UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended March 31, 2016

OR

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

For the transition period from to .

Commission File No. 001-33601

GlobalSCAPE, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

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

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

As of April 28, 2016, there were 21,037,496 shares of common stock outstanding.

GlobalSCAPE Inc.

Quarterly Report on Form 10-Q

For the Quarter ended March 31, 2016

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Part I. Financial Information

Item 1. Financial Statements

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

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 16,324	$ 15,885
Short term investments	3,270	3,254
Accounts receivable (net of allowance for doubtful accounts of $356 and $325 in 2016 and 2015, respectively)	5,340	6,081
Federal income tax receivable	35	290
Prepaid expenses	477	511
Total current assets	25,446	26,021
Fixed assets, net	517	498
Capitalized software development costs	4,040	3,982
Goodwill	12,712	12,712
Deferred tax asset	959	940
Other assets	38	60
Total assets	$ 43,712	$ 44,213
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 489	$ 839
Accrued expenses	1,621	1,893
Deferred revenue	11,672	12,000
Income taxes payable	34	127
Total current liabilities	13,816	14,859
Deferred revenue, non-current portion	3,718	3,612
Other long term liabilities	41	44
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, 21,436,927 and 21,383,467 shares issued at March 31, 2016, and December 31, 2015, respectively	21	21
Additional paid-in capital	19,930	19,583
Treasury stock, 403,581 shares, at cost, at March 31, 2016 and December 31, 2015	(1,452)	(1,452)
Retained earnings	7,638	7,546
Total stockholders' equity	26,137	25,698
Total liabilities and stockholders' equity	$ 43,712	$ 44,213

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 March 31,	
	2016	**2015**
Operating Revenues:		
Software licenses	$ 2,299	$ 2,458
Maintenance and support	4,497	4,034
Professional services	614	388
Total Revenues	7,410	6,880
Cost of revenues		
Software licenses	630	438
Maintenance and support	394	325
Professional services	569	317
Total cost of revenues	1,593	1,080
Gross profit	5,817	5,800
Operating expenses		
Sales and marketing	2,901	2,295
General and administrative	1,733	1,723
Research and development	627	529
Total operating expenses	5,261	4,547
Income from operations	556	1,253
Other income (expense), net	33	11
Income before income taxes	589	1,264
Income tax expense	182	449
Net income	$ 407	$ 815
Comprehensive income	$ 407	$ 815
Net income per common share -		
Basic	$ 0.02	$ 0.04
Diluted	$ 0.02	$ 0.04
Weighted average shares outstanding:		
Basic	21,033	20,647
Diluted	21,652	21,099
Cash dividends declared per share	$ 0.015	$ 0.015

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		Additional Paid-in	Treasury	Retained	
	Shares	**Amount**	**Capital**	**Stock**	**Earnings**	**Total**
Balances at December 31, 2015	21,383,467	$ 21	$ 19,583	$ (1,452)	$ 7,546	$ 25,698
Shares issued as a result of:						
Stock options exercised	53,460		122			122
Stock-based compensation expense:						
Stock options			156			156
Restricted stock			66			66
Net increase in excess tax benefit from stock-based compensation			3			3
Common stock cash dividends of $0.015 per share					(315)	(315)
Net income					407	407
Balances at March 31, 2016	21,436,927	$ 21	$ 19,930	$ (1,452)	$ 7,638	$ 26,137

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 Three Months Ended March 31,	
	2016	**2015**
Operating Activities:		
Net income	$ 407	$ 815
Items not involving cash at the time they are recorded in the statement of operations:		
Bad debt expense	43	87
Depreciation and amortization	501	288
Share-based compensation	222	148
Deferred taxes	(19)	78
Excess tax benefit from share-based compensation	(3)	(9)
Subtotal before changes in operating assets and liabilities	1,151	1,407
Changes in operating assets and liabilities:		
Accounts receivable	698	1,136
Prepaid expenses	34	110
Deferred revenue	(222)	(532)
Accounts payable	(350)	(556)
Accrued expenses	(272)	(306)
Other Assets	22	-
Other long-term liabilities	(3)	(1)
Income tax receivable and payable	165	189
Net cash provided by operating activities	1,223	1,447
Investing Activities:		
Software development costs capitalized	(488)	(691)
Purchase of property and equipment	(90)	(52)
Interest reinvested in long term investments	(16)	(16)
Net cash (used in) investing activities	(594)	(759)
Financing Activities:		
Proceeds from exercise of stock options	122	290
Excess tax benefit from share-based compensation	3	9
Dividends paid	(315)	-
Net cash provided by (used in) financing activities	(190)	299
Net increase in cash	439	987
Cash at beginning of period	15,885	11,358
Cash at end of period	$ 16,324	$ 12,345
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ -	$ -
Income taxes	$ 22	$ 174

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

GlobalSCAPE, Inc.

Notes to Condensed Consolidated Financial Statements

As of March 31, 2016 and For the Three Months Then Ended

(Unaudited)

1. Nature of Business

We provide secure information exchange capabilities for enterprises and consumers through the development and distribution of software, delivery of cloud-based software-as-a service (SaaS) 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.

Throughout these notes unless otherwise noted, our references to the 2016 quarter and the 2015 quarter refer to the three months ended March 31, 2016 and 2015, 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, 2015, which we refer to as the 2015 Form 10-K, as well as *Management's Discussion and Analysis of Financial Condition and Results of Operations* also included in our 2015 Form 10-K and in this report.

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

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

3. Significant Accounting Policies

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 of the sale is fixed or determinable.
Collection of the sale amount 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 the fair value of the undelivered elements, we initially record the entire transaction as deferred revenue and amortize that amount to revenue in future periods as we deliver the related future services to the customer.

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

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

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

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

Reclassification of Expenses

In preparing our financial statements for the year ended December 31, 2015, we revised the manner in which we present cost of revenues and other elements of our statement of operations in response to the changing nature of our business and the resulting differences in the scope and nature of certain expenses we incur.

Cost of Revenue

Cost of revenue was expanded from one line to three lines to correspond with the associated revenue classifications. Amortization of capitalized software development costs was moved from depreciation and amortization and included in the cost of license revenue. Other costs included in cost of license revenue are royalties we pay to use technology in our products that is developed by others and fees paid to third party service providers who support our cloud based and SaaS solutions. Cost of M&S revenue and cost of professional services revenue consist primarily of salaries and related personnel costs of our employees who deliver the related service to our clients. These costs were previously included in the general and administrative classification. Also included in the cost of professional services revenue are the fees of third party service providers.

Selling, General and Administrative

We separated selling, general and administrative expenses into two line items – sales and marketing and general and administrative.

Depreciation and Amortization

After reclassifying amortization of capitalized software development costs to cost of license revenue, the remaining depreciation and amortization costs were included in general and administrative expense and the depreciation and amortization line on our statement of operations was removed.

Effect of the reclassifications

The reclassifications were between cost of revenues and operating expenses and had no effect on revenue, income from operations, net income or earnings per share. The following table illustrates the effects of these reclassifications on previously reported amounts for the quarter ended March 31, 2015 ($ in thousands):

	Quarter Ended March 31, 2015						
		Reclassification of Previously Reported Amounts					
	As Previously Reported	Cost of Revenues	Capitalized Software Cost Amortization	Personnel Costs	Depreciation	Selling, General & Administrative	As Now Reported
Operating Revenues:							
Software licenses	$ 2,458						$ 2,458
Maintenance and support	4,034						4,034
Professional services	388						388
Total revenues	6,880						6,880
Cost of Revenues:							
Software licenses		220	218				438
Maintenance and support				325			325
Professional services		28		289			317
Total cost of revenues	-						1,080
Gross profit	-						5,800
Operating Expenses							
Sales and marketing	-					2,295	2,295
General and administrative	-					1,723	1,723
Cost of Revenues	248	(248)					-
Selling, general and administrative	4,578			(630)	70	(4,018)	-
Research and development	513			16			529
Depreciation and amortization	288		(218)		(70)		-
Total operating expenses	5,627						4,547
Income from operations	1,253						1,253
Other income (expense), net	11						11
Income before income taxes	1,264						1,264
Income tax expense	449						449
Net income	$ 815						$ 815
Comprehensive income	$ 815						$ 815
Net income per common share -							
Basic	$ 0.04						$ 0.04
Diluted	$ 0.04						$ 0.04

Cash and cash equivalents

Cash and cash equivalents includes all cash and highly liquid investments with original maturities of three months or less.

Short Term Investments

Short-term investments consist of certificates of deposit held with financial institutions with contractual maturity dates less than one year from the balance sheet date. The Company has the intent and ability to hold these investments until their maturity dates and therefore accounts for them as held-to-maturity. These certificates of deposit are stated at amortized cost, which approximates the fair value of these investments.

Property and Equipment

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

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

Long-Term Investments

Long-term investments consist of certificates of deposit held with financial institutions with contractual maturity dates greater than one year from the balance sheet date. The Company has the intent and ability to hold these investments until their maturity dates and therefore accounts for them as held-to-maturity. These certificates of deposit are stated at amortized cost, which approximates the fair value of these investments.

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, 2015, after assessing the totality of the relevant events and circumstances, we determined it not more likely than not that the fair value of our reporting unit was less than its carrying amount. Accordingly, we concluded there was no impairment of goodwill as of that date. There have been no material events or changes in circumstances since that time indicating that the carrying amount of goodwill may exceed its fair market value and that interim testing needed to be performed.

Capitalized Software Development Costs

When we complete research and development for a software product and have in place 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. We periodically assess the carrying value of capitalized software development costs relative to our estimates of realizability through sales of products in the marketplace.

Research and Development

We expense research and development costs as incurred.

Advertising Expense

We expense advertising costs as incurred as a component of our sales and marketing expenses. Advertising expense was $407,441 and $376,326 in the 2016 quarter and the 2015 quarter, respectively.

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.

Earnings Per Share

We compute basic earnings per share using the weighted-average number of common shares outstanding during the periods. We compute diluted earnings per share using the weighted-average number of common shares outstanding plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding.

Awards of non-vested options are considered potentially dilutive common shares for the purpose of computing earnings per common share. We apply the treasury stock method to non-vested options under which the assumed proceeds include the amount the employee must pay to exercise the option plus the amount of unrecognized cost attributable to future periods less any expected tax benefits.

Recent accounting pronouncements

In March 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update (ASU) 2016-09, *Improvements to Employee Share-Based Payment Accounting*. When implemented, this standard will discontinue the recording in equity of tax benefits or tax deficiencies that arise from differences between share-based payment compensation expense recorded for financial statement purposes and that expense deductible for tax purposes. This new standard requires that the tax effect of all such differences be recorded and reported in the statement of operations. This standard also requires that tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows which is a change from the current requirement to present such tax-related items as an inflow from financing activities and an outflow from operating activities. In accordance with this standard, we will implement it beginning with our interim and annual financial statements for 2017. The extent of the effect of this standard on our financial statements for 2017 and later depends upon the level of stock option exercise activity we experience in 2017 and later. The amounts involved in accounting for tax benefits or deficiencies from share-based compensation that are the subject of ASU 2016-09 are presented in our 2016 and earlier consolidated statements of cash flows and consolidated statements of stockholders’ equity on lines that are captioned tax benefit or tax deficiency from share-based compensation.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The main difference between existing GAAP and this ASU 2016-02 is the presentation by lessees on their financial statements of lease assets and lease liabilities arising from operating leases. Since this new standard retains the distinction between finance and operating leases, the effect of leases in the statement of operations and the statement of cash flows will be largely unchanged from existing GAAP. Our only lease of significance is our operating lease for our corporate office space for which we will present a right-to-use asset and a lease liability on our balance sheet when we implement this standard. We are in the process of determining those amounts. In accordance with this standard, we will implement it beginning with our interim and annual financial statements for 2019. The extent of the effect of this standard on our financial statements for 2019 and later will depend upon the leases, if any, that we have in effect at that date.

In November 2015, the FASB, issued ASU No. 2015-17, *Income Tax: Balance Sheet Classification of Deferred Taxes*. ASU 2015-07 requires that all deferred tax assets and liabilities for a tax jurisdiction, along with any related valuation allowance, be classified as noncurrent on the balance sheet. We have implemented this ASU in the accompanying financial statements in the manner described in the Note 9 below.

In May 2014, FASB issued ASU 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.

Use of Estimates

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

4. Capitalized Software Development Costs

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

	March 31, 2016	December 31, 2015
Gross capitalized cost	$ 6,202	$ 5,714
Accumulated amortization	(2,162)	(1,732)
Net balance	$ 4,040	$ 3,982

	Three Months Ended March 31,	
	2016	2015
Amount capitalized	$ 488	$ 691
Amortization expense	430	218

	Released Products	Unreleased Products
Gross capitalized amount at March 31, 2016	$ 5,311	$ 891
Future amortization expense:		
Nine months ending December 31, 2016	1,271	
Year ending December 31,		
2017	1,303	
2018	570	
2019	5	
Total	$ 3,149	

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 March 31, 2016	2015
Share-based compensation expense	$ 222	$ 148

Stock Options

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

- It authorizes the issuance of up to three million shares of common stock for stock-based incentives including stock options and restricted stock awards.
- The exercise price, term and other conditions applicable to each stock option or stock award granted are determined by the Compensation Committee of the Board of Directors.
- The exercise price of stock options is set on the grant date and may not be less than the fair market value per share of our stock at market close on that date.
- Stock options we issue generally become exercisable ratably over a three-year period and expire ten years from the date of grant.
- We issued no restricted stock awards under this plan during the 2016 or 2015 periods.
- As of March 31, 2016, stock-based incentives for up to 297,720 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, 2015	2,091,325	$ 2.45	6.09	$ 3,277
Granted	667,300	$ 3.58		
Forfeited	(39,430)	$ 2.86		
Exercised	(53,460)	$ 2.28		
Outstanding at March 31, 2016	2,665,735	$ 2.73	6.85	$ 2,911
Exercisable at March 31, 2016	1,432,475	$ 2.28	4.75	$ 2,214

Additional information about our stock options is as follows:

	Three Months Ended March 31, 2016	2015
Weighted average fair value of options granted	$ 1.65	$ 1.38
Intrinsic value of options exercised	$ 71,745	$ 255,116
Cash received from stock options exercised	$ 121,671	$ 289,566
Number of options that vested	193,866	130,654
Fair value of options that vested	$ 248,148	$ 150,114
Unrecognized compensation expense related to non-vested options at end of period	$ 1,673,156	$ 916,372
Weighted average years over which non-vested option expense will be recognized	2.5	2.3

As of March 31, 2016

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Underlying Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Underlying Shares	Weighted Average Exercise Price
$ 0.85 - $1.43	204,350	3.66	$ 1.14	204,350	$ 1.14
$ 1.47 - $2.27	644,495	5.69	$ 1.80	570,035	$ 1.83
$ 2.32 - $3.50	1,040,590	6.97	$ 2.90	528,090	$ 2.77
$ 3.52 - $4.21	776,300	8.49	$ 3.69	130,000	$ 4.10
Total options	2,665,735			1,432,475	

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

	Three Months Ended March 31,	
	2016	2015
Expected volatility	56%	57%
Expected annual dividend yield	1.50%	2.40%
Risk free rate of return	1.53%	1.58%
Expected option term (years)	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.
- As of March 31, 2016, stock based incentives for up to 420,000 shares remained available for issuance in the future under this plan.

Our restricted stock awards activity has been as follows:

	Number of Shares	Grant Date Fair Value Per Share	Total Fair Value of Shares That Vested
Restricted Shares Outstanding at December 31, 2015	80,000	$ 3.34	
Shares granted with restrictions	-	$ -	
Shares vested and restrictions removed	-	$ -	
Restricted Shares Outstanding at March 31, 2016	80,000	$ 3.34	
Unrecognized compensation expense for non-vested shares as of March 31,2016			
Expense to be recognized in future periods	$ 32,035		
Weighted average number of months over which expense is expected to be recognized	1.44		

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 March 31, 2016	Three Months Ended March 31, 2015
Income tax expense at federal statutory rate	$ 200	$ 430
Increase (decrease) in taxes resulting from:		
Domestic production activities deduction	(20)	(30)
Research and development credit	(32)	-
Incentiv stock options	16	-
State taxes, net of federal benefit	2	16
Increase in reserve for uncertain tax positions	6	-
Other	10	33
Income tax expense per the statement of operations	$ 182	$ 449

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 March 31, 2016, we have a reserve of $96,000 against R&D tax credits claimed on our tax returns for 2011 and later due to the uncertainty of sustaining those credits.

As of March 31, 2016, we had federal income tax net operating loss carry forwards of $400,000 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 approximately $124,000 of research and development activities tax credits available to offset future Texas franchise tax expense through 2037. 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.

7. Earnings per Common Share

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net income	$ 407	$ 815
Weighted average shares outstanding - basic	21,033	20,647
Stock options	619	452
Weighted average shares outstanding - diluted	21,652	21,099
Net income per common share - basic	$ 0.02	$ 0.04
Net income per common share - diluted	$ 0.02	$ 0.04

8. Dividends

During 2016, our Board of Directors declared quarterly dividends as follows:

	March 31, 2016
Dividend per share of common stock	$ 0.015
Dividend record date	February 23, 2016
Dividend payment date	March 3, 2016

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 2016 quarter and 2015 quarter, we earned approximately 14% and 10%, respectively, of our revenue from such sales through our largest, third party, channel reseller. Approximately 17% of our accounts receivable as of March 31, 2016, were due from this customer with payment for substantially all such amounts having been received subsequent to that date.

11. Segment and Geographic Disclosures

Revenues derived from customers and partners located in the United States accounted for approximately 73% of the Company's total revenues in both the 2016 and 2015 quarter. The remaining revenues were from customers and partners located in foreign countries with each individual foreign country accounting for less than 10% of total revenues in both the 2016 quarter and the 2015 quarter. The Company attributes revenues to countries based on the country in which the customer or partner is located. None of our property and equipment was located in a foreign country as of March 31, 2016 and 2015.

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 2015 Form 10-K and other documents filed with the Securities and Exchange Commission. Therefore, GlobalSCAPE's actual results of operations and financial condition in the future could differ materially from those discussed in this Quarterly Report.

In the following discussion, our references to the 2016 quarter and the 2015 quarter refer to the three months ended March 31, 2016 and 2015, respectively.

Overview

We provide secure information exchange capabilities for enterprises and consumers through the development and distribution of software, delivery of cloud-based software-as-a service (SaaS) solutions, and provisioning of associated services. We have sold our product to thousands of enterprises and more than one million individual consumers throughout the world.

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 and customers, including to 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 MFT solutions, which we brand as Enhanced File Transfer, or EFT, are "server side" solutions that provide a common, scalable MFT platform which 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, which has been released to a limited set of selected clients and is currently in pilot testing, is our on-premises, enterprise file synchronization and sharing solution. It 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, thereby allowing users to access their data at higher speeds than possible with most 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, some of our software products as a cloud-based, SaaS subscription solution. This solution allows customers to reduce their upfront and total cost of ownership and achieve other recognized benefits of cloud-based SaaS subscription solutions, including strong service level agreements for IT infrastructure reliability and performance. We believe that our cloud-based, SaaS 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 2016:

- Awards by Info Security Guide in several categories, including:
    - EFT Workspaces – Gold Winner in BYOD Security.
    - Enhanced File Transfer – Silver Winner in Compliance.
    - EFT Cloud Services – Bronze Winner in Cloud Security.
    - Mail Express – Bronze Winner in Email Security and Management.
- Received a 5-Star rating in The Channel Company's CRN 2016 Partner Program Guide for the second year in a row.
- Named by *Texas Monthly* magazine as one of the best companies to work for in Texas for the sixth year in a row with a ranking of #16 in the medium size category.

In 2015:

- Listed as a Champion in the Ad-Hoc Mid-Market category and a Leader in the Ad-Hoc Enterprise use case by Info-Tech Research Group within its Managed File Transfer Vendor Landscape report. This is the second consecutive time that Info-Tech Research Group has named GlobalSCAPE a Champion within this report.
- 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 fifth time in the medium size category.

- Received a 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, and recognized as one of the Top Workplaces for the fifth time.
- Two members of the channel leadership team recognized as The Channel Company's 2015 *CRN* Channel Chiefs.
- Two channel team members named to The Channel Company's 2015 *CRN* Women of the Channel list.
- Recognized by the Golden Bridge Business and Innovation Awards as a Gold Winner in the Managed File Transfer – Innovations category for EFT Workspaces.
- Recognized by the Info Security Products Guide's Global Excellence Awards as a Gold Winner within the Compliance category for Enhanced File Transfer (EFT) and as a Bronze Winner within the Email Security and Management category for Mail Express.
- Recognized by the Network Products Guide awards as a Gold Winner in Compliance Data Centers for EFT v7.0 and a Silver Winner in Email, Security and Management with Mail Express v4.

Key Business Metrics

We review a number of key business metrics on an ongoing basis to help us monitor our performance and to identify trends which may materially 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 SaaS subscription 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 sales of our products, such as CuteFTP, to consumers 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:

Ongoing innovation of our core products expanding into broader segments of the market.

Expansion and creation of emerging technologies into existing and adjacent market spaces.

Continued evolution of enhanced demand generation including marketing, customer facing and partner facing programs.

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.

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, two or three years. 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 March 31, 2016 and 2015*

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 March 31	
	2016	**2015**
Bookings	$ 7,779	$ 6,348
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	(5,926)	(4,010)
Products and services delivered to and accepted by the customer for which revenue recognition had been deferred at the time of booking	5,557	4,542
Revenue	$ 7,410	$ 6,880

Bookings during the three months ended March 31, 2016, increased compared with bookings during the three months ended March 31, 2015, primarily as a result of our product development and sales and marketing activities discussed above under *Revenue Growth*.

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 March 31,	
	2016	**2015**
Income from operations	$ 556	$ 1,253
Add (subtract) items to determine adjusted EBITDA excluding infrequent items:		
Depreciation and amortization:		
Total depreciation and amortization	501	288
Amortization of capitalized software development costs	(430)	(218)
Stock-based compensation expense	222	148
Adjusted EBITDA excluding infrequent items	$ 849	$ 1,471

See the section below comparing our results of operations for the 2016 quarter and the 2015 quarter for discussion of the variances between periods in the components comprising Adjusted EBITDA Excluding Infrequent Items.

Software Products and Services

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

Managed File Transfer

Our MFT products and services, which we brand as EFT, 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 through both our ongoing development of this product line, which has continued to enhance its appeal in the marketplace, and our delivery of 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 SaaS 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 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.

scConnect, which has been released to a limited set of selected clients and is currently in pilot testing, is our on-premises enterprise file synchronization and sharing solution. 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. The software uses intelligent byte-level differencing technology to instantly update changes to files by multiple remote users with minimal impact on network bandwidth while also ensuring that files are never overwritten, even if opened by other remote users. Other key features of WAFS include native file locking, replication to multiple locations simultaneously, 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.

We introduced WAFS 5.0 in December 2015. This release simplifies enterprise collaboration and decreases bandwidth usage thereby providing secure, near real-time data access to both on-premises and cloud-based files located anywhere in the world. It also includes enhancements to stability, performance, and security including:

- Upload performance up to eight times faster, download performance up to 10 times faster and copy speed performance up to 90 times faster.
- Increased transparency of file replication activities between servers and desktops which facilitates checking for errors and ensuring delivery success.
- Increased system reliability, especially during periods of network instability.
- Reduced bandwidth utilization which helps ensure data transfers do not prevent mission-critical traffic from flowing in and out of the network.
- Enhanced synchronization engine to ensure easy, secure file collaboration.

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 secure, encrypted e-mail and attachments of virtually unlimited size easily and transparently without resorting to unapproved and potentially insecure methods such as traditional, unencrypted email, USB drives or social media sites. The ability of Mail Express to transmit secure, encrypted 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 on-premises and SaaS 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.

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 March 31,			
	2016		2015	
	Amount	% of Total Revenue	Amount	% of Total Revenue
Revenue by Type				
Software licenses	$ 2,299	31.0%	$ 2,458	35.7%
Maintenance and support	4,497	60.7%	4,034	58.6%
Professional services	614	8.3%	388	5.7%
Total Revenue	$ 7,410	100.0%	$ 6,880	100.0%
Revenue by Product				
EFT Enterprise and Standard	$ 6,786	91.6%	$ 5,922	86.1%
Wide Area File Services	233	3.1%	288	4.2%
CuteFTP	177	2.4%	226	3.3%
Other	214	2.9%	444	6.4%
Total Revenue	$ 7,410	100.0%	$ 6,880	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 7.7% in the 2016 quarter compared to the 2015 quarter. This increase in general was due to the changes in our business we have made as discussed above. For a more complete discussion of our overall revenue trends and mix among products, services and M&S, see *Comparison of the Statement of Operations for the Three Months Ended March 31, 2016 and 2015*.

Liquidity and Capital Resources

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

	March 31, 2016	December 31, 2015
Cash and cash equivalents	$ 16,324	$ 15,885
Short term investments	3,270	3,254
Total cash, cash equivalents and long term investments	$ 19,594	$ 19,139
Working capital	$ 11,630	$ 11,162
Deferred revenue, current portion	11,672	12,000
Working capital plus current deferred revenue (non-GAAP presentation)	$ 23,302	$ 23,162

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. Accordingly, we assess our working capital using a traditional computation that includes all current liabilities, and we assess it excluding the current portion of deferred revenue. Working capital plus the current portion of 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 on hand 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 our revenue declines and/or our expenses increase, 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 Three Months Ended March 31,	
	2016	2015
Operating activities	$ 1,223	$ 1,447
Investing activities	(594)	(759)
Financing activities	(190)	299

Our cash provided by operating activities decreased during the 2016 quarter compared to the 2015 quarter primarily due to the following factors:

- 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, decreased $224,000. See the section below under *Comparison of the Statement of Operations for the Three Months Ended March 31, 2016 and 2015* for a discussion of the changes in the components of these amounts.
- Accounts receivable decreased $698,000 in the 2016 quarter which provided less cash than the $1.1 million decrease in the 2015 quarter. In the 2015 quarter, we increased our collection activities to improve our accounts receivable position. Due to the success of those activities, we experienced larger-than-typical accounts receivable collections during the 2015 quarter. Subsequent to that effort, our accounts receivable collection activities and balances normalized resulting in the level of collections necessary to sustain the desired accounts receivable balance being lower.
- Prepaid expenses decreased $34,000 in the 2016 quarter compared to decreasing $110,000 in the 2015 quarter. The change in the amount of the decrease is a result of normal variations in the timing of the payment of certain costs.
- Income tax receivable and payable decreased $165,000 in the 2016 quarter compared to decreasing $189,000 in the 2015 quarter. The change in the amount of the decrease is a result of changes in the level of our taxable income between periods and normal variations in the timing of our tax payments.

Offset by:

- Deferred revenue decreased $222,000 during the 2016 quarter compared to decreasing $532,000 in the 2015 quarter. Deferred revenue arises primarily from our M&S contracts and increases when we book those contracts with customers and decreases as we recognize revenue from those contracts over the period we deliver the M&S services. A multi-year contract generally results in a higher deferred revenue amount at the inception of the contract than does a comparable single-year contract. During the 2016 quarter, the number and value of multi-year M&S contracts we booked increased compared to the 2015 quarter. This increase resulted in higher initial deferred revenue amounts from new contracts in the 2016 quarter than in the 2015 quarter which in turn provided a higher offset to the amortization of deferred revenue to income and, therefore, a smaller decrease in total deferred revenue.
- Accounts payable decreased $350,000 during the 2016 quarter compared to decreasing $556,000 in the 2015 quarter. The change in the amount of the decrease was due to (1) the payment during the 2015 quarter of certain large obligations to third-party software developers which was not repeated in the 2016 quarter as a result of our increased use of internal resources to develop our products, and (2) normal variations in the timing of payments to our vendors.
- Accrued expenses decreased $272,000 during the 2016 quarter compared to decreasing $306,000 during the 2015 quarter. The change in the amount of the decrease was due to normal variations in the timing of our payroll payment dates relative to the date of the balance sheet presented as a part of our financial statements.

The amount of cash we used for investing activities during the 2016 quarter decreased compared to the 2015 quarter with the primary component of that decrease relating to software development costs capitalized which were capitalized. The scope and magnitude of our software development activities was substantially the same between these periods. However, in the 2015 quarter, we used more third-party resources to perform this work than we used in the 2016 quarter when we increased the portion of this work performed by our employees for which the cost to us is lower than third-party resources.

Our financing activities provided cash in the 2015 quarter and used cash in the 2016 quarter. This change was primarily due to the following factors:

- We received more cash from the exercise of stock options in the 2015 quarter than in the 2016 quarter primarily due to a large stock option exercise by an employee in the 2015 quarter for which there was no similar event in the 2016 quarter.
- The payment of cash dividends during the 2016 quarter with no such payment made during the 2015 quarter.

Contractual Obligations and Commitments

At March 31, 2016, our contractual obligations and commitments consisted primarily of the following items:

- An obligation to deliver services in the future to satisfy our right to earn our deferred revenue of $15.4 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 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 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 lease for our office space.
- Federal and state taxes.

Our non-cancellable, contractual obligations at March 31, 2016, consisted primarily of the lease for our office space with amounts due as follows ($ in thousands):

	Amounts Due for the Period				
	Nine Months Ending December 31,	Fiscal Years			
	2016	2017 - 2018	2019 - 2020	Thereafter	Total
Operating leases	$ 270	$ 720	$ 120	$ -	$ 1,110

As of March 31, 2016, we had no interest-bearing obligations in the form of loans, notes payable or similar debt instruments.

We plan to continue to expend significant resources in the future on product development, sales and marketing 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.

Comparison of the Statement of Operations for the Three Months Ended March 31, 2016 and 2015

	Three Months Ended March 31,		
	2016	2015	$ Change
	$ in thousands		
Total revenues	$ 7,410	$ 6,880	$ 530
Total cost of revenues	1,593	1,080	513
Gross profit	5,817	5,800	17
Operating expenses			
Sales and marketing	2,901	2,295	606
General and administrative	1,733	1,723	10
Research and development	627	529	98
Total operating expenses	5,261	4,547	714
Income from operations	556	1,253	(697)
Other income (expense), net	33	11	22
Income before income taxes	589	1,264	(675)
Income tax expense	182	449	(267)
Net income	$ 407	$ 815	$ (408)

In the discussions below, we refer to the three months ended March 31, 2016, as the "2016 quarter" and the three months ended March 31, 2015, as the "2015 quarter". The percentage changes cited in our discussions are based on the 2016 quarter amounts compared to the 2015 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.
- 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 recognize as the services are performed and accepted by the client.

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

	Three Months Ended March 31,			
	2016		2015	
	$ in thousands			
	Amount	% of Total Revenue	Amount	% of Total Revenue
Revenue by Type				
Software licenses	$ 2,299	31.0%	$ 2,458	35.7%
Maintenance and support	4,497	60.7%	4,034	58.6%
Professional services	614	8.3%	388	5.7%
Total Revenue	$ 7,410	100.0%	$ 6,880	100.0%
Revenue by Product				
EFT Enterprise and Standard	$ 6,786	91.6%	$ 5,922	86.1%
Wide Area File Services	233	3.1%	288	4.2%
CuteFTP	177	2.4%	226	3.3%
Other	214	2.9%	444	6.4%
Total Revenue	$ 7,410	100.0%	$ 6,880	100.0%

Our total revenue increased 7.7%. In general, this increase was due to the changes in our business we have made as discussed above under "Solution Perspective and Trends".

Software License Revenue

Our software license revenue decreased 6.4%. License revenue from our EFT Enterprise and Standard products increased 3.1% which was offset by a decrease in license revenue from our other products. These changes are due to the reasons discussed below under *Revenue Trends by Product*.

M&S Revenue

M&S revenue increased 11.4% primarily as a result of increased license sales for EFT Enterprise and Standard that are almost always accompanied by an M&S contract and sustained high renewal rates of M&S contracts by customers who initially purchased these services in earlier periods. We believe these renewal rates result from our programs designed to provide high-quality and responsive M&S service to our customers.

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.

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. Ongoing license revenue 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.

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.

Professional Services Revenue

Professional services revenue increased by 58.2% due to (1) our sales and marketing programs designed to increase the frequency of sales of professional services, and (2) our enhanced focus on managing our queue of professional services projects so as to deliver our work product to our customers sooner and in-turn accelerate our ability to recognize revenue from these projects.

Revenue Trends by Product

Revenue trends for our individual product lines and related additional contributors to those changes are as follows:

EFT Enterprise and Standard revenue increased by 14.6% 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.

WAFS revenue decreased by 19.1% primarily due to the marketplace anticipating the release of our next version of this product. In December 2015, we released WAFS 5.0 with additional features and functions as described above under *Software Products and Services.* The timing of this release resulted in the 2016 quarter being a period during which some of our potential customers were assessing this product before making a buying decision.

CuteFTP revenue decreased by 21.7% primarily as a result of our decision to focus most of our attention and resources on the EFT and WAFS product lines which we believe have a higher potential for future growth.

Other revenue decreased by 51.8% primarily due to some large sales of our Mail Express product in the 2015 quarter that were not replicated in the 2016 quarter.

Cost of Revenues. These expenses are associated with the production, delivery and support of the products and services we sell.

Cost of license revenue consists primarily of:

- Amortization of capitalized software development costs we incur when producing our software products. This amortization begins when a product is ready for general release to the public.
- Royalties we pay to use software developed by others for certain features of our products.
- Fees we pay to third parties who provide services supporting our SaaS and cloud-based subscription solutions.

Cost of M&S revenue and cost of professional services revenue consist primarily of salaries and related costs of our employees and third parties we use to deliver these services.

Cost of revenue for software licenses as a percent of software license revenue was 28% in the 2016 quarter compared to 18% in the 2015 quarter. In periods subsequent to the 2015 quarter, we released new software products and new versions of existing products and began amortizing the capitalized software development costs for those products. This additional expense amortization that began subsequent to the 2015 quarter increased cost of revenue in the 2016 quarter as compared to the 2015 quarter.

Cost of revenue for M&S as a percent of M&S revenue was substantially unchanged. This outcome was a result of a consistent application of our customer support delivery protocols and practices.

Cost of revenue for professional services as a percent of professional services revenue was 93% in the 2016 quarter as compared to 82% in the 2015 quarter. Variations of this cost of revenue as a percent of professional services revenue, which is relatively modest in terms of dollars and inherent to this part of our business, is due to the varying scope and mix of the professional services we deliver that can change from period-to-period in response to the circumstances of the customer environments in which we are working.

Sales and Marketing. These expenses increased 26% primarily due to:

- Increasing the size of our sales, marketing and product strategy teams and increased compensation rates due to competitive demands in the marketplace.
- Increased sales commissions due to higher sales and providing enhanced incentives to our sales force.
- Increased marketing activities related to competitive intelligence and channel development.

General and Administrative. These expenses were substantially unchanged between periods. This consistent outcome was a result of our ongoing programs to manage these expenses.

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

	Three Months Ended March 31,	
	2016	**2015**
R&D expenditures capitalized	$ 488	$ 691
R&D expenditures expensed	627	529
Total R&D expenditures (non-GAAP measurement)	$ 1,115	$ 1,220

Total research and development expenditures decreased 8.6%. 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 2016 quarter compared to the 2015 quarter due to:

- Increased use of our employees as an internal resource to do this work in the 2016 quarter compared to the 2015 quarter when we relied more on the use of higher cost, third-party software developers.
- Enhancement of relationships with those third-party developers we continue to use by replacing legacy arrangements carrying higher costs 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.

Other Income (Expense), Net. The other expense (net) in both quarters consists primarily of interest income earned on long and short term investments.

Income Taxes. Our effective tax rate was 30.8% for the 2016 quarter and 35.5% for the 2015 quarter. These rates differed from a federal statutory tax rate of 34% primarily due to:

The domestic production activities deduction in both quarters, and the research and development credit in the 2016 quarter only, that are items considered in our federal income tax return that are not part of our income before taxes on our financial statements.

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.

Our effective tax rate was lower in the 2016 quarter compared to the 2015 quarter due to the 2016 quarter including the benefit of the research and development tax credit whereas in the 2015 quarter, we did not record a research and development tax credit due to the legislation providing for that credit not being enacted until December 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

During the three months ended March 31, 2016, and the three months ended March 31, 2015, we earned approximately 14% and 10%, respectively, of our revenue from a single third party, channel reseller who purchases products from us and resells them to their customers. Approximately 17% of our accounts receivable as of March 31, 2016, were due from this customer with payment for substantially all such amounts having been subsequently received.

We earned approximately 27% of our revenue from customers outside the United States during both the three months ended March 31, 2016, and the three months ended March 31, 2015. We receive all revenue in U.S. dollars, so we have no material exchange rate risk with regard to the sales. We charge Value Added Taxes to our non-business customers in the European Union. We remit these taxes periodically in pound sterling. The impact of this currency translation has not been material to our business.

Item 4. Controls and Procedures

As of the end of the period covered by this report, our President and Chief Executive Officer and our Chief Financial Officer carried out an evaluation of the effectiveness of GlobalSCAPE's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) and concluded that the disclosure controls and procedures were effective.

There were no changes in our internal controls over financial reporting during the three months ended March 31, 2016, 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. The complaint alleges that we infringed a patent that regulates access to digital content. In a previous lawsuit this plaintiff brought asserting infringement of this patent against Adobe Systems Inc., several of the claims of this patent were found to be invalid, a decision which Digital Reg appealed to the Federal Circuit. The case against us was stayed until resolution of that appeal. On April 8, 2016, the Federal Circuit confirmed the prior finding that several of the claims of Digital Reg's patent were invalid. We are currently waiting for the stay to be lifted in the suit against us so that we can determine our next steps with respect to the claim filed by Digital Reg. 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 2015 Form 10-K filed with the Securities and Exchange Commission on March 3, 2016. 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.

May 12, 2016	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: May 12, 2016

/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: May 12, 2016

/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 March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, James L. Bindseil, Chief Executive Officer and James W. Albrecht, Jr., Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of GlobalSCAPE, Inc.

May 12, 2016

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

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