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GlobalSCAPE, Inc.

Third Quarter Fiscal 2015 Earnings Call

October 29, 2015

CORPORATE PARTICIPANTS

Jim Albrecht, *Chief Financial Officer*

James Bindseil, *President and Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Greg Newman, *The Newman Agency*

Andrey Omelchak, *LionGuard Capital Management*

Jim Zimmerman, *Lowell Capital*

John Rolfe, *Argand Capital*

Edward Kissel, *Forager Capital Management*

PRESENTATION

Operator:

Good day, and welcome to the GlobalSCAPE Third Quarter 2015 Earnings Call. For the duration of today's call, all lines will be in a listen-only mode. Later we will conduct a question-and-answer session. To queue for questions at that time, you may press the star key, followed by the digit one on your telephone keypad. We ask that you please limit yourself to one question and one follow-up. Today's conference is being recorded.

At this time I'd like to turn the conference over to Mr. Jim Albrecht, Chief Financial Officer. Please go ahead, sir.

Jim Albrecht:

Thank you. Good afternoon, and welcome to our earnings call. With me this afternoon is James Bindseil, GlobalSCAPE's President and Chief Executive Officer.

Before we begin, just a reminder that today's call, including the question-and-answer session might include forward-looking statements regarding expected revenue, earnings per share, future plans, opportunities, and expectations of the Company. These estimates and plans and other forward-looking statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied on this call. These risks are detailed in our latest Form 10-K filed with the Securities and Exchange Commission on March 30, 2015, and in other statements made by the Company. The statements made during this conference call are based upon information known to

GlobalSCAPE as of the date and time of this call. GlobalSCAPE assumes no obligation to update the information we present during this call.

With those Safe Harbor statements presented, I will move to summarizing our financial results for the third quarter of 2015 that we announced in our press release issued earlier this afternoon.

I'd like to begin by saying we are very pleased with our performance for the third quarter that resulted in revenue of $7.7 million, which is an 18% increase over the same quarter last year. Year-to-date revenue of $22.4 million was also an increase of 18% compared to the same period last year. Net income for the quarter was $1.2 million, compared to $782,000 last year, a 57% increase. Year-to-date net income of $3.4 million was 87% higher than for the same period last year. Earnings per share for the quarter was $0.06, compared to $0.04 for the same quarter last year, and year-to-date was $0.16, compared to $0.09 last year.

These results were built on a broad base of sales. We believe these results are built upon events that we can reasonably expect to continue to replicate in future quarters. Each time we sell a software license, we typically create a maintenance and support recurring revenue stream that is anywhere from 20% to 30% of the price of the software license on an annual basis.

With our M&S renewal rate for our enterprise products being in excess of 90% due to our customer satisfaction with our products and support, this recurring M&S revenue stream continues to prove to be quite sustainable. Our M&S revenue year-to-date is 10% higher than last year. Combining that trend with the fact that our year-to-date license revenue grew 27% compared to last year, leads us to believe the prospects for continued growth of that recurring revenue stream are good.

Looking ahead, our outlook for the remainder of 2015, and into 2016 is for sustained revenue growth in line with what we have achieved so far this year. We will continue our investments in product development, and sales and marketing, with an expectation of achieving a net income return on sales for the remainder of 2015 and 2016 as a whole that are consistent with our recent results.

After paying a dividend to our Shareholders in Q3, we ended the quarter financially strong with $16.1 million of cash in investments, and no debt other than normal trade payables.

I will now turn the call over to James.

James Bindseil:

Thanks, Jim. Good afternoon everyone, and thank you for joining the call today. As you just heard from Jim, we had a good third quarter, and are continuing the pace for a very good 2015. I am excited to share the results of the third quarter with you, and remain optimistic for remainder of the year.

The last two years have been significant in the Company's history as we have focused on building the infrastructure that can really carry the Company forward, and achieve the kind of growth that we believe is possible. We moved our focus internal to make sure that the foundation would be strong to support our future efforts. This involved strengthening all areas of responsibility, from finance, sales, marketing, product development, and IT.

Now that we have the infrastructure in a good position to carry us forward, we are going to turn more of our attention back to getting the story of GlobalSCAPE out in an improved fashion. Starting in November, we will be more proactive with respect to our investor outreach, including participating in non-deal road shows, and investor conferences. Our goal with this effort is to expand our reach, and to increase the amount of investor and buyer awareness in our Company. We believe that broadening our investor audience, and specifically increasing our exposure to high quality long-term fundamental institutional investors will ultimately benefit both existing and future shareholders

.Additionally, to keep investors and buyers interested, it is necessary that we continue to focus on growing the Company. To that end, I am very happy to announce that I have promoted Matt Goulet to the position of Chief Operating Officer. One of his primary areas of responsibility will be to help ensure that what we have built maintains its momentum and continues to grow. Matt has done a phenomenal job in putting programs in place to enable sales and marketing to succeed. I have complete confidence that he will continue this trend in his expanded capacity, leading the entire go-to-market value chain.

While I certainly will stay involved in the product strategy and delivery, this change will allow me to spend more time and energy on communicating the GlobalSCAPE story. This is an area that has been requested a number of times, and we believe that now is the right time to tell our story, and to do so with confidence that our business results are heading in the right direction.

As has been the custom over the last two years, I will now review the programs we have implemented to drive towards longer term sustainable revenue growth, and then outline how the results reflect those efforts. As discussed in the previous earnings calls, these programs are; continue the innovation of our core products and the introduction of enhanced collaboration and sharing tools, enhance marketing programs to expand solution awareness, and leverage and expand our channel partnerships.

The financial results in Q3 and for the first nine months of the year indicate that these initiatives continue to have a positive impact. The third quarter revenue, which has historically been a softer quarter for us, was $7.64 million, which represents an 18% increase over Q3 of 2014.

Revenue for the first nine months of 2015 is $22.39 million, which is the highest revenue in the Company history for the first nine months of the year, and represents a 19% year-over-year growth compared to the first nine months of 2014. New bookings for Q3 grew 34% over Q3 of 2014, and 33% for the first nine months of 2015, when compared with the first nine months of 2014.

Looking at the Q3 product line metrics, demand continues to be strong for our EFT suite (phon) of products, which accounted for 79% of our total revenue for the quarter. As our product revenues continue to grow, our professional services revenue has continued to climb as well. Looking back to two years ago, there was concern with the trajectory of these services. However, at that time, we disclosed an objective to focus on higher margin commercial activities.

I'm very pleased to report that we are now not only consistently higher than previous levels, but we are continuing to grow. Professional services revenue increased 59% for Q3 of 2015, as compared to Q3 of 2014.

Recurring revenue from maintenance and support has continued to grow as well, as we achieved record levels, and exceeded $4 million for the quarter for the third consecutive period.

Finally, we continued the expansion of our software as a service offering with the introduction of EFT Cloud services in Q3, and we continue to see growth in this area of our business as well.

Moving into our pillars, the first of which is innovation of our core products, I am very happy with the progress that our Engineering Teams have made. We have just completed a number of exciting releases that are now available to our clients, including version 7.2 of EFT, which provides greatly expanded automation capabilities that further enhance EFT's already world-class integration with third-party systems. EFT continues to drive our business forward, and the features we have added over the last several periods, combined with the upcoming features on our roadmap, will continue to elevate this product.

After a significant redesign effort, we have also just completed version 5 of WAFS, which introduces a new communications mechanism that will greatly enhance the speed, reliability, and scale of this product. This release will benefit not only the server replication scenarios, where WAFS has been successfully leveraged in the past, but will extend the benefits to remote users' desktops as well.

Lastly, work continued in Q3 on scConnect, our on-premises enterprise file synchronization and share solution that gives users secure content mobility. While interest in this solution continues, we are working to integrate its technology with our very successful DMZ Gateway functionality to improve the ease at which customers can deploy the product, and to even further advance the security of the product and the enterprise architecture.

GlobalSCAPE has always worked hard to put out quality products that are functionally complete, secure, and responsive to the business needs of our clients. As we grow, it is important that we continue to be responsive to overall market trends, and that we are focused on expanding and adding capabilities that can be properly monetized.

To that end, I am also pleased to announce that we have added Peter Merkulov to our Team as Vice President of Product Strategy and Technology Alliances. Peter has an extensive track record in growing businesses by ensuring that you not only do things right, but that you are doing the right things. Working on Matt Goulet's Team, Peter will be a great addition to crafting the technology roadmap of tomorrow, while making sure that we stay true to our client focus, in addition to making smart decisions that positively affect the business.

As a reminder, the current roadmap for all of our product lines is published on the GlobalSCAPE website at www.globalscape.com in the Investor Relations section.

Moving on to the second pillar, we continue to refine our marketing programs to expand awareness for our solutions and overall brand recognition. Through demand generation and communications initiatives, we continue to grow our overall sales pipeline, and as previously mentioned, this helped us to increase our new bookings by 34% from Q3 of 2014, providing a solid foundation for ending the year and moving into 2016 in a strong position.

Our last pillar focuses on expanding, supporting, and leveraging our channel relationships. As discussed in previous periods, we have worked to identify and bring on key solution providers into our channel program. We continue to focus on empowering and strengthening our channel partners by moving them into the enablement and optimization phase, and beyond. The channel relationships allow us to completely enter new markets and/or to improve penetration into existing markets for GlobalSCAPE.

In Q3, we announced a new partnership with immixGroup, and this, along with our existing, but ever expanding channel relationships allow us to grow new client bases, including the Federal government, like never before. Additionally in Q3, one of our distribution partners has passed the 10% threshold in producing sales for GlobalSCAPE for the first nine months of the year. As more of our large distributors come up to speed, we expect them to have an increasingly positive impact on our future results.

I will continue to update you on each of these three pillars during each of the subsequent earnings calls for the year. We continue to be pleased with the progress we've made in the first nine months of the year, but as I often say, there is still much to do. I remain confident that the short and long-term plans that we have in place are working, and that they should yield the higher returns in future periods that we have been working towards.

With our increasing bookings and revenue, the continued evolution of our solutions, and the overall enhancements that we have made, and will continue to make in our organization, I believe we are well positioned for continued growth.

As stated earlier this year, and reiterated by Jim, our outlook for 2015 was to continue revenue growth in line with what we achieved in 2014. We are pleased with how the first nine months of the year has gone, and we remain confident that we can achieve this goal.

In closing, I once again want to thank our employees, customers, partners, and investors for their continued support in trusting GlobalSCAPE. The first three quarters of 2015 have been positive at

GlobalSCAPE, and we will continue driving towards even greater future success. I look forward to updating you on our continued progress as the year goes on.

At this point, I'll turn the call back over to Jim to start our question-and-answer session. Jim?

Jim Albrecht:

Thank you, James. Operator, you may now open the call for question and answers.

Operator:

Thank you. As a reminder, if you would like to ask a question, that is star, one on your telephone keypad. Again, we ask that you please limit yourself to one question and one follow-up. That's star, one for questions.

We'll take our first question from Greg Newman with The Newman Agency.

Greg Newman:

Thank you. Congratulations on a good quarter. That's three out of four quarters now, and the last four quarters in the higher 7 millions.

James Bindseil:

Thank you, Greg.

Greg Newman:

My first question would be about the development of your websites. I've noticed the web links coming in, and I wanted to see if you could discuss that. Your renovation of the websites, the work that you're doing there to reach out through the website, so if you could address that.

James Bindseil:

Sure. Well, you know, without talking about any specific page or anything, one of the key things that our marketing department has been focused on is making sure that we're leveraging all of our demand generation activities. The website is certainly one of them. Social media is certainly becoming an ever-growing part of it as well. So, modernizing the website, making sure that we're pushing out proper and timely information is important. It's also a matter of knowing which information to put out on the website, as well as which information to put out in the press releases, as well as which information to put out on social media. So, they've been doing a lot of work in all of those areas to make sure that we're getting the right information out at the right time.

Greg Newman:

Thank you. One question for quarterly data dating back to the beginning, I was having a little bit of trouble getting some of the quarterly data all the way back to 1996. I don't know, maybe it's there. I was looking through the SEC for it, and I wasn't able to get everything in the 90s, and so that was my request if you could make that available somehow, just the key metrics, like sales. It doesn't have to be every nickel and dime thing, but sales, earnings, cash, deferred rev, some of the big things like Shareholder equity, because it tells a really neat story of growth as you look back all the way to 1996, and where we are now. It puts it in a good perspective for me, so—yes.

Jim Albrecht:

Greg, Jim Albrecht here. We appreciate the thought. That information should be out on sec.gov or via Edgar Online, one of those two. We'll take a look, and if we can't find it, also we'll determine why that is and take appropriate action. We appreciate your couple of questions.

James Bindseil:

Yes, absolutely.

Jim Albrecht:

Thank you, Greg.

Operator:

We'll go to our next question from Andrey Omelchak with LionGuard Capital Management.

Andrey Omelchak:

Yes, hi, guys. Congratulations on the outstanding quarter from pretty much all metrics. The first question I have is with respect to the 34% increase in new bookings. How does this reconcile with the growth in revenue, and how quickly do we see this translating into the actual operating numbers?

James Bindseil:

Okay. Well, the—you know, a lot of what we sell is licensed, which, you know, that booking would actually equal that revenue. But where the percentage differs is where we sell maintenance and support, which is recognized route ably over the term of the contract, when we sell professional services, which will be recognized upon delivery of the service, and for our Managed Solutions which, similar to maintenance and support, will be recognized over the period of the term of the contract.

So, that's where—that's where the bookings percentage will deviate from the revenue percentage. But the part that's exciting about that, really from my perspective, is that the revenue that has been—or the dollars that have booked, but not yet recognized, gives us that future potential for recognition, you know, in future periods of revenue. If you look at how the bookings are coming across, it's really even more impressive. Where we've been focusing our efforts, as we've mentioned in the past calls, you know, we've really been focusing on North America, with the North American channel, and then going to be moving those programs more internationally.

Our percentages are actually even more significant when you look at North America. So, you know, it's actually in the 39% for Q3, and 49% for the first nine months of the year for North America. So, we're—we're continuing to grow everywhere. You know, the bookings are certainly a very large part of the story, because those give us not only part of the record revenues that we're achieving today, but they are also an indication of, you know, better things to come.

Andrey Omelchak:

Okay. So, to put it simply, mathematically speaking, if you can maintain the same new bookings growth rate, there was a natural convergence between the numbers of the revenue growth and the bookings, right? Is that affected?

James Bindseil:

Sure. They will certainly come closer together, but it is important to note that there will always be the maintenance and support element, which will be recognized in future periods. So, I think that there will always be a slight elevation, but they naturally will with sustained bookings and revenue gravitate closer together, yes.

Andrey Omelchak:

Okay, understood. Another question I have is how much of your business currently comes from the channel relationships? I understand it's a big growth avenue for you guys.

Jim Albrecht:

Yes, the only number that we have really disclosed much in the past, and we're fairly consistent to that today, is that our channel accounts for about 30% of the revenue.

Andrey Omelchak:

Okay.

Jim Albrecht:

We do anticipate, you know, continuing to grow that. We've got all of our efforts driving towards that. But that's a rough order that it's at 30%. Thank you very much for your question.

Andrey Omelchak:

Thanks.

Operator:

We'll go to our next question from Jim Zimmerman with Lowell Capital.

Jim Zimmerman:

Hi guys, how are you doing? Nice quarter.

James Bindseil:

Thank you.

Jim Albrecht:

Thank you, Jim.

Jim Zimmerman:

I didn't have a lot of questions. I mean, it looks very solid. I guess it looks like you've got the EBITDA margin up near 25% or so, you know, and you make this comment about—that your net income on a percentage of revenue basis should be continue to at least remain where it's at, or improve, or I'm not sure, I don't want to put words in your mouth. But are you in effect sort of also seeing that this sort of the current EBITDA margin is sort of sustainable, or do you think there's upside in that from where it is right now because of leveraging the SG&A or sort of—what's your sort—because obviously your revenues are growing fast, and you've got a very high margin business. I'm just wondering if there's further leverage of sort of operating expenses, and what not, if that's possible?

James Bindseil:

Yes, this is James. I'll start, and then Jim can certainly chime in. The one thing that I would like to point out is that I think that there's a little bit of both. You know, my first thought is that, as we've discussed last year, we've been building programs that will have even better future impact than they are today when the channel is completely going, and so, to that end, I believe that there is upside opportunity associated with that that we have not yet realized to the level that we will.

But the other part of that is, you know, with the growth of the channel, there's also the growth in the business where you're paying additional percentages to the company that you're working with to bring you the opportunities, to bring you the deals. So, that actually has a dampening effect. So, I believe that there is—I believe that we are going to be able to sustain a good portion of it, but there are also variables that can help it to rise and help it to lower, depending upon, you know the particular period, and where the business is coming from. Jim?

Jim Albrecht:

(Inaudible).

Jim Zimmerman:

Go ahead.

Jim Albrecht:

I was just going to add, naturally net income and EBITDA are highly interrelated. They're both built off the same components. So, over the long-term they will tend to move in the same direction, at the same rate.

Jim Zimmerman:

Right. Yes, that makes sense. So, it sounds like you might trade off for greater revenue growth, you know, some EBITDA margin if it made sense. But the dollars generated would be increased over sort of prior year, that's at least a possibility it sounds like.

Then just—you guys, in terms of the channel program, how—I guess—tell me if I'm wrong, but it feels like you've made an investment just in your expense structure that might have multi period benefits. You've sort of built the structure there to get the benefit. I know you might have to pay something to get the revenues. You know, what inning are we in, in terms of how you feel you've penetrated the channel? Is that starting to hit on all cylinders, or when are you—I know takes a while to ramp up. Any sort of thoughts on that?

James Bindseil:

Well, you know, I'm horrible at the what inning we're in, analogy, but you know, the one thing that we've really been talking a lot about is, you know, the phases that you go through when you're enabling the channel partners. You know, we have recruited, we have gone through in educating them, and we've also been working at enabling them right now. You know, there's a lot of work that does go into that, you're exactly correct.

The good news is that we are seeing, you know, with the ones that we started earlier, in the process they are now bringing us leads, they're bringing us revenue. I will be very clear that, no, we do not believe that we're hitting on all cylinders. We do still have a good way to go. Yes, there was an upfront investment, because it requires, you know, support to run a world-class channel organization. We have to support those partners. So, we have made significant progress. We've got some that are really doing well, and we've got others that are still going down the pipe. So, there is still significant upside to achieve in the future.

Operator:

As a reminder, we ask you please limit yourself to one question and one follow-up. For those interested in asking additional follow-up questions, you may re-enter the queue by pressing star one.

We'll go to our next question from John Rolfe with Argand Capital.

John Rolfe:

Hi guys. Two questions; first, you mentioned that the bogie for this year was to at least meet the top line growth rate that you showed in 2014, which was just a hair over 10%. You know, if you were just to hit that 10%, it would actually indicate year-over-year revenue decline in 4Q, which I think would be surprising given, you know, recent momentum, given the growth in deferred revenues, the growth in bookings, and given the fact that you said you're planning on doing a bit more proactive IR marketing now, and presumably you'd want to be doing that from a position of strength.

So, you know, without asking you to get really, you know, too much more specific about the fourth quarter, I mean, can we at least expect that you would expect to continue, growing on a year-over-year basis in 4Q, and into the first part of next year?

James Bindseil:

Well as you know we don't give guidance. You know, the most that I would say at that point is that we have no indications that we're going to completely drop the ball, like you said, in the fourth quarter. We do anticipate to continue going, but we don't provide any guidance as to what those numbers will be like. But, you know, as to Jim's earlier point, we see ourselves continuing in line, with what we produced in the past.

Jim Albrecht:

Yes, and this is Jim. I'd be pleased to reiterate my earlier comments that our outlook for the remainder of 2015 and 2016 is for sustained revenue growth in line with what we've achieved so far this year. We also have an expectation of achieving a net income return on sales for 2015 and 2016 as a whole that are consistent with what we've achieved in the past.

John Rolfe:

Okay. Okay, great. That's gratifying. Then my follow-up, it looks like you're booking a tax rate this year both in the quarter and year-to-date in the low 30% range, versus a rate that in the past was in the mid 30% range, I think last year, in 2014, and even above that in prior years. Is the current sort of low 30% rate sustainable? You know, what should we be thinking about going forward? If it is sustainable, what's driven those improvements over what we've seen in the past?

Jim Albrecht:

This is Jim. So, those were driven by two notable items; research and development, tax credit, and of course, we're at the mercy of Congress as to whether or not they extend that. History has shown that they do. But it has not been enacted yet for 2015, but we are eagerly awaiting that.

We also get a nice credit for the domestic production activities credit. Both of those tend to lower our effective tax rate. We have no reason to believe that's going to change. We think we do a pretty job of managing that rate to below the blended statutory rate.

John Rolfe:

That latter credit, the domestic production activities, is that something that needs to be renewed annually as well, or is that something that's persistent until it's changed for the worse?

Jim Albrecht:

You're asking a kind of a reg question, I immediately don't know the answer to it. All I can say is that—I don't recall the last time it had to be renewed, I think it is a perpetual part of the reg as far as I know, whereas the R&D credit for since, like 1984, has had to have been renewed every year. So, DPAD (phon) as it's typically called, to the best of my knowledge does not have to be renewed every year.

John Rolfe:

Okay. Great. Thanks. That was helpful.

Jim Albrecht:

It could always be amended and—it could always be amended and changed, of course, but as the reg stands right now, I don't believe it has to be renewed every year.

John Rolfe:

Okay. Thank you.

Operator:

We'll go to a follow-up question from Andrey Omelchak with LionGuard Capital Management.

Andrey Omelchak:

Yes. Hi, again, guys. My question is with respect to the potential cash usage. Your cash balances keep growing quarter-after-quarter. How do you look at this? Is there room for potential dividend increases, or share buybacks, or M&A activities in order to optimize the Shareholder return?

James Bindseil:

Yes. We've been asked that question before, about the only thing that we ever disclose, if you look at, you know, history as any measure, is that we try and use our cash as wisely as we can. Every time we look at the roadmap on what we're going to develop, we do a cost benefit analysis, if you will, and look to see if we need to buy a solution, build it in-house, or partner with somebody else.

We have made acquisitions in the past. We have not disclosed any potential acquisitions at this time. We have done dividends as well, but you know the only thing that we have really discussed in the past is that we are aggressively growing the Company, and we're using our cash wisely to help us in the achievement of that growth. There's nothing else that we have really disclosed beyond that.

Andrey Omelchak:

My follow-up question is congratulations to Matthew on the promotion. I understand it frees up a bit of your time, Jim, to do the marketing and Investor Relations and meeting with the potential new institutional investors. Does it also potentially free up your time to look at the whole landscape in the technology space, and to see how—going back to my question of cash, those resources can be allocated better in order to do something meaningful for the existing Shareholders? I know it's a tough question.

James Bindseil:

Absolutely.

Andrey Omelchak:

Okay.

James Bindseil:

It frees up my time to—it frees up my time to assess those opportunities, absolutely.

Andrey Omelchak:

Okay. Thank you.

Operator:

We'll go to a follow-up question from Greg Newman with The Newman Agency.

Greg Newman:

Yes, gentlemen. A two-part question, both basically with marketing. You promoted the VP of Sales and Marketing, Matt Goulet, to your new COO position, and that freed up you to tell us about plans that you have to tell the story? You had mentioned that. If you could address how that frees you up? What you're going to do to tell the stock story, the Company story to investors?

On the other side of the question, how that's going to help the Company to promote the Leader of Sales and Marketing to the COO? That would be my last questions. Thank you very much. Congrats to Matt as well.

James Bindseil:

Well, thanks. Now, the first part of the question, as to what all I'm going do, as we mentioned just a moment ago, I am going to be participating with Matt, and with Jim, you know, in varying locations depending on who all attends; different non-deal road shows. We'll be attending more conferences, where there is—you know, not just investors, but technology, getting more into thought leadership, and really getting the name of GlobalSCAPE out. I think we've been this, you know, good balance sheet, kind of best kept secret kind of Company for a while, and we really want to—now that we've got you know, the good foundation in place, we really want to get the word out on to the street about who we are, and all the good things that we're doing. So, it's going to be lot of Investor Relations, but it's also going to be customer outreach as well, and going to the different conferences and things like that.

As far as how does it benefit having the person who is our Sales and Marketing you know, over the other functions, I think that there is a lot of benefit, in that the value market chain, if you will, from product ideation through development, through marketing, through selling requires good coordination. Matt has, as I mentioned earlier, done a phenomenal job in bringing together the Sales and Marketing vehicles to operate in a cohesive fashion.

So, having all of that through ideation—you know, starting with ideation through sale, you know, having all of those Teams working in concert with an individual who gets things done is just going to benefit every single part of that go-to-market value chain. So, it's about—it's a combination of just efficiencies from having Teams working together, as well as just you know, having the right leaders on every different part of the Team, starting with Matt. So, that's the way we see it.

Operator:

We'll go next to a question from Edward Kissel with Forager Cap.

Edward Kissel:

Hey, guys. Just a couple of questions for you. The first is, could you talk a little bit, maybe a little more color on scConnect and how hard you're pushing that yet, and whether you're waiting on the gateway integration?

James Bindseil:

Sure. Well, the gateway—DMZ Gateway integration is a key part of it. It's a differentiator for us. We are having, you know, as I said earlier, there is—the interest is growing, and we've had a number of demonstrations with clients and things like that, where we're taking everybody through it. But the DMZ Gateway just adds this layer of abstraction. Without getting too technical, it allows you to really fit in the most compliant environment.

So, if you're in a PCI type of environment, the DMZ Gateway allows you to have that segmentation that is required. So, we really are placing a heavy emphasis on getting that out. Then, we believe that we'll probably do a much more vigorous job of really promoting that and getting the product out.

Edward Kissel:

So, what do you think the timeline is there on that development side, and what is the sales cycle, or what do you expect the sales cycle to be after you've got that done?

James Bindseil:

Well, I certainly can't predict on the sales cycle. We do anticipate, like most enterprise products, that it will be in the magnitude of months, rather than in quarters, but there's nothing that actually gives us a specific timeframe, outside the fact that it is similar in nature to other products that we have.

As far as the development time you know, remaining, it's something that we, once again, believe will be done in the next quarter or two, but we haven't disclosed any specific month for that to occur.

Edward Kissel:

Okay. Then, you also mentioned that one of your channel partners have reached the 10% threshold. What does that mean? Does that mean that one partner is 10% of your sales, or 10% of his book is you, what is that 10% referring to?

James Bindseil:

That refers that 10% of the revenue that we have achieved for the first nine months of the year came through that distribution partner. Now, it's important to note that this is a distribution partner, so they have—and we have visibility into this, they have many—excuse me, customers that they are selling to, but that distribution partner was the vehicle for over 10% of our revenue per year to date.

Edward Kissel:

Okay. Then, so if have 30% of your revenue is from all your channel partners, how fragmented is the remaining 20%?

James Bindseil:

Less than 10%. Not to be coy, but we don't have—we don't disclose percentages by the other partners. But you know, certainly, if they were over the 10%, it would be considered material, and we would disclose that.

Jim Albrecht:

This is Jim. Suffice it to say, we have a pretty broad base of channel partners. So, other than having the good news that we have, a lead channel partner that's really reaching out to a lot of customers and contributing to our revenue growth, which is consistent with the plan, we also had many others coming along behind them that we hope will get to the same level. We'd love to have a bunch of them that are 10%. Someday maybe we'll get there. So, we appreciate the questions, Ed, very much.

Operator, I don't see any other callers in the queue, if you'd like to poll them one more time, please.

Operator:

Certainly. As a reminder, that is star, one to ask a question. Again, we please ask you to limit yourself to limit yourself to one question and one follow-up.

There are no further questions at time. Mr. Albrecht, I'd like to turn the conference back to you for any additional or closing remarks.

Jim Albrecht:

Well, we certainly appreciate everybody taking the time to join us, and hear the story that we look forward to continuing in the future. We'll reconvene after the first of the year to discuss our Q4 and 2015 as-a-whole results. Everyone have a wonderful day. Thanks, again.

Operator:

That concludes today's conference. We appreciate your participation.