u>\$ 5,728</u>



Bookings is a business metric we use to measure the success of our sales and marketing programs and the effectiveness of our sales and marketing teams. Bookings is not a measure of financial performance under generally accepted accounting principles, or GAAP, and should not be considered a substitute for revenue. Bookings has limitations as an analytical tool and when assessing our operating performance. Bookings should not be considered in isolation or as a substitute for revenue or other income statement data prepared in accordance with GAAP.

#### ***Adjusted EBITDA Excluding Infrequent Items (Non-GAAP Measurement)***

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

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

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

	Three Months Ended	
	March 31,	
	2015	2014
Net income (loss)	\$ 815	\$ 534
Add (subtract) items to determine adjusted EBITDA:		
Income tax expense	449	253
Interest expense, net	(11)	20
Depreciation and amortization:		
Total depreciation and amortization	288	141
Amortization of capitalized software development costs	(218)	(68)
Stock-based compensation expense	148	126
Adjusted EBITDA	\$ 1,471	\$ 1,006

See the section below comparing our results of operations for the 2014 quarter and the 2013 quarter for discussion of the variances between periods in the components comprising Adjusted EBITDA Excluding Infrequent Items.

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

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

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

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

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

During the 2015 quarter and the 2014 quarter, we had no infrequent items that made it necessary to prepare a measurement of income and expense excluding infrequent events. Accordingly, no such measurement is presented in this Quarterly Report.

## **Software Products and Services**

The following is a summary description of our products and solutions.

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

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

#### *EFT Standard and Enterprise Editions*

We earn most of our software license revenue from sales of our suite of EFT products and solutions which was a Gold Winner in the Compliance category of the 2015 Info Security Products Guide Global Excellence Awards. These “server side” solutions provide a common, scalable MFT platform that accommodates a broad family of add-on modules to provide SMBs, as well as larger enterprise customers, with increased security, automation, and performance when compared to traditional FTP-based and e-mail delivery systems. The add-on modules allow customers to select the solution configuration most applicable to their requirements for auditing and reporting, encryption, ad hoc and web-based file transfers, operability in or through a DMZ network, and integration with back-end business processes, including workflow automation capabilities. During the past several quarters, we have released new versions of our EFT platform which added several enhancements and capabilities including, among others:

- Workspaces, which is a file-sharing module within EFT that allows employees to create their own groups and assign permissions for those groups, much like a virtual data room, to provide access to files for which they themselves have access on the EFT server. This functionality is accomplished without compromising the security, control, and governance of those files.
- Active-active high availability, or HA, which maximizes uptime and performance of critical information technology systems.
- Enhanced compatibility of web transfer client file transfers through HTML5 support in addition to the existing Java Runtime Environment.
- Increased scalability and business continuity with more flexible, uninterrupted file transfer service.
- Improved facilitation of PCI DSS version 3.0 compliance with updates to security components, such as PGP and AS2.
- Addition of new Content Integrity Control providing an Internet Content Adaptation Protocol (ICAP) connector to anti-malware scanners and data loss prevention (DLP) solutions.
- Integration with SMS PASSCODE for Mobile-Based 2 Factor Authentication.

We continue to develop these products and solutions by, for example, improving their speed and responsiveness of performance, providing additional administration flexibility supporting cross-platform implementation with our DMZ Gateway solution, implementing business activity monitoring, and providing additional language support. We have sustained the year-to-year increase in our revenue from these products and solutions as a result of both our ongoing development of this product line that has continued to enhance its appeal in the marketplace and by delivering quality service and support for these products. We are maintaining our focus on our EFT Standard and Enterprise products to ensure that innovation continues with these highly valued products and that the needs of our clients are met in timely and quality fashion.

### *Cloud-Based MFT*

We have agreements with third-party hosting providers under which we deliver cloud-based, managed file transfer solutions (MIX, Hosted Mail Express, and Hosted EFT) for the secure exchange of business-to-business data, including large files and sensitive data. Our cloud-based solutions allow customers to outsource all or part of their complex and demanding information exchange needs to reduce costs, improve operational efficiencies, track and audit transactions, and provide a greater level of security.

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

### *CuteFTP*

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

CuteFTP continues to have significant brand recognition in the market. Our current CuteFTP Version 9 introduced several notable new features including:

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

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

### **Wide Area File Services**

Our WAFS software provides a file sharing, collaboration, and replication solution over multiple sites. WAFS technology provides enterprises with a file access and data protection combination that centralizes data storage and IT administration facilities without compromising data sharing and protection. A key feature and benefit of WAFS is its byte-level differencing architecture that continually transmits only changed bytes (versus an entire file) thereby allowing rapid update of large files accessed by widely dispersed, multiple users. Other key features of WAFS include native file locking, replication to multiple locations simultaneously and adherence to access control list file permissions, and full UTF-8 support. We have an ongoing product development program to expand the WAFS operating specifications so that we can introduce it to a continuously broader spectrum of the marketplace and increase our revenue from this product.

During 2014, we released updated versions of WAFS that improved the performance of various WAFS features such as file-based filters, accessing folders that contain a large number of files, and file copying processes and that incorporated several upgrades including:

- Support for Windows Server 2012 R2.
- Improved performance.
- Enhanced reporting.
- Greater driver stability.
- Faster and more reliable collaboration and multi-user access to files.

We believe WAFS will be competitive in the marketplace for the foreseeable future as a product for file sharing, collaboration, and replication solution over multiple sites.

### **Managed E-mail Attachment Solution**

Our managed e-mail attachment solution, Mail Express, is a client-server application that allows users to send and receive e-mail attachments of virtually unlimited size easily and transparently without resorting to unapproved and potentially insecure methods such as USB drives or social media sites. The ability of Mail Express to transmit multi-terabyte and larger attachments, which is well beyond the operation range of typical competing approaches to sending email attachments, means the user is limited only by the available bandwidth when sending files as an email attachment. Mail Express was a Bronze Winner in the Email Security and Management category of the 2015 Info Security Products Guide Global Excellence Awards.

Mail Express provides increased benefits for information technology organizations by offering greater visibility into email-based file movement across the enterprise, including robust tracking and auditing. The Mail Express application provides flexible, customer-defined administration privileges to allow e-mail administrators and end users to configure specific parameters for handling e-mail attachments in accordance with corporate policy.

During 2014, we introduced new Mail Express features and versions that included:

- Optional encrypted transmission of the message body in addition to attachments.
- Support of FIPS 140-2 encryption protocols to provide a level of security which, in particular, supports compliance with HIPPA regulations.
- Improved password and user account administration and control.
- Up to 100,000 licenses per server instance.
- Flexibility to integrate with the EFT product suite or deploy as a stand-alone application.
- Additional international language support.
- A dashboard allowing additional administrator visibility into all connected clients.
- An updated user experience.

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

### **Secure Content Mobility Solutions**

Our secure content mobility solutions provide the ability to easily and securely connect to and share documents, pictures, videos and music anytime, anywhere while minimizing the storage of data in the cloud and the associated security and privacy concerns. From the office, at home, or on the road, customers can connect to and access their files, stored in multiple locations, using any web browser and most internet-enabled tablets, smartphones and similar mobile devices. With these solutions, users can minimize uploading and/or syncing to a cloud storage location and eliminate the need to pay for additional cloud storage. Instead, our products securely leverage the user's existing in-house storage devices (such as a desktop computer, in-house network servers or network-attached storage devices), allow sharing of large files, and provide encryption to safeguard content.

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

We believe secure content mobility is a rapidly emerging, central feature of the markets we serve. We believe growth in smartphone and tablet sales and adoption, combined with rapid growth in retained content and BYOD expectations, potentially will drive strong revenue growth in this market segment particularly in the enterprise space. In order to capitalize on these trends, our emphasis continues to be on extending the TappIn technology and functionality with our existing enterprise capabilities to create a secure enterprise content mobility solution.

scConnect is our on-premises enterprise file synchronization and sharing solution that we introduced to the market in April 2015. scConnect provides users secure content mobility and the ability to share and access data anytime on any device. At the same time, scConnect provides information technology department administrators with the tools necessary to maintain the security of sensitive enterprise information and to control and monitor user access and activity. Designed to replicate today's cloud experience without the risk, reliability or confidentiality concerns of shared infrastructures, scConnect enables secure collaboration and content mobility without involving third-party servers. Created with both the information technology team and end user in mind, scConnect offers benefits that exceed many cloud-based, file sharing services, including:

For End Users:

- Provides a familiar cloud "drive"-like interface, allowing for ease of use.
- Offers access to everything from individual files and folders to full desktops and network shares without requiring any data to be copied or uploaded to the cloud.
- Imposes no software limitations on storage space that can be accessed and no limitations on file sizes that can be uploaded.
- Allows for sharing with users and groups both internal and external to the organization

For Administrators:

- Enables administrators to give users greater control of information sharing without losing oversight or requiring trust in third-party tools and security architectures.
- Integrates with Active Directory/ Lightweight Directory Access Protocol (LDAP) thereby aligning access with the organization's established policies for access security and data governance.
- Allows administrators to apply the chosen security tools that best fit the organization in terms of two-factor authentication, anti-virus and data loss prevention.
- Offers fully encrypted file transfer and role-based access, as well as a comprehensive and granular dashboard for real-time, centralized user management and detailed audit trails.

**Professional Services**

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

Our professional services revenue is directly correlated to certain components of our cost of revenues because the services necessarily are labor intensive. For this reason, professional services typically have significantly lower margins than product sales or subscription services. However, we believe professional services allow us to better establish and maintain our solution implementations while also providing our customers with the training and education services that help them make more complete use of our solution capabilities.

**Maintenance and Support**

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

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

**Solution Perspective and Trends**

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

	Three Months Ended March 31,			
	2015		2014	
	Amount	% of Total Revenue	Amount	% of Total Revenue
<b>Revenue by Product</b>				
EFT Enterprise and Standard	\$ 5,377	78.2%	\$ 4,553	79.5%
Wide Area File Services	288	4.2%	312	5.4%
Professional Services	388	5.6%	237	4.1%
CuteFTP	226	3.3%	247	4.3%
Other	601	8.7%	379	6.7%
Total Revenue	<u>\$ 6,880</u>	<u>100.0%</u>	<u>\$ 5,728</u>	<u>100.0%</u>
<b>Revenue by Type</b>				
License Revenue	\$ 2,458	35.7%	\$ 1,912	33.4%
M&S Revenue	4,034	58.6%	3,579	62.5%
Pro Services	388	5.7%	237	4.1%
Total Revenue	<u>\$ 6,880</u>	<u>100.0%</u>	<u>\$ 5,728</u>	<u>100.0%</u>

We have made and continue to make changes in our business to increase the rate of growth of our total revenue and, in particular, our revenue across all our product lines. With respect to our sales and marketing activities, those changes have included:

- Increasing sales staff headcount as needed to address our markets.
- Aligning our sales group to enhance its industry and geographic focus.
- Implementing new sales and marketing campaigns.
- Using third party search engine optimization experts to enhance our efforts in that area.
- Recruiting industry channel partners and enabling them to sell our products through training and orientation programs.

As a complement to these sales and marketing actions, we have continued to expand the capabilities of our software engineering group through increased headcount and improved skillsets to optimize the manner in which we assess the development of new technologies, our approach to managing those projects and the timelines over which we do that work. We have increased our research and development spending to create and introduce new features, functions and capabilities for our products.

Our total revenue increased 20.1% in the 2015 quarter compared to the 2014 quarter. License revenue increased 28.6% and M&S revenue increased 12.7%. In general, this increase was due to the changes in our business we have made as discussed above. For a more complete discussion of our overall revenue trends and mix among products, services and M&S, see *Comparison of the Statement of Operations for the Three Months Ended March 31, 2015 and 2014*.

**Liquidity and Capital Resources**

Our cash and working capital positions were as follows (\$ in thousands):

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Cash and cash equivalents	\$ 12,345	\$ 11,358
Long term investments	3,201	3,185
Total cash, cash equivalents and long term investments	<u>\$ 15,546</u>	<u>\$ 14,543</u>
Working capital	\$ 4,767	\$ 4,072
Deferred revenue, current portion	\$ 10,962	\$ 11,411
Working capital plus current deferred revenue (non-GAAP presentation)	<u>\$ 15,729</u>	<u>\$ 15,483</u>

Deferred revenue, unlike the other liability components of our working capital, is an obligation we will satisfy by providing services in the future to our customers as part of our ongoing operating activities from which we have historically generated cash flow. Our deferred revenue does not involve a disbursement of cash as a direct payment of that liability. Working capital plus deferred revenue is not a measure of financial position under GAAP, has limitations as an analytical tool and when assessing our financial position, and should not be considered a substitute for working capital computed in accordance with GAAP.

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

We rely on cash and cash flows from operations to fund our operating activities and believe those items will be our principal sources of capital for the foreseeable future. Because our principal sources of capital are cash on hand and cash flow from operations, to the extent that sales decline, our cash flow from operations could also decline. We plan to expend significant resources in the future for research and development of our products and expansion and enhancement of our sales and marketing activities. If sales decline or if our liquidity is otherwise under duress, we could substantially reduce personnel and personnel-related costs, reduce or substantially eliminate capital expenditures and/or reduce or substantially eliminate certain research and development and sales and marketing expenditures. We may also sell equity or debt securities or enter into credit arrangements in order to finance future acquisitions or licensing activities, to the extent available.

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

	<b>Cash Provided (Used) During the Three Months Ended March 31,</b>	
	<u>2015</u>	<u>2014</u>
Operating activities	\$ 1,447	\$ 1,657
Investing activities	(759)	(830)
Financing activities	299	405

Our cash provided by operating activities decreased during the 2015 quarter compared to the 2014 quarter primarily due to:

- Net income after considering adjustments to reconcile net income to net cash provided by operating activities, as set forth on our Condensed Consolidated Statements of Cash Flow, decreasing from \$1.5 million in the 2014 quarter to \$1.4 million in the 2015 quarter. See the section below under *Comparison of the Statement of Operations for the Three Months Ended March 31, 2015 and 2014* for a discussion of the changes in the components of these amounts.

- Deferred revenue decreasing \$532,000 during the 2015 quarter compared to decreasing \$84,000 during the 2014 three months primarily due to (1) higher M&S sales resulting in increased cash received from customers to initiate or renew M&S contracts offset by (2) a higher amount of deferred revenue amortized to income due to the cumulative effect of M&S renewals for M&S contracts that originated in fiscal 2014 and earlier.
- Accounts payable decreasing \$556,000 in the 2015 quarter compared to increasing \$38,000 in the 2014 quarter primarily due to normal variations of the timing of payments to our vendors.
- Accrued expenses decreasing \$306,000 during the 2015 quarter compared to increasing \$42,000 during the 2014 quarter primarily due to normal variations in the timing of our payroll payment dates relative to the date of the balance sheet presented as part of our financial statements and the payment of performance bonuses related to our financial results for fiscal 2014.

Offset by

- Accounts receivable decreasing \$1.1 million in the 2015 quarter compared to decreasing \$251,000 in the 2014 quarter primarily due to our efforts to improve the timeliness of payments from our customers.
- Income tax receivable and payable increasing \$189,000 during the 2015 quarter compared to decreasing \$157,000 during the 2014 quarter due to normal variations in the timing of our federal and state income tax payments combined with enhanced planning of the timing of those payments.

The decreased use of cash for investing activities during the 2015 quarter compared to the 2014 quarter was primarily due to a decrease in our software development costs that were capitalized. While the scope and magnitude of our software development activities was substantially the same between these periods, the cost of that work was less in the 2015 quarter compared to the 2014 quarter due to increased use of our employees to do this work in the 2015 quarter compared to the 2014 quarter when relied more on the use of higher cost, third-party software developers.

The decreased use of cash for financing activities during the 2015 quarter compared to the 2014 quarter was primarily due to:

- A decrease in cash received from the exercise of stock options due to the amount of cash received from stock option exercises during the 2014 quarter being a result of changes in management leadership at that time which is an event that did not occur during the 2015 quarter.
- A change in the tax benefit from stock-based compensation that is a result of the decrease in stock option exercise activity as described above.
- No principal payments on notes payable during the 2015 quarter since our notes payable that were outstanding during the 2014 quarter were paid-in-full during the quarter ended September 30, 2014.

Our primary obligations at March 31, 2015 were:

- An obligation to deliver services in the future to satisfy our right to earn our deferred revenue of \$14.3 million. Those future services primarily relate to our obligations under M&S contracts for which we have received advance payment. We will recognize this deferred revenue as revenue over the remaining life of those contracts which generally ranges from one to three years. Deferred revenue, unlike the other liability components of our working capital, is an obligation we will satisfy through by providing services in the future to our customers as part of our ongoing operating activities from which we have historically generated cash flow. Our deferred revenue does not involve a disbursement of cash as a direct payment of that liability.
- Trade accounts payable, accrued liabilities, obligations under operating leases, amounts due third parties under royalty agreements, and federal and state taxes all incurred in the normal course of business.



**Contractual Obligations and Commitments**

At March 31, 2015, our contractual obligations and commitments consisted primarily of the following items:

- Trade accounts payable and accrued liabilities which include our contractual obligations to pay software royalties to third parties that vary in amount based on our sales volume of products upon which royalties are payable.
- Operating leases for our office space.
- Federal and state taxes.

We plan to continue to expend significant resources on product development, sales and marketing in future periods which may require that we enter into additional contractual arrangements and use our cash to acquire or license technology, intellectual property, products, services or businesses related to our current business strategy.

Our non-cancellable, contractual obligations at March 31, 2015, consisted of the following (in thousands):

	<b>Amounts Due for the Period</b>				
	<b>Nine Months Ending December 31, 2015</b>	<b>Fiscal Years</b>			
		<b>2016 - 2017</b>	<b>2018 - 2020</b>	<b>Thereafter</b>	<b>Total</b>
Operating leases	\$ 267	\$ 720	\$ 480	\$ -	\$ 1,467

**Comparison of the Statement of Operations for the Three Months Ended March 31, 2015 and 2014**

	<b>Three Months Ended March 31,</b>		<b>\$ Change</b>
	<b>2015</b>	<b>2014</b>	
Total revenues	\$ 6,880	\$ 5,728	\$ 1,152
Cost of revenues	248	204	44
Selling, general and administrative expenses	4,578	4,049	529
Research and development expenses	513	527	(14)
Depreciation and amortization	288	141	147
Total operating expenses	5,627	4,921	706
Income from operations	1,253	807	446
Other income (expense)	11	(20)	31
Net income before income taxes	1,264	787	477
Income tax expense	449	253	196
Net income	\$ 815	\$ 534	\$ 281

In the discussions below, we refer to the three months ended March 31, 2015, as the “2015 quarter” and the three months ended March 31, 2014, as the “2014 quarter”. The percentage changes cited in our discussions below are based on the 2015 quarter amounts compared to the 2014 quarter amounts.

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

- License revenue from sales of our EFT and Mail Express products that we deliver as either software installed at the customer’s premises for which we earn the full amount of the license revenue at the time the license is delivered or as a managed or hosted service under our MIX and Hosted EFT brands delivered using a SaaS model for which we earn monthly subscription revenue as these services are delivered over a contract period that is typically one year.
- License revenue from sales of our WAFS and CuteFTP products that are installed at the customer’s premises for which we earn the full amount of the license revenue at the time the license is delivered.
- License revenue from delivery of our TappIn products using a SaaS model in which case we earn monthly subscription revenue as these services are delivered under typically month-to-month subscriptions.
- M&S revenue under contracts to provide ongoing product support and software updates to our customers who have purchased license software which we recognize ratably over the contractual period, which is typically one year, but can be up to three years.
- Professional services revenue from a variety of customization, implementation, and integration services, as well as delivery of education and training associated with our solutions, which we recognized as the services are performed and accepted by the client.

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

	Three Months Ended March 31,			
	2015		2014	
	Amount	% of Total Revenue	Amount	% of Total Revenue
<b>Revenue by Product</b>				
EFT Enterprise and Standard	\$ 5,377	78.2%	\$ 4,553	79.5%
Wide Area File Services	288	4.2%	312	5.4%
Professional Services	388	5.6%	237	4.1%
CuteFTP	226	3.3%	247	4.3%
Other	601	8.7%	379	6.6%
Total Revenue	\$ 6,880	100.0%	\$ 5,728	100.0%
<b>Revenue by Type</b>				
Software licenses	\$ 2,458	35.7%	\$ 1,912	33.4%
M&S revenue	4,034	58.6%	3,579	62.5%
Professional services	388	5.7%	237	4.1%
Total Revenue	\$ 6,880	100.0%	\$ 5,728	100.0%

Our total revenue increased 20.1% in the 2015 quarter compared to the 2014 quarter. In general, this increase was due to the changes in our business we have made as discussed above under "Solution Perspective and Trends". Revenue trends for our individual product lines and related additional contributors to those changes are as follows:

- EFT Enterprise and Standard revenue increased 18.1% primarily due to our focusing a substantial portion of our resources and efforts on this product line since we believe it offers the highest potential for future growth, development of a more experienced and capable sales team, and recruitment and integration of third-party channel resellers.
- WAFS revenue decreased by 7.7% primarily due to some of our potential customers electing to forego purchasing our existing product in anticipation of the release of our next version of this product that is currently under development.
- Professional services increased by 63.7% due to the increase in sales of our EFT Enterprise and Standard products to which our professional services are most closely associated.
- CuteFTP revenue decreased 8.5% primarily a result of our continued focus of most of our attention and resources on other product lines that we believe have a higher potential for future growth.
- Other revenue increased 58.6% primarily due to increased interest in the marketplace in procuring our managed file transfer solutions through our MIX cloud-based hosted solution and increased deliveries of Mail Express due to enhancements to this product during 2014, particularly the feature supporting encryption of the body of an email sent using Mail Express.

License revenue increased 28.6%. This increase was primarily due to:

- The introduction of new products or new versions of products as described above under *Software Products and Services*.
- The changes made in our sales, marketing and engineering activities as described above under *Solutions Perspective and Trends*.
- Our focus on leveraging the changes to our sales and marketing activities described above toward new customers who may not have previously used our products. While sales to existing customers often consist primarily of new modules added to existing software licenses, new customers present the potential for higher license sales since they typically need to purchase a license to our core products in addition to licenses for additional modules.

M&S revenue increased 12.7% primarily as a result of:

- Increased licenses sales since a majority of license sales, particularly those related to EFT, are accompanied by an M&S contract, and
- Sustaining high renewal rates of M&S contracts by customers who initially purchased these services in earlier periods. We believe these renewals result from our programs designed to provide high-quality and responsive M&S services to our customers.

License revenue increased as a percent of our total revenue from 33.4% in the 2014 quarter to 35.7% in 2015 quarter. As part of growing revenue in total, we are focused on increasing license revenue both in terms of absolute dollars and as a percent of total revenue. When we sell our licensed products, we also typically create a recurring revenue stream from M&S since almost all purchasers of our licensed products, particularly EFT, also purchase an M&S contract. In general and depending upon the level of M&S a customer purchases, this recurring revenue stream is 20% to 30% per year of the price of the underlying software license to which the M&S relates. Our M&S contracts are typically for one year, with some customers buying two or three year contracts. The customer pays us the M&S fee for the entire term of the agreement at the time the contract begins. We recognize that amount as revenue ratably in future periods over the term of the contract. We typically experience a high renewal rate for M&S services so long as a customer continues using the licensed product they purchased from us. As a result, growing license revenue not only contributes to increasing revenue growth at the time the license is sold but also provides a foundation for future recurring revenue as the purchasers of our licensed products continually renew M&S agreements to support their ongoing product support needs. This pattern of activity can create a cumulative effect for M&S renewals as a result of the cumulative number of licensed software installations sold over multiple years that create M&S renewals in any single year predictably (and in line with our expectations) exceeding the number of new software licenses we sell in a single year. We expect this cumulative effect to continue to grow if we continue to increase software license revenue in future periods.

**Cost of Revenues.** These costs consist primarily of royalties, a portion of our internet access costs, hosted service expenses for our products delivered as a SaaS offering, and expenses directly associated with professional services delivery. Cost of revenues increased 21.5% primarily due to the associated increase in our revenue.

**Selling, General and Administrative.** These expenses increased 13.1% primarily due to the enhanced sales and marketing initiatives described above in the discussion of our revenue trends. In particular, we increased our expenditures in the areas of sales lead generation and recruitment and enrollment of third-party resellers.

**Research and Development.** The overall profile of our research and development activities was as follows (\$ in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
R&D expenditures capitalized	\$ 691	\$ 751
R&D expenditures expensed	513	527
<b>Total R&amp;D expenditures</b>	<b>\$ 1,204</b>	<b>\$ 1,278</b>

Total research and development expenditures decreased 6%. While the scope and magnitude of our software development activities was substantially the same between these periods, the cost of that work was less in the 2015 quarter compared to the 2014 quarter due to increased use of our employees to do this work in the 2015 quarter compared to the 2014 quarter when relied more on the use of higher cost, third-party software developers.

Total resources expended for R&D set forth above as R&D expenditures serves to illustrate our total corporate efforts to improve our existing products and to develop new products regardless of whether or not our expenditures for those efforts were expensed or capitalized. Total resources expended for R&D is not a measure of financial performance under GAAP and should not be considered a substitute for R&D expense and capitalized software development costs individually. While we believe the non-GAAP, total resources expended for R&D amount provides useful supplemental information regarding our overall corporate product improvement and new product creation activities, there are limitations associated with the use of this non-GAAP measurement. Total resources expended for R&D is a non-GAAP measure not prepared in accordance with GAAP and may not be comparable to similarly titled measures of other companies since there is no standard for preparing this non-GAAP measure. As a result, this non-GAAP measure of total resources expended for R&D has limitations and should not be considered in isolation from, or as a substitute for, R&D expense and capitalized software development cost individually.

**Depreciation and Amortization.** This expense increased 104% primarily due to: increased amortization of capitalized software development costs due to a greater number of our products for which development costs were capitalized being completed and brought to market.

**Other Expense, Net.** This expense decreased due to the elimination of interest expense related the note payable paid-in-full during 2014.

**Income Taxes.** Our effective tax rate was 35.5% for the 2015 quarter and 32.1% for the 2014 quarter. These rates differed from a federal statutory tax rate of 34% primarily due to:

- The domestic production activities deduction taken on our federal income tax return that is not an expense for financial statement purposes.

Offset by:

- Certain expenses in our financial statements, such as a portion of meals and entertainment expenses, that are not deductible on our federal income tax return.
- State income taxes included in income tax expense in our financial statements.

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

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 three months ended March 31, 2015, approximately 27% of our sales came from customers outside the United States. We receive all revenue in U.S. dollars, so we have no material exchange rate risk with regard to the sales. We charge Value Added Taxes to our non-business customers in the European Union. We remit these taxes periodically in pound sterling. The impact of this currency translation has not been material to our business.

### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, our President and Chief Executive Officer and our 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 three months ended March 31, 2015, 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

None.

### 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 2014 Form 10-K filed with the Securities and Exchange Commission on March 30, 2015. These risk factors could materially affect our business, financial condition or future results, but they 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.](#)
- 101 Interactive Data File.

**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.**

\_\_\_\_\_  
May 14, 2015

Date

\_\_\_\_\_  
By: /s/ James W. Albrecht, Jr.

James W. Albrecht, Jr.  
Chief Financial Officer

## CERTIFICATIONS

I, James Bindseil, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal 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: May 14, 2015

/s/ James Bindseil

James Bindseil  
President and Chief Executive Officer

## CERTIFICATIONS

I, James W. Albrecht, Jr, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal 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: May 14, 2015

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



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

In connection with the Quarterly Report of GlobalSCAPE, Inc. on Form 10-Q for the period ending March 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, James L. Bindseil, Chief Executive Officer and James W. Albrecht, Jr., Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

May 14, 2015

/s/ James L. Bindseil

James L. Bindseil  
President and Chief Executive Officer

/s/ James W. Albrecht, Jr.

James W. Albrecht, Jr.  
Chief Financial Officer