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

FORM 10-Q

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

For the Quarterly Period ended September 30, 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

GlobalSCAPE, Inc.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x 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). x Yes ¨ No

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

As of November 3, 2015, there were 21,318,967 shares of common stock outstanding.

GlobalSCAPE Inc.

Quarterly Report on Form 10-Q

For the Quarter ended September 30, 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

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 12,858	$ 11,358
Accounts receivable (net of allowance for doubtful accounts of $500 and $511 in 2015 and 2014, respectively)	7,481	5,938
Current deferred tax asset	313	402
Prepaid expenses	334	488
Total current assets	20,986	18,186
Fixed assets, net	520	616
Long term investments	3,233	3,185
Capitalized software development costs	3,999	3,298
Goodwill	12,712	12,712
Deferred tax asset	699	290
Other assets	63	100
Total assets	$ 42,212	$ 38,387
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 354	$ 1,111
Accrued expenses	1,600	1,590
Deferred revenue	11,848	11,411
Income taxes payable	356	2
Total current liabilities	14,158	14,114
Deferred revenue, non-current portion	3,487	3,393
Other long term liabilities	47	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, 21,318,967 and 20,989,267 shares issued at September 30, 2015, and December 31, 2014, respectively	21	21
Additional paid-in capital	19,318	18,370
Treasury stock, 403,581 shares, at cost, at September 30, 2015 and December 31, 2014	(1,452)	(1,452)
Retained earnings	6,633	3,889
Total stockholders' equity	24,520	20,828
Total liabilities and stockholders' equity	$ 42,212	$ 38,387

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)

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Operating Revenues:				
Software licenses	$ 2,852	$ 2,291	$ 8,590	$ 6,789
Maintenance and support	4,142	3,790	12,269	11,181
Professional services	653	409	1,531	933
Total Revenues	7,647	6,490	22,390	18,903
Operating Expenses:				
Cost of revenues	458	277	1,066	679
Selling, general and administrative	4,355	4,173	13,472	13,077
Research and development	646	513	1,832	1,722
Depreciation and amortization	433	263	1,116	580
Total operating expenses	5,892	5,226	17,486	16,058
Income from operations	1,755	1,264	4,904	2,845
Other income (expense), net	17	(11)	51	(58)
Income before income taxes	1,772	1,253	4,955	2,787
Income tax expense	542	471	1,585	982
Net income	$ 1,230	$ 782	$ 3,370	$ 1,805
Comprehensive income	$ 1,230	$ 782	$ 3,370	$ 1,805
Net income per common share -				
Basic	$ 0.06	$ 0.04	$ 0.16	$ 0.09
Diluted	$ 0.06	$ 0.04	$ 0.16	$ 0.09
Weighted average shares outstanding:				
Basic	20,892	20,487	20,782	20,024
Diluted	21,440	20,890	21,294	20,624
Cash dividends declared per share	$ 0.015	-	$ 0.030	-

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)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total
Balances at December 31, 2014	20,989,267	$ 21	$ 18,370	$ (1,452)	$ 3,889	$ 20,828
Shares issued upon exercise of stock options			417			417
Shares issued upon award of restricted stock						
Stock-based compensation expense:						
Stock options	249,700		303			303
Restricted stock	80,000		179			179
Net increase in excess tax benefit from stock-based compensation			49			49
Common stock cash dividends of $0.030 per share					(626)	(626)
Net income					3,370	3,370
Balances at September 30, 2015	21,318,967	$ 21	$ 19,318	$ (1,452)	$ 6,633	$ 24,520

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)

	For the Nine Months Ended September 30, 2015	2014
Operating Activities:		
Net income	$ 3,370	$ 1,805
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	147	318
Depreciation and amortization	1,116	580
Stock-based compensation	482	380
Deferred taxes	(320)	740
Excess tax benefit from share-based compensation	(49)	212
Subtotal before changes in operating assets and liabilities	4,746	4,035
Changes in operating assets and liabilities:		
Accounts receivable	(1,690)	(3,275)
Prepaid expenses	154	85
Other assets	37	10
Deferred revenue	531	3,405
Accounts payable	(757)	(24)
Accrued expenses	10	398
Other long-term liabilities	(5)	(6)
Income tax receivable and payable	403	(132)
Net cash provided by operating activities	3,429	4,496
Investing Activities:		
Software development costs capitalized	(1,613)	(2,028)
Purchase of property and equipment	(108)	(215)
Interest reinvested in long term investments	(48)	(47)
Net cash (used in) investing activities	(1,769)	(2,290)
Financing Activities:		
Proceeds from exercise of stock options	417	2,201
Excess tax benefit from share-based compensation	49	(212)
Notes payable principal payments	-	(4,385)
Dividends paid	(626)	-
Net cash (used in) financing activities	(160)	(2,396)
Net increase in cash	1,500	(190)
Cash at beginning of period	11,358	9,455
Cash at end of period	$ 12,858	$ 9,265
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ -	$ 117
Income taxes	$ 1,341	$ 642

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

GlobalSCAPE, Inc.

Notes to Condensed Consolidated Financial Statements

As of September 30, 2015 and For the Three and Nine 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 cloud-based 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 Enhanced File Transfer, or EFT. We have other products that complement our secure information exchange offerings portfolio.

Throughout these notes unless otherwise noted, our references to the 2015 quarter and the 2014 quarter refer to the three months ended September 30, 2015 and 2014, respectively. Our references to the 2015 nine months and the 2014 nine months refer to the nine months ended September 30, 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 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 nine months compared to the 2014 nine months 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 some of our sales. We do not include sales tax collected in our revenue. We record it as a liability payable to taxing authorities.

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 was 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.
- We estimate a dividend yield based on our historical and expected future dividend payments.

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 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, 2018, 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):

	September 30 2015	December 31 2014
Gross capitalized cost	$ 5,690	$ 4,077
Accumulated amortization	(1,691)	(779)
Net balance	$ 3,999	$ 3,298

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Amount capitalized	$ 506	$ 744	$ 1,613	$ 2,028
Amortization expense	(367)	(186)	(912)	(359)

	Released Products	Unreleased Products
Gross capitalized amount at September 30, 2015	$ 4,400	$ 1,290
Future amortization expense:		
Three months ending December 31, 2015	339	
Year ending December 31,		
2016	1,293	
2017	889	
2018	188	
Total	$ 2,709	

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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Share-based compensation expense	$ 167	$ 120	$ 482	$ 380

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 3,000,000 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 vest 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 or 2014 periods.
- As of September 30, 2015, stock-based incentives for up to 1,007,250 shares remained available for issuance in the future under this plan.

Our stock option activity has been as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2014	2,022,175	$ 2.12	6.07	$ 710
Granted	423,000	$ 3.17		
Forfeited	(121,310)	$ 2.44		
Exercised	(249,700)	$ 1.67		
Outstanding at September 30, 2015	2,074,165	$ 2.37	6.21	$ 1,999
Exercisable at September 30, 2015	1,323,899	$ 2.18	4.69	$ 1,570

Additional information about our stock options is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average fair value of options granted	$ 1.42	$ 1.34	$ 1.38	$ 1.30
Intrinsic value of options exercised	$ 105,450	$ 160,984	$ 386,408	$ 1,080,291
Cash received from stock options exercised	$ 98,706	$ 214,556	$ 416,680	$ 2,201,368
Number of options that vested	93,290	83,590	274,824	232,910
Fair value of options that vested	$ 97,679	$ 83,070	$ 296,886	$ 231,057
Unrecognized compensation expense related to non-vested options at end of period	$ 753,846	$ 611,569	$ 753,846	$ 611,569
Weighted average years over which non-vested option expense will be recognized	2.0	2.0	2.0	2.0

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Expected volatility	56%	58%	57%	56%
Expected annual dividend yield	2.40%	-	2.40%	-
Risk free rate of return	1.75%	1.88%	1.59%	1.93%
Expected option term (years)	6.00	6.00	6.00	6.00

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

Restricted Stock Awards

In May 2015, we adopted the 2015 Non-Employee Directors Long Term Incentive Plan (“2015 Directors Plan”). This plan provides for the issuance of either stock options or restricted stock awards for up to 500,000 shares of our common stock. Provisions and characteristics of this plan include 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.

Our restricted stock awards activity has been as follows:

	Number of Shares	Grant Date Fair Value Per Share	Total Fair Value of Shares That Vested
Restricted Shares Outstanding at December 31, 2014	80,000	$ 2.32	
Shares granted with restrictions	80,000	$ 3.34	
Shares vested and restrictions removed	(80,000)	$ 2.32	$ 267,200
Restricted Shares Outstanding at September 30, 2015	80,000	$ 3.34	
Shares remaining available under the plan for future issuance	420,000		
Unrecognized compensation expense for non-vested shares as of September 30, 2015			
Expense to be recognized in future periods	$ 165,271		
Weighted average number of months over which expense is expected to be recognized	7.00		

We have not issued any stock options under the 2015 Directors Plan.

The 2015 Directors Plan replaced the 2006 Non-Employee Directors Long Term Incentive Plan. We will not issue any additional stock or stock options under the 2006 plan.

6. Income Taxes

Our income tax expense 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income tax expense at federal statutory rate	$ 603	$ 426	$ 1,685	$ 948
Increase (decrease) in taxes resulting from:				
Domestic production activities deduction	(30)	(8)	(77)	(18)
Research and development credit	(123)		(127)	
State taxes, net of federal benefit	(5)	15	33	24
Reduction in reserve for uncertain tax positions	110	-	76	-
Other	(13)	38	(5)	28
Income tax expense per the statement of operations	$ 542	$ 471	$ 1,585	$ 982

We claim the research and experimentation tax credit, or R&D tax credit, on our tax returns and have included the effect of those credits in our provisions for income taxes. The Internal Revenue Service, or IRS, has completed its routine examination of our tax returns through 2010 with their findings resulting in a larger portion of the R&D tax credit we claimed being allowed than we had previously estimated. Our tax returns for 2011 and later remain subject to examination by the IRS. We believe it more-likely-than-not that examination of those tax returns for 2011 and later could result in a portion of the R&D tax credits we claimed for those years not being allowed by the IRS. After considering the effects of these items collectively, as of September 30, 2015, we have a reserve of $152,000 against R&D tax credits claimed on our tax returns for 2011 and later due to the uncertainty of sustaining those credits.

As of September 30, 2015, we had federal income tax net operating loss carry forwards of $487,000 available to offset future federal taxable income, if any. These carry forwards expire in 2030 and 2031. We have recorded a deferred tax asset for the estimated future tax benefits we believe we will realize from the application of these carryforwards against future taxable income.

We have a capital loss carryforward of $3.2 million available for use through 2017 to offset future capital gains for federal income tax purposes. We also have $55,000 of research and development activities tax credits available to offset future Texas franchise tax expense through 2035. We have not recorded a deferred tax asset for these carryforwards due to the uncertainty of the whether or not we will have items in our tax computations in future periods against which to apply these carryforwards.

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 during the 2015 quarter or 2015 nine months. The R&D tax credit for 2014 was enacted in December 2014. Accordingly, we recorded that credit for all of 2014 during the three months ended December 31, 2014, and did not record a benefit for that credit during the 2014 quarter or the 2014 nine months.

7. Earnings per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 1,230	$ 782	$ 3,370	$ 1,805
Weighted average shares outstanding - basic	20,892	20,487	20,782	20,024
Stock options	548	403	512	600
Weighted average shares outstanding - diluted	21,440	20,890	21,294	20,624
Net income per common share - basic	$ 0.06	$ 0.04	$ 0.16	$ 0.09
Net income per common share - diluted	$ 0.06	$ 0.04	$ 0.16	$ 0.09

8. Dividends

During 2015, our Board of Directors declared quarterly dividends as follows:

	Three Months Ended	
	June 30, 2015	September 30, 2015
Dividend per share of common stock	$ 0.015	$ 0.015
Dividend record date	May 19, 2015	August 24, 2015
Dividend payment date	June 3, 2015	September 3, 2015

9. 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 $1.2 million.

10. Concentration of Business Volume and Credit Risk

In order to leverage the resources of third parties, we make our products available for purchase by end users through third-party, channel resellers even though those end users can also purchase those products directly from us. During the nine months ended September 30, 2015, we earned approximately 11% of our revenue from such sales through our largest, third party, channel reseller.

As of September 30, 2015, a customer to whom we sell directly as an end-user (i.e. not through a third-party, channel reseller) comprised 23% of our accounts receivable but does not comprise more than 10% of our revenue. We believe we will receive payment of that amount.

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 September 30, 2015 and 2014, respectively. Our references to the 2015 nine months and the 2014 nine months refer to the nine months ended September 30, 2015 and 2014, respectively.

Overview

We provide secure information exchange capabilities for enterprises and consumers through the development and distribution of software, delivery of cloud-based 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 securely addresses data and information management, movement, 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.

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 we believe exceed many cloud-based, file sharing services. 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.

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.

We also offer, both directly and through our partners, our software products as a cloud-based subscription solution. This solution allows 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 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. Along with our partners, 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:
  - Listed as a Champion in the Info Tech Research Group Managed File Transfer Vendor Landscape for the second consecutive time.
  - Named one of the best places to work in the information technologies small business category by *Computerworld* for the fourth time.
  - Named as one of San Antonio’s best places to work by the *San Antonio Business Journal* for the fourth time in the medium size category.
  - 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.
  - Named to the *San Antonio Business Journal’s* 2015 Fast Track list for companies with $10 million or more in revenue.
  - Named by the San Antonio Express News as the #1 Top Workplace for 2015 in the small company 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 SMBs 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 cloud-based model. We have also 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, through organizational realignment and hiring people with improved skillsets, we increased our commitment to research and development 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 capacity 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 enterprise products also purchase an M&S contract. Our M&S contracts are typically for one year with a growing trend toward 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 for our enterprise products 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 enterprise software license revenue in future periods.

For more information, see *Comparison of the Statement of Operations for the Three Months Ended September 30, 2015 and 2014* and *Comparison of the Statement of Operations for the Nine Months Ended September 30, 2015 and 2014.*

Bookings (Non-GAAP Measurement)

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 arise from sales of software licenses, M&S, and professional services to our customers that consist of:

- Invoiced amounts for which we recognize revenue currently.
- Invoiced amounts for products and services sold for which we will recognize revenue in future periods.
- Statements of work under which customers have engaged us to deliver professional services which we will invoice in the future as we complete that work.

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.

Our bookings trends and the reconciliation of bookings to revenue are as follows ($ in thousands):

	Three Months Ending September 30		Nine Months Ending September 30	
	2015	2014	2015	2014
Bookings	$ 9,869	$ 8,553	$ 24,011	$ 22,305
Products and services sold for which we will recognize revenue at a future date when the goods and services are delivered to and accepted by the customer	(6,772)	(6,372)	(15,455)	(15,807)
Products and services delivered to and accepted by the customer for which revenue recognition had been deferred at the time of booking	4,550	4,309	13,834	12,405
Revenue	$ 7,647	$ 6,490	$ 22,390	$ 18,903

Bookings during the three and nine months ended September 30, 2015, increased compared with bookings during the three and nine months ended September 30, 2014, primarily due to new sales and marketing campaigns that began in late 2014 from which we began to realize increased bookings during 2015.

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 the ongoing 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.

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 1,230	$ 782	$ 3,370	$ 1,805
Add (subtract) items to determine adjusted EBITDA excluding infrequent items:				
Income tax expense	542	471	1,585	982
Interest (income) expense, net	(17)	12	(51)	59
Depreciation and amortization:				
Total depreciation and amortization	433	263	1,116	580
Amortization of capitalized software development costs	(366)	(186)	(911)	(359)
Stock-based compensation expense	167	120	482	380
Infrequent items	-	-	-	-
Adjusted EBITDA excluding infrequent items	$ 1,989	$ 1,462	$ 5,591	$ 3,447

See the section below comparing our results of operations for the 2015 quarter and the 2014 quarter and the 2015 nine months and 2014 nine months 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. 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 and the 2015 nine months and the 2014 nine months, 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

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.
- Enhanced and expanded event rule functionality which improves the ability to integrate our products with client business processes and backend systems

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 EFT 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 EFT

If a customer prefers to have our EFT products and solutions delivered to them as a cloud-based service, they can subscribe to our EFT Cloud Services. The features, functions and capabilities of our EFT products delivered in this manner are equivalent to those of our licensed EFT products discussed above.

These cloud-based offerings provide a flexible continuum of services that give the customer the ability to pick and choose the extent to which they want to own or outsource the capabilities of our EFT products. EFT Cloud Services gives organizations the flexibility of either a hybrid cloud or virtual environment with the security of an on-premises managed file transfer solution. Users of EFT Cloud Services have the option to work with a variety of top hosting providers that best fit their needs. We offer flexible subscription pricing under one, two, and three-year contracts that can help our customers minimize or eliminate upfront capital expenditures and reduce their ongoing operating costs. This subscription revenue provides us with a 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.

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 software-as-service, or 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 we believe 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.

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.

Our most recently updated versions of WAFS 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 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.

Our most recent update of Mail Express introduced new features 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.
- New elements to facilitate improved integration with our EFT product suite.
- Additional international language support.
- A dashboard allowing additional administrator visibility into all connected clients.

We can deliver Mail Express as software installed on the customer’s premises or as a SaaS, cloud-based solution. 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.

Consumer-Based File Transfer Solution

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.

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.

To facilitate self-help for common inquiries and issues, we also provide free, self-service support via user-managed searchable knowledge bases and forums on our website for those customers who prefer to assist themselves or for those without an active M&S contract.

Solution Perspective and Trends

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

	Three Months Ended September 30, 2015		2014		Nine Months Ended September 30, 2015		2014	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
Revenue by Product								
EFT Enterprise and Standard	$ 6,076	79.5%	$ 5,194	80.0%	$ 17,946	80.2%	$ 15,187	80.3%
Professional Services	653	8.5%	409	6.3%	1,531	6.8%	933	4.9%
Wide Area File Services	235	3.1%	328	5.1%	764	3.4%	1,090	5.8%
CuteFTP	240	3.1%	212	3.3%	665	3.0%	686	3.6%
Other	443	5.8%	347	5.3%	1,484	6.6%	1,007	5.4%
Total Revenue	$ 7,647	100.0%	$ 6,490	100.0%	$ 22,390	100.0%	$ 18,903	100.0%
Revenue by Type								
License Revenue	$ 2,852	37.3%	$ 2,291	35.3%	$ 8,590	38.4%	$ 6,789	36.0%
M&S Revenue	4,142	54.2%	3,790	58.4%	12,269	54.8%	11,181	59.1%
Professional Services	653	8.5%	409	6.3%	1,531	6.8%	933	4.9%
Total Revenue	$ 7,647	100.0%	$ 6,490	100.0%	$ 22,390	100.0%	$ 18,903	100.0%

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 capacity 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 ongoing enhancement of our organizational structure and adding resources as required. As result, we are able to optimize the manner in which we assess the development of new technologies, enhance our approach to managing those projects and shorten the timelines required to accomplish our objectives.

Our total revenue increased 17.8% in the 2015 quarter compared to the 2014 quarter and 18.4% in the 2015 nine months compared to the 2014 nine months. License revenue increased 24.5% in the 2015 quarter compared to the 2014 quarter and 26.5% in the 2015 nine months compared to the 2014 nine months. M&S revenue increased 9.3% in the 2015 quarter compared to the 2014 quarter and 9.7% in the 2015 nine months compared to the 2014 nine months. In general, these increases were 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 September 30, 2015 and 2014,* and *Comparison of the Statement of Operations for the Nine months Ended September 30, 2015 and 2014.*

Liquidity and Capital Resources

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

	September 30, 2015	December 31, 2014
Cash and cash equivalents	$ 12,858	$ 11,358
Long term investments	3,233	3,185
Total cash, cash equivalents and long term investments	$ 16,091	$ 14,543
Working capital	$ 6,828	$ 4,072
Deferred revenue, current portion	$ 11,848	$ 11,411
Working capital plus current deferred revenue (non-GAAP presentation)	$ 18,676	$ 15,483

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):

	Cash Provided (Used) During the Nine Months Ended September 30,	
	2015	2014
Operating activities	$ 3,429	$ 4,496
Investing activities	(1,769)	(2,290)
Financing activities	(160)	(2,396)

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

- Deferred revenue increasing $531,000 during the 2015 nine months compared to increasing $3.4 million during the 2014 nine months. During the 2014 nine months, we successfully migrated a number of customers with expiring, one-year M&S contracts to renewed M&S contracts with terms of two or three years based on our objective of achieving a longer-term revenue commitment from those customers. Since at its inception a multi-year M&S contracts yields a larger cash payment than a single year contract, our deferred revenue increased more during the 2014 nine months than we had typically experienced in the past. Since those multi-year contracts were not due for renewal during the 2015 nine months, there was no similar increase in deferred revenue during the 2015 nine months.
- Accounts payable decreasing $757,000 in the 2015 nine months compared to decreasing $24,000 during the 2014 nine months primarily due to payments during the 2015 nine months of payables outstanding as of December 31, 2014, to third-party software developers and outside marketing firms which arose from our increased activities in those areas during 2014 compared to 2013. Accordingly, we did not have payables at a comparable level at December 31, 2013, to be paid in 2014.
- Accrued expenses increasing $10,000 in the 2015 nine months compared to increasing $398,000 in the 2014 nine months due primarily 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.

Offset by

- 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, increasing from $4.0 million in the 2014 nine months to $4.7 million in the 2015 nine months. See the section below under *Comparison of the Statement of Operations for the Nine Months Ended September 30, 2015 and 2014* for a discussion of the changes in the components of these amounts.
- Accounts receivable increasing $1.7 million during the 2015 nine months compared to increasing $3.3 million during the 2014 nine months primarily due to our enhanced efforts to collect timely payments from our customers.
- Income tax receivable and payable increasing $403,000 during the 2015 nine months compared to decreasing $132,000 during the 2014 nine months 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 nine months compared to the 2014 nine months 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 nine months compared to the 2014 nine months due to increased use of our employees to do this work in the 2015 nine months compared to the 2014 nine months when we relied more on the use of higher cost, third-party software developers.

The decreased use of cash for financing activities during the 2015 nine months compared to the 2014 nine months 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 nine months being a result of changes in management leadership during that period which is an event that did not occur during the 2015 nine months.
- 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 nine months since our notes payable that were outstanding during the 2014 nine months were paid-in-full during the quarter ended September 30, 2014.
- The payment of cash dividends during the 2015 nine months with no such payment during the 2014 nine months.

Our primary obligations at September 30, 2015 were:

- An obligation to deliver services in the future to satisfy our right to earn our deferred revenue of $15.3 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 September 30, 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 September 30, 2015, consisted primarily of the lease for our office space with amounts due as follows ($ in thousands):

	Amounts Due for the Period				
	Three Months Ending December 31, 2015	Fiscal Years 2016 - 2017	2018 - 2020	Thereafter	Total
Operating leases	$ 90	$ 720	$ 480	$ -	$ 1,290

Comparison of the Statement of Operations for the Three Months Ended September 30, 2015 and 2014

	Three Months Ended September 30, 2015	2014	$ Change
	$ in thousands		
Total revenues	$ 7,647	$ 6,490	$ 1,157
Cost of revenues	458	277	181
Selling, general and administrative expenses	4,355	4,173	182
Research and development expenses	646	513	133
Depreciation and amortization	433	263	170
Total operating expenses	5,892	5,226	666
Income from operations	1,755	1,264	491
Other income (expense), net	17	(11)	28
Net income before income taxes	1,772	1,253	519
Income tax expense	542	471	71
Net income	$ 1,230	$ 782	$ 448

In the discussions below, we refer to the three months ended September 30, 2015, as the "2015 quarter" and the three months ended September 30, 2014, as the "2014 quarter". The percentage changes cited in our discussions 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 cloud-based service under our EFT Cloud Services brand 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 from which 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 September 30,			
	2015		2014	
	$ in thousands			
	Amount	% of Total Revenue	Amount	% of Total Revenue
Revenue by Product				
EFT Enterprise and Standard	$ 6,076	79.5%	$ 5,194	80.0%
Professional Services	653	8.5%	409	6.3%
Wide Area File Services	235	3.1%	328	5.1%
CuteFTP	240	3.1%	212	3.3%
Other	443	5.8%	347	5.3%
Total Revenue	$ 7,647	100.0%	$ 6,490	100.0%
Revenue by Type				
Software licenses	$ 2,852	37.3%	$ 2,291	35.3%
M&S revenue	4,142	54.2%	3,790	58.4%
Professional services	653	8.5%	409	6.3%
Total Revenue	$ 7,647	100.0%	$ 6,490	100.0%

Our total revenue increased 17.8% 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 by 17.0% primarily due to our continued focus of 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.

- Professional services revenue increased by 59.7% due to the increase in sales of our EFT Enterprise and Standard products with which our professional services are most closely associated, an increase in the frequency of sales of professional services when licenses are sold either directly or through third-party channel resellers, and an enhanced focus on managing our queue of professional services projects to be delivered in order to sustain a high level of customer service.

- WAFS revenue decreased by 28.4% 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. Subsequent to September 30, 2015, we substantially completed our internal development of new version 5 which, when released, will introduce a new communications mechanism that will greatly enhance the speed, reliability, and scalability of the product. This release will benefit not only the server replication scenarios where WAFS has been successfully leveraged in the past but will extend the benefits to remote users desktops as well.

- CuteFTP revenue increased by 13.2% primarily as a result of some larger-than-average purchases by certain governmental agencies.

- Other revenue increased by 27.7% primarily due to increased interest in the marketplace in procuring our managed file transfer solutions though EFT Cloud Services and increased deliveries of Mail Express due to enhancements to this product during 2014 that have been available throughout 2015.

License revenue increased by 24.5%. 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 for our core products in addition to licenses for additional modules.

M&S revenue increased 9.3% primarily as a result of:

- Increased license sales since a majority of license sales are accompanied by an M&S contract. The percentage increase in M&S revenue typically lags behind the related percentage increase in license revenue because license sales are recognized as revenue in full in the period the license is delivered while the related M&S revenue is recognized in future periods as those services are delivered.
- 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 35.3% in the 2014 quarter to 37.3% in the 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 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 for our enterprise products 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 enterprise 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 EFT Cloud Services, and expenses directly associated with professional services delivery. Cost of revenues increased 65.3% primarily due to increased demand for our professional services which created a need for us to engage additional, more expensive third-party resources to meet that demand in a timely manner.

Selling, General and Administrative. These expenses increased 4.4% primarily due to:

- Increased salaries and wages for sales, marketing and management information systems personnel due to competitive demands in the marketplace increasing compensation rates for these skills in the software industry.
- Increased recruiting fees paid to identify and hire qualified personnel in a competitive marketplace.
- Increased sales commissions due to higher sales.

Offset by:

- Lower contract labor fees due to replacing temporary personnel with permanent employees at a lower cost.
- Commencement of new and enhanced sales and marketing initiatives in the areas of sales lead generation and recruitment and enrollment of third-party resellers in the 2014 quarter for which some of the expenses were initiation costs that we did not incur again in the 2015 quarter.
- Lower bad debt expense in the 2015 quarter compared to the 2014 quarter due to enhanced accounts receivable collection activities.

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

	Three Months Ended September 30,	
	2015	2014
R&D expenditures capitalized	$ 506	$ 744
R&D expenditures expensed	646	513
Total R&D expenditures (non-GAAP measurement)	$ 1,152	$ 1,257

Total research and development expenditures decreased 8.35%. While the scope and magnitude of our software development activities has continued to grow between these periods, the cost of performing that work was less in the 2015 quarter compared to the 2014 quarter due to:

- Increased use of our employees as an internal resource to do this work in the 2015 quarter compared to the 2014 quarter when we relied more on the use of higher cost, third-party software developers.
- Enhancement of relationships with third-party developers we continue to use by replacing legacy arrangements carrying higher costs and lower value with more cost effective and efficient arrangements.

Total resources expended for R&D set forth above as total 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 64.6% 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 Income (Expense), Net. The other expense (net) in the 2014 quarter was due to interest expense incurred during that period related to the note payable which was paid-in-full during that period. Since we had no such expense during the 2015 period, we had other income (net) consisting primarily of interest income earned on long term investments.

Income Taxes. Our effective tax rate was 30.6% for the 2015 quarter and 37.6% 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.

In addition to the factors above, our effective tax rate for the 2015 quarter was lower than the federal statutory tax rate of 34% and lower than our effective tax rate for the 2014 quarter due to the research and development tax credit claimed on our 2014 federal income tax return when it was filed being higher than previously estimated with the adjustment to that higher amount being recorded in the 2015 quarter.

Comparison of the Statement of Operations for the Nine Months Ended September 30, 2015 and 2014

	Nine Months Ended September 30,		
	2015	**2014**	**$ Change**
		$ in thousands	
Total revenues	$ 22,390	$ 18,903	$ 3,487
Cost of revenues	1,066	679	387
Selling, general and administrative expenses	13,472	13,077	395
Research and development expenses	1,832	1,722	110
Depreciation and amortization	1,116	580	536
Total operating expenses	17,486	16,058	1,428
Income from operations	4,904	2,845	2,059
Other income (expense)	51	(58)	109
Net income before income taxes	4,955	2,787	2,168
Income tax expense	1,585	982	603
Net income	$ 3,370	$ 1,805	$ 1,565

In the discussions below, we refer to the nine months ended September 30, 2015, as the "2015 nine months" and the nine months ended September 30, 2014, as the "2014 nine months". The percentage changes cited in our discussions below are based on the 2015 nine month amounts compared to the 2014 nine month 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 cloud-based service under our EFT Cloud Services brand 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 from which 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):

	Nine Months Ended September 30,			
	2015		2014	
	$ in thousands			
	Amount	% of Total Revenue	Amount	% of Total Revenue
Revenue by Product				
EFT Enterprise and Standard	$ 17,946	80.2%	$ 15,187	80.3%
Professional Services	1,531	6.8%	933	4.9%
Wide Area File Services	764	3.4%	1,090	5.8%
CuteFTP	665	3.0%	686	3.6%
Other	1,484	6.6%	1,007	5.4%
Total Revenue	$ 22,390	100.0%	$ 18,903	100.0%
Revenue by Type				
Software licenses	$ 8,590	38.4%	$ 6,789	36.0%
M&S revenue	12,269	54.8%	11,181	59.1%
Professional services	1,531	6.8%	933	4.9%
Total Revenue	$ 22,390	100.0%	$ 18,903	100.0%

Our total revenue increased 18.4% in the 2015 nine months compared to the 2014 nine months. 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 18.2% primarily due to our continued focus of 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.

- Professional services revenue increased by 64.1% due to the increase in sales of our EFT Enterprise and Standard products to which our professional services are most closely associated, an increase in the frequency of sales of professional services when licenses are sold either directly or through third-party channel resellers, and an enhanced focus on managing our queue of professional services projects to be delivered in order to sustain a high level of customer service.

- WAFS revenue decreased by 29.9% 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. Subsequent to September 30, 2015, we substantially completed our internal development of new version 5 which, when released, will introduce a new communications mechanism that will greatly enhance the speed, reliability, and scalability of the product. This release will benefit not only the server replication scenarios where WAFS has been successfully leveraged in the past but will extend the benefits to remote users desktops as well.

- CuteFTP revenue decreased by 3.1% 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 by 47.4% primarily due to increased interest in the marketplace in procuring our managed file transfer solutions though EFT Cloud Services and increased deliveries of Mail Express due to enhancements to this product during 2014 that have been available throughout 2015.

License revenue increased by 26.5%. 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 9.7% primarily as a result of:

- Increased licenses sales since a majority of license sales are accompanied by an M&S contract. The percentage increase in M&S revenue typically lags behind the related percentage increase in license revenue because license sales are recognized as revenue in full in the period the license is delivered while the related M&S revenue is recognized in future periods as those services are delivered.

- 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 36.0% in the 2014 nine months to 38.4% in the 2015 nine months. 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 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 for our enterprise products 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 enterprise software license revenue in future periods.

In order to leverage the resources of third parties, we make our products available for purchase by end users through third-party, channel resellers even though those end users can also purchase those products directly from us. During the nine months ended September 30, 2015, we earned approximately 11% of our revenue from such sales through our largest, third party, channel reseller.

We enter into agreements with third-party, channel resellers in the ordinary course of business. These agreements may be terminated with or without cause by either party with advance notice in which event we believe we would be able to engage alternative resellers or other distribution channels to sell and deliver our products to end-customers within a reasonable period of time. In the event of such termination, while we could experience a short-term disruption in the distribution of our products and a short-term decrease in the growth rate of our revenue, we believe such a termination would not have a material, adverse effect on our results of operations or financial position.

As of September 30, 2015, a customer to whom we sell directly as an end-user (i.e. not through a third-party, channel reseller) comprised 23% of our accounts receivable but does not comprise more than 10% of our revenue. We believe we will receive payment of that amount.

Cost of Revenues. These costs consist primarily of royalties, a portion of our internet access costs, hosted service expenses for EFT Cloud Services, and expenses directly associated with professional services delivery. Cost of revenues increased 57.0% primarily due to increased demand for our professional services which created a need for us to engage additional, more expensive third-party resources to meet that demand in a timely manner.

Selling, General and Administrative. These expenses increased 3.0% primarily due to:

- Increased salaries and wages for sales, marketing and management information systems personnel due to competitive demands in the marketplace increasing compensation rates for these skills in the software industry.
- Increased recruiting fees paid to identify and hire qualified personnel in a competitive marketplace.
- Increased sales commissions due to higher sales.

Offset by:

- Lower contract labor fees due to replacing temporary personnel with permanent employees at a lower cost.
- Commencement of new and enhanced sales and marketing initiatives in the areas of sales lead generation and recruitment and enrollment of third-party resellers in the 2014 nine months for which some of the expenses were initiation costs that we did not incur again in the 2015 nine months.
- Lower bad debt expense in the 2015 nine months compared to the 2014 nine months due to enhanced accounts receivable collection activities.

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

	Nine Months Ended September 30,	
	2015	2014
R&D expenditures capitalized	$ 1,613	$ 2,028
R&D expenditures expensed	1,832	1,722
Total R&D expenditures (non-GAAP measurement)	$ 3,445	$ 3,750

Total research and development expenditures decreased 8.1%. 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 nine months compared to the 2014 nine months due to due:

- Increased use of our employees as an internal resource to do this work in the 2015 quarter compared to the 2014 quarter when we relied more on the use of higher cost, third-party software developers.

- Enhancement of relationships with third-party developers we continue to use by replacing legacy arrangements carrying higher costs and lower value with more cost effective and efficient arrangements.

Total resources expended for R&D set forth above as total 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 92.4% 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 Income (Expense), Net. The other expense (net) in the 2014 nine months was due to interest expense incurred during that period related to the note payable which was paid-in-full during that period. Since we had no such expense during the 2015 nine months, we had other income (net) consisting primarily of interest income earned on long term investments.

Income Taxes. Our effective tax rate was 32.0% for the 2015 nine months and 35.2% for the 2014 nine months. 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

In addition to the factors above, our effective tax rate for the 2015 quarter was lower than the federal statutory tax rate of 34% and lower than our effective tax rate for the 2014 quarter due to the research and development tax credit claimed on our 2014 federal income tax return when it was filed being higher than previously estimated with the adjustment to that higher amount being recorded in the 2015 quarter.

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.

As of September 30, 2015, a customer to whom we sell directly as an end-user (i.e. not through a third-party, channel reseller) comprised 23% of our accounts receivable but does not comprise more than 10% of our revenue. We believe we will receive payment of that amount.

During the nine months ended September 30, 2015, we earned approximately 11% of our revenue from a single third party, channel reseller who purchases products from us and resells them to their customers.

During the nine months ended September 30, 2015, approximately 23% 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 nine months ended September 30, 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

GlobalSCAPE has been named as one of a number of defendants in a patent infringement suit filed by Digital Reg of Texas, LLC in the United States District Court for the Eastern District of Texas, Tyler Division. The complaint alleges that we infringed on a patent that regulates access to digital content. We believe we have meritorious defenses to the plaintiff's claims and intend to defend the lawsuit vigorously. While we are early in this process such that it is not possible to reasonably determine the outcome of this lawsuit with any certainty, we believe any loss we could incur would be immaterial to our financial position and results of operations.

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.
32.1	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.

November 12, 2015	By:/s/ James W. Albrecht, Jr.
Date	James W. Albrecht, Jr. Chief Financial Officer

EXHIBIT 31.1

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: November 12, 2015

/s/ James Bindseil
James Bindseil
President and Chief Executive Officer

EXHIBIT 31.2

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: November 12, 2015

/s/ James W. Albrecht, Jr.

James W. Albrecht, Jr.
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of GlobalSCAPE, Inc. on Form 10-Q for the period ending September 30, 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.

November 12, 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