UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

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 number 001-33601

GlobalSCAPE, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**74-2785449**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
4500 Lockhill-Selma, Suite 150 **San Antonio, Texas**	**78249**
Address of Principal Executive Offices	Zip Code

210-308-8267

Registrant's Telephone Number, Including Area Code

____

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.001 per share	GSB	NYSE American, LLC
(Title of Class)	(Trading Symbol)	(Name of exchange on which registered)

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☒
Emerging growth 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 July 31, 2020 there were 18,782,318 shares of common stock outstanding.

GlobalSCAPE, Inc.

Quarterly Report on Form 10-Q

For the Quarter ended June 30, 2020

Index

Preliminary Notes

GlobalSCAPE®, CuteFTP®, CuteFTP Pro®, DMZ Gateway®, EFT Cloud Services®, GlobalSCAPE Securely Connected®, and Mail Express® are registered trademarks of GlobalSCAPE, Inc.

Secure FTP Server™, Wide Area File Services™, WAFS™, CDP™, Advanced Workflow Engine™, AWE™, EFT Server™, EFT Workspaces™, EFT Insight™, Enhanced File Transfer™, Enhanced File Transfer Server™, Secure Ad Hoc Transfer™, SAT™, EFT Server Enterprise™, Enhanced File Transfer Server Enterprise™, Desktop Transfer Client™, DTC™, Mobile Transfer Client™, MTC™, Web Transfer Client™, Workspaces™, Accelerate™, WTC™, Content Integrity Control™, Advanced Authentication™, AAM™ and scConnect™ are trademarks of GlobalSCAPE, Inc.

Other trademarks and trade names in this Quarterly Report on Form 10-Q (this "Report") are the property of their respective owners.

In this Report, we use the following terms:

"BYOL" means bring your own license.

"Cloud" or "cloud computing" refers to pooled computing resources, delivered on-demand, over the Internet. In the same manner that electricity is delivered on-demand from large scale power plants, cloud computing is delivered from centralized data centers to users all over the world.

"DMZ" or Demilitarized Zone refers to a computer host or perimeter network inserted between a trusted internal network and an untrusted public network such as the Internet.

"FTP" or File Transfer Protocol is a protocol used to exchange or manipulate files over a computer network such as the Internet.

"MFT" or Managed File Transfer refers to software solutions that facilitate the secure transfer of data from one computer to another through a network.

"SaaS" or Software-as-a-Service uses hosted, cloud computing approaches in which the client does not need to install the underlying software on its own computer systems to access the application.

EXPLANATORY NOTE

On July 19, 2020, GlobalSCAPE, Inc., a Delaware corporation (the “Company”), entered into an Agreement and Plan of Merger (the “Merger Agreement”) by and among Help/Systems, LLC, a Delaware limited liability company (“Parent”), Grail Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (“Merger Sub”), and solely with respect to certain sections therein, HS Purchaser, LLC, a Delaware limited liability company and Help/Systems Holdings, Inc., a Delaware corporation. Pursuant to the Merger Agreement and upon the terms and subject to the conditions thereof, Merger Sub commenced a tender offer (the “Offer”) to purchase any and all of the outstanding shares (the “Shares”) of common stock of the Company, par value $0.001 per share, at a price of $9.50 per Share (the “Offer Price”), subject to any required withholding of taxes, net to the seller in cash without interest, on the terms and subject to the conditions set forth in the Merger Agreement.

Upon the terms and subject to the conditions of the Merger Agreement, Merger Sub commenced the Offer on July 31, 2020. Subject to the terms and conditions set forth in the Merger Agreement, Merger Sub shall, promptly after the expiration of the Offer, accept for payment all Shares validly tendered and not withdrawn pursuant to the Offer (the time at which Shares are first accepted for payment under the Offer, the “Acceptance Time”), and after the Acceptance Time, Merger Sub shall pay the Offer Price for such Shares.

Pursuant to the Merger Agreement, following the consummation of the Offer, and subject to the conditions set forth in the Merger Agreement, Merger Sub will be merged with and into the Company (the “Merger”), whereupon the separate existence of Merger Sub shall cease, and the Company shall be the surviving corporation of the Merger and a wholly owned subsidiary of Parent. The Merger shall be governed by and effected under Section 251(h) of the Delaware General Corporation Law (the “DGCL”), without a vote of the stockholders of the Company.

At the effective time of the Merger, all remaining outstanding Shares not tendered in the Offer (other than Shares held by Parent or any of its subsidiaries, including Merger Sub, or in the treasury of the Company, or Shares held by stockholders who are entitled to exercise, and properly exercise, appraisal rights with respect to such Shares pursuant to, and who comply in all respects with, the provisions of Section 262 of the DGCL) will be cancelled and converted into the right to receive cash in an amount equal to the Offer Price, without interest, subject to any required withholding of taxes.

The Merger Agreement is more fully described in a Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on July 20, 2020. A copy of the Merger Agreement was filed by the Company as an exhibit to that Current Report. The descriptions herein of the Offer, the Merger and the Merger Agreement do not purport to be complete and are subject to, and qualified in their entirety by, the full text of the Merger Agreement filed with that Current Report.

Part I. Financial Information

Item 1. Financial Statements

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

	June 30, 2020 (Unaudited)	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 12,463	$ 4,702
Accounts receivable, net	6,308	7,239
Federal income tax receivable	1,371	1,759
Prepaid and other current assets	1,296	1,366
Total current assets	21,438	15,066
Capitalized software development costs, net	2,570	2,650
Goodwill	12,712	12,712
Deferred tax asset, net	295	493
Property and equipment, net	265	274
Right-of-use asset	2,864	2,905
Other assets	421	459
Total assets	$ 40,565	$ 34,559
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 639	$ 746
Accrued expenses	1,500	1,598
Deferred revenue	16,500	15,683
Long term debt, current portion	5,825	4,575
Total current liabilities	24,464	22,602
Deferred revenue, non-current portion	2,718	2,572
Lease liability	2,853	2,900
Long term debt, non-current portion	39,208	42,745
Other long term liabilities	24	24
Commitments and contingencies		
Stockholders' equity (deficit):		
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, 24,161,818 and 23,890,890 shares issued: 18,782,318 and 18,511,390 outstanding at June 30, 2020 and December 31, 2019, respectively	24	24
Additional paid-in capital	33,868	32,156
Treasury stock, 5,379,500 and 5,379,500 shares, at cost, at June 30, 2020 and December 31, 2019, respectively	(23,087)	(23,087)
Retained earnings (deficit)	(39,507)	(45,377)
Total stockholders' equity (deficit)	(28,702)	(36,284)
Total liabilities and stockholders' equity (deficit)	$ 40,565	$ 34,559

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

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Operating revenues:				
Software licenses	$ 2,228	$ 2,835	$ 4,223	$ 5,469
Maintenance and support	7,295	6,602	14,361	12,678
Professional services	508	832	1,159	1,535
Total revenues	10,031	10,269	19,743	19,682
Cost of revenues:				
Software licenses	729	731	1,407	1,340
Maintenance and support	607	566	1,220	1,098
Professional services	271	290	562	583
Total cost of revenues	1,607	1,587	3,189	3,021
Gross profit	8,424	8,682	16,554	16,661
Operating expenses:				
Sales and marketing	2,062	1,899	4,137	3,815
General and administrative	1,450	1,757	2,974	3,776
Legal and professional	462	222	1,077	798
Research and development	352	275	664	600
Total operating expenses	4,326	4,153	8,852	8,989
Income from operations	4,098	4,529	7,702	7,672
Interest income (expense), net	(628)	30	(1,402)	54
Income before income taxes	3,470	4,559	6,300	7,726
Income tax expense	(31)	926	430	1,673
Net income	$ 3,501	$ 3,633	$ 5,870	$ 6,053
Comprehensive income	$ 3,501	$ 3,633	$ 5,870	$ 6,053
Net income per common share -				
Basic	$ 0.19	$ 0.21	$ 0.31	$ 0.35
Diluted	$ 0.18	$ 0.20	$ 0.31	$ 0.33
Weighted average shares outstanding:				
Basic	18,750	17,268	18,681	17,233
Diluted	19,119	18,379	19,072	18,120
Cash dividends declared per share	$ -	$ 0.500	$ -	$ 0.515

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

GlobalSCAPE, Inc.
Condensed Consolidated Statement of Stockholders' Equity (Deficit)
(in thousands, except number of shares)
(unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total
	Shares	Amount				
Balance at December 31, 2018	22,441,860	$ 22	$ 25,584	$ (22,712)	$ 13,062	$ 15,956
Purchase of Treasury Stock				(375)		(375)
Shares issued upon exercise of stock options	156,489		519			519
Stock option cash settlement			(445)			(445)
Stock-based compensation expense						
Stock options			775			775
Restricted stock			100			100
Common stock cash dividends, $0.015 per share					(259)	(259)
Net Income					2,420	2,420
Balance at March 31, 2019	22,598,349	$ 22	$ 26,533	$ (23,087)	$ 15,223	$ 18,691
Shares issued upon exercise of stock options	55,520		179			179
Stock-based compensation expense						
Stock options			197			197
Restricted stock	40,000		377			377
Common stock cash dividends, $0.50 per share					(8,713)	(8,713)
Net Income					3,633	3,633
Balance at June 30, 2019	22,693,869	$ 22	$ 27,286	$ (23,087)	$ 10,143	$ 14,364
Shares issued upon exercise of stock options	57,006		176			176
Stock-based compensation expense						
Stock options			321			321
Restricted stock			215			215
Common stock cash dividends, $0.015 per share					(263)	(263)
Net Income					3,580	3,580
Balance at September 30, 2019	22,750,875	$ 22	$ 27,998	$ (23,087)	$ 13,460	$ 18,393
Shares issued upon exercise of stock options	1,060,015	2	3,728			3,730
Stock-based compensation expense						
Stock options			288			288
Restricted stock	80,000		142			142
Common stock cash dividends, $3.365 per share					(62,471)	(62,471)
Net Income					3,634	3,634
Balance at December 31, 2019	23,890,890	$ 24	$ 32,156	$ (23,087)	$ (45,377)	$ (36,284)
Shares issued upon exercise of stock options	198,924		768			768
Stock-based compensation expense						
Stock options			365			365
Restricted stock			132			132
Net Income					2,369	2,369
Balance at March 31, 2020	24,089,814	$ 24	$ 33,421	$ (23,087)	$ (43,008)	$ (32,650)
Shares issued upon exercise of stock options	11,794		35			35
Stock-based compensation expense						
Stock options			356			356
Restricted stock	60,210		56			56
Net Income					3,501	3,501
Balance at June 30, 2020	24,161,818	$ 24	$ 33,868	$ (23,087)	$ (39,507)	$ (28,702)

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

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

	For the Six Months Ended June 30,	
	2020	**2019**
Operating Activities:		
Net income	$ 5,870	$ 6,053
Items not involving cash at the time they are recorded in the statement of operations:		
Provision for doubtful accounts receivable	4	63
Depreciation and amortization	917	916
Share-based compensation	909	1,449
Amortization of debt issuance costs	213	-
Deferred taxes	198	(159)
Subtotal before changes in operating assets and liabilities	8,111	8,322
Changes in operating assets and liabilities:		
Accounts receivable	927	537
Prepaid and other current assets	70	104
Deferred revenue	963	749
Accounts payable	(107)	63
Accrued expenses	(98)	303
Operating lease right-of-use asset	41	42
Other assets	38	9
Operating lease liabilities	(47)	(43)
Other long-term liabilities	-	(4)
Income tax payable (receivable)	388	179
Net cash provided by operating activities	10,286	10,261
Investing Activities:		
Software development costs capitalized	(768)	(437)
Purchase of property and equipment	(60)	(32)
Net cash used in investing activities	(828)	(469)
Financing Activities:		
Proceeds from exercise of stock options	803	698
Stock option cash settlement	-	(445)
Purchase of Treasury Stock	-	(375)
Notes payable principle payments	(2,500)	-
Dividends paid	-	(8,972)
Net cash used in financing activities	(1,697)	(9,094)
Net increase in cash	7,761	698
Cash at beginning of period	4,702	9,173
Cash at end of period	$ 12,463	$ 9,871
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,436	$ -
Income tax payments (refunds)	$ (187)	$ 1,491
Supplemental disclosure of noncash activities:		
Right-of-use assets obtained in exchange for operating lease obligations	$ -	$ 3,075

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

GlobalSCAPE, Inc.

Notes to Condensed Consolidated Financial Statements

As of June 30, 2020 and For the Three and Six

Months Then Ended

(Unaudited)

1. Nature of Business

GlobalSCAPE, Inc., together with its wholly-owned subsidiary (TappIn, Inc., which was dissolved June 16, 2020) (collectively referred to as the "Company", "GlobalSCAPE", "we", "us" or "our"), provides secure information exchange capabilities for enterprises and consumers through the development and distribution of software, delivery of managed and hosted solutions, and provisioning of associated services. Our solution portfolio facilitates transmission of critical information such as financial data, medical records, client 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 clients with the ability to monitor and audit file transfer activities. Our primary product is Enhanced File Transfer, or EFT. We have other products that complement our EFT product.

We sell other products that are synergistic to EFT including CuteFTP. Collectively, these products aimed at consumers and small businesses constitute less than 2% of our total revenue. We continue to offer product support for Mail Express and WAFS, which we discontinued as products for sale as of January 1, 2019.

Throughout these notes unless otherwise noted, our references to the 2020 quarter and the 2019 quarter refer to the three months ended June 30, 2020 and 2019, respectively, and references to the 2020 six months and the 2019 six months refer to the six months ended June 30, 2020 and 2019, 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 United States Securities and Exchange Commission, or the SEC. Accordingly, they do not include all information and footnotes required under United States generally accepted accounting principles, 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 Report should be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on March 16, 2020, which we refer to as the 2019 Form 10-K, as well as *Management's Discussion and Analysis of Financial Condition and Results of Operations* also included in our 2019 Form 10-K and in this Report.

We follow accounting standards set by the Financial Accounting Standards Board, or FASB. The FASB sets GAAP, which 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 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 condensed consolidated financial statements are prepared in conformity with GAAP. All intercompany accounts and transactions have been eliminated.

Revenue Recognition

Products and Services

We earn revenue by delivering the following software products and services:

- Perpetual software licenses under which clients install our products in their information systems environment on computers they manage, own or otherwise procure from a cloud services provider. Clients also deploy our products with cloud services providers in a BYOL environment.
- Cloud-based, hosted SaaS solutions that we sell on an ongoing subscription basis resulting in our earning recurring, monthly subscription and usage fees to access the service.
- Maintenance and support services, or M&S, that generally consist of telephone support and access to unspecified future software upgrades.
- Professional services for product integration and configuration that generally do not significantly modify our software products.

We earn the majority of our revenue from the sale of perpetual software licenses and associated contracts for M&S.

We recognize revenue when we have satisfied a performance obligation by transferring control over a product or delivering a service to a client. We measure revenue based upon the consideration set forth in an arrangement or contract with a client. The revenue recognition criteria we apply to each of our software products and services are as follows:

- Perpetual software licenses – These licenses grant a right to use our functional intellectual property. We recognize revenue at the point in time when we electronically deliver to our client the software license key that provides the ability to access and use our product. If our client is a reseller who will further transfer the ability to access and use our product to a third party under a separate arrangement that the reseller has with that third party, we recognize revenue at the time we deliver the software license key to the reseller since our contract is with the reseller.

- Cloud-based, hosted SaaS solutions – These solutions grant a right to access our functional intellectual property. We recognize revenue over time on a monthly basis as we deliver the services to which our clients subscribe. Revenue can include basic monthly fees to access the software and usage fees based upon the volume of certain resources the client consumes (such as volumes of storage or bandwidth). We are generally paid for these services on a month-to-month basis, but if a client pays us in advance for services we will deliver in the future, we record as deferred revenue the amount of such payment related to services we have not yet delivered.

- M&S – We provide these services to purchasers of perpetual software licenses under agreements with terms generally ranging from one to three years. We require up-front payment of our M&S fee in an amount that covers the entire term of the agreement. We record as deferred revenue amounts paid that relate to future periods during which we will provide the M&S service. We reduce deferred revenue and recognize revenue ratably in future periods as we deliver the M&S service.

- Professional services – We recognize revenue from these services when the services are completed. If we are paid in advance for these services, we record such payment as deferred revenue until we complete the services.

The delivery of our software products and services generally does not involve any variable consideration, financing components or consideration payable to a client such as rebates or other incentives that reduce amounts owed to us by clients.

Deferred Revenue Classification and Activity

Deferred revenue related to services we will deliver within one year is presented as a current liability. Deferred revenue related to services that we will deliver more than one year into the future is presented as a non-current liability.

The activity in our deferred revenue balances has been as follows ($ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Deferred revenue, beginning of period	$ 18,208	$ 16,544	$ 18,255	$ 16,237
Deferred revenue resulting from new contracts with customers	8,827	7,841	16,558	14,943
Deferred revenue at the beginning of the period that was amortized to revenue	(7,009)	(6,164)	(13,830)	(11,796)
Deferred revenue arising during the period that was amortized to revenue	(808)	(1,235)	(1,765)	(2,398)
Deferred revenue, end of period	$ 19,218	$ 16,986	$ 19,218	$ 16,986

Multi-Element Transactions

At the time clients purchase perpetual software licenses, they also typically purchase M&S although it is not mandatory. We do not sell separate M&S to subscribers to our SaaS solutions as M&S is provided as part of their SaaS subscription. Clients may also purchase professional services at the time they purchase perpetual software licenses or a SaaS subscription. Each of the components of these multi-element transactions is a separately identifiable performance obligation.

For multi-element transactions, we allocate the transaction price to each performance obligation on a relative stand-alone selling price basis. We determine that stand-alone selling price for each item at the inception of the transaction involving these multiple elements.

We sell, as stand-alone transactions, renewals of pre-existing M&S contracts, professional services to clients seeking assistance with products they have previously purchased from us, or SaaS subscriptions to clients not requiring any of our other products or services. Accordingly, we are able to estimate the stand-alone selling price of these items based upon our observation of those transactions. Since most of our sales of perpetual software licenses are part of multi-element transactions that also involve M&S and/or professional services, and because the selling price of those licenses can vary significantly among clients, we use the residual approach under FASB Accounting Standards Codification Topic 606, or ASC 606, to estimate the selling price of perpetual software licenses in a multi-element transaction by reference to the total transaction price less the sum of the observable stand-alone selling prices of M&S and/or professional services.

We allocate discounts proportionally to all of the components of a multi-element transaction unless the entire discount relates to only one or more, but not all, performance obligations in a contract.

Sales Tax

We collect sales tax on many of our transactions with clients as required under applicable law. We do not include sales tax collected in our revenue. We record it as a liability payable to taxing authorities.

Allowance for Sales Returns

We provide an allowance for sales returns. We estimate this allowance based upon our historical experience and the nature of recent transactions with clients. This amount is included in accrued liabilities in our condensed consolidated balance sheets.

Contract Assets

We generally bill clients for professional services when we have fully delivered the services specified in the contract. We may incur costs in delivering the services prior to that time. Such costs are generally not material. Accordingly, we do not record a contract asset for professional service engagements in process but not yet billed.

Incremental Costs of Obtaining a Contract to Deliver Goods and Services

We incur incremental costs in the form of sales commissions paid to our sales personnel and royalties on certain products paid to third parties. These are costs we would not incur if we did not obtain a contract to deliver our goods and services. We account for these costs as follows:

- If the costs are associated with products and services for which we recognize revenue at a fixed point in time (primarily sales of perpetual software licenses and professional services), we expense these costs in full at the time we recognize that revenue.
- If the costs are associated with services for which we recognize revenue over time (primarily sales of M&S and SaaS subscriptions) for which we believe it is likely that the contract for those services will be renewed for additional terms in the future, provided we deem these costs to be recoverable, we record these costs as a deferred expense asset and amortize that cost to expense as follows:
  - o For the portion of the cost that we determine benefits us primarily only over the term of the specific underlying contract currently in force (such as the term of an M&S contract), we recognize expense ratably each month over that term.
  - o For the portion of the cost that we determine benefits us over an overall client relationship that is likely to span a period of time that is longer than an initial contract term (for example, an M&S contract renewed for multiple terms in the future), we recognize expense ratably monthly over the estimated life of the client relationship.

Our activity in deferred costs of obtaining a contract to deliver goods and services has been as follows ($ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Deferred expense, beginning of period	$ 933	$ 979	$ 943	$ 1,009
Deferred expense resulting from new contracts with customers	226	206	444	385
Deferred expense amortized to expense	(221)	(222)	(449)	(431)
Deferred expense, end of period	$ 938	$ 963	$ 938	$ 963

At June 30, 2020, $584,000 was recorded in prepaid and current other assets and $354,000 was recorded in noncurrent other assets in our condensed consolidated balance sheet. At December 31, 2019, we had $577,000 recorded in prepaid and other current assets and $366,000 recorded in noncurrent other assets in our condensed consolidated balance sheet.

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities on our condensed consolidated balance sheets. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, which are generally accounted for separately. On April 18, 2019, the Company signed a new operating lease for our existing office space location. The lease is for a period of 10 years at an average annual rent of $462,000 beginning May 1, 2019. We recorded a right-of-use asset and lease liability of approximately $3 million at the commencement of the lease.

Cash and cash equivalents

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

Fair Value of Financial Instruments

For financial assets and liabilities recorded at fair value on a recurring or non-recurring basis, fair value is the price we would receive to sell an asset, or pay to transfer a liability, in an orderly transaction with a market participant at the measurement date. In the absence of such data, fair value is estimated using internal information consistent with what market participants would use in a hypothetical transaction. In determining fair value, observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions; preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.
Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations whose inputs are observable or whose significant value drivers are observable.
Level 3: Significant inputs to the valuation model are unobservable.

As of June 30, 2020, we did not have any assets measured at fair value on a recurring basis that would require disclosure based on the fair value hierarchy of valuation techniques. In addition, certain non-financial assets and liabilities are to be initially measured at fair value on a nonrecurring basis. This includes items such as non-financial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and non-financial, long-lived assets measured at fair value for an impairment assessment. In general, non-financial assets and liabilities including goodwill, capitalized software and property and equipment are measured at fair value using Level 3 inputs, which result in management's best estimate of fair value from the perspective of a market participant, when there is an indication of impairment and are recorded at fair value only when impairment is recognized.

Our financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable and notes payable. The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable, approximates fair value due to the short term maturity of these instruments, all of which mature within 12 months.

The principal amount of our notes payable, including the current portion, as of June 30, 2020 was $46,875,000. This carrying value, net of unamortized debt issuance costs, approximates fair value based on interest rates that are currently available to us for issuance of debt with similar terms and maturities.

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 expensed as incurred.

Goodwill

We account for goodwill in accordance with FASB Accounting Standards Codification 350, or ASC 350, as amended by ASU 2017-04, Simplifying the Test for Goodwill Impairment (effective January 1, 2020, as described in recent accounting pronouncements below). Goodwill is not amortized. Annually, we test goodwill for impairment at the reporting unit level using December 31 as the measurement date, and will also evaluate throughout the year if any indicators of a potential impairment are identified. We operate as a single reporting unit with $12,712,000 of goodwill. As of June 30, 2020 and December 31, 2019, this single reporting unit had a negative carrying value.

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 to perform a quantitative goodwill impairment test to identify both the existence of impairment and the amount of impairment loss. In a quantitative test, the fair value of a reporting unit is compared to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered unimpaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

As of December 31, 2019, 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 (including the recent coronavirus COVID-19 outbreak), or changes in circumstances since that time indicating that the carrying amount of our reporting unit may exceed its fair market value and that interim testing needed to be performed. Additionally, because our single reporting unit has a negative carrying value, reasonable changes in the assumptions used would not indicate impairment.

Capitalized Software Development Costs

When we complete research and development for a software product, have in place a program plan and a detailed 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 and our method of amortizing them relative to our estimates of realizability through sales of products in the marketplace.

Cost of revenue

Cost of revenue consists of expenses associated with the production, delivery and support of the products and services we sell. Cost of license revenue consists primarily of amortization of the capitalized software development costs we incur when producing our software products, royalties we pay to use software developed by others for certain features of our products, and fees we pay to third parties who provide services supporting our SaaS 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.

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 approximately $31,000 and $44,000 in the 2020 quarter and the 2019 quarter, respectively, and $90,000 and $95,000 in the 2020 six months and the 2019 six months, respectively.

Stock-Based Compensation

We measure the cost of stock-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 primarily use 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 condensed consolidated financial statements. The amount of the benefit we recognize is the largest amount that we believe has a greater than 50 percent 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 restricted stock and 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

Accounting Standards Update ("ASU") 2017-04, Intangibles – Goodwill and Other (issued January 2017) - To simplify the subsequent measurement of goodwill, Step 2 was eliminated from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Any loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. This update also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. We adopted ASU 2017-04 effective January 1, 2020, and its adoption did not have material impact on our internal condensed consolidated financial statements.

ASU 2016-13, Financial Instruments – Credit Losses (issued June 2016) - Among the provisions of this ASU is a requirement that assets measured at amortized cost, which includes trade accounts receivable, be presented at the net amount expected to be collected. This pronouncement requires that an entity reflect all of its expected credit losses based on current estimates which will replace the current standard requiring that an entity need consider only past events and current conditions in measuring an incurred loss. We are subject to this guidance effective with the consolidated financial statements we issue for the year ending December 31, 2023, and the quarterly periods during that year. We do not expect the amounts we report as accounts receivable in those future periods under this guidance to be materially affected relative to current guidance.

ASU 2016-02, Leases (Topic 842): In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We are also required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented using a modified retrospective approach, with certain practical expedients available. We adopted ASC 842 using the modified retrospective approach effective January 1, 2019. As leases in-place at the time of adoption were not material, no right-of-use assets or lease liabilities were recorded upon adoption. We elected the available practical expedients and implemented internal controls and key system functionality to enable the preparation of financial information on adoption. On April 18, 2019, the Company signed a new operating lease for our existing office space location. The lease is for a period of 10 years at an average annual rent of $462,000 beginning May 1, 2019. We recorded a right-of-use asset and lease liability of approximately $3 million at the commencement of the lease.

ASU 2018-15 Internal-Use Software. In August 2018, the FASB issued new guidance that clarifies the accounting for implementation costs in a cloud computing arrangement. The new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard will be effective for us in the first quarter of fiscal 2021. We have evaluated the impact of the adoption of this guidance on our Consolidated Financial Statements and disclosures and have determined that it is not material.

ASU 2019-12 Income taxes. In December 2019, the FASB issued new guidance that simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The guidance also clarifies and amends existing guidance to improve consistent application. The standard will be effective for us in our first quarter of fiscal 2023, with early adoption permitted. We are currently evaluating the adoption date and the impact of the adoption of this guidance on our Consolidated Financial Statements and disclosures.

4. Accounts Receivable, Net

We bill clients and issue invoices when we have delivered goods or services. In addition, when clients agree to purchase or renew M&S services, we bill and invoice clients at that time which could be before the date we begin delivering those services. In that event, we exclude from accounts receivable (and from the related deferred revenue, see Note 6) the invoices we have issued for which the M&S services commencement date is in the future and which have not been paid by the client as of the date of our condensed consolidated financial statements. We continually assess the collectability of our accounts receivable. If we deem it less than probable that we will collect an amount due us, we write-off that balance against our allowance for doubtful accounts. Accordingly, we determine our accounts receivable, net, as follows ($ in thousands):

	June 30, 2020	December 31, 2019
Total invoices issued and unpaid	$ 7,537	$ 8,245
Less: Unpaid invoices relating to M&S contracts with a start date subsequent to the balance sheet date	(1,129)	(906)
Gross accounts receivable	6,408	7,339
Allowance for doubtful accounts	(100)	(100)
Accounts receivable, net	$ 6,308	$ 7,239

5. Capitalized Software Development Costs, Net

Our capitalized software development costs balances and activities were as follows ($ in thousands):

	June 30, 2020	December 31, 2019
Gross capitalized cost	$ 12,297	$ 11,529
Accumulated amortization	(9,727)	(8,879)
Capitalized software development costs, net	$ 2,570	$ 2,650

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Amount capitalized	$ 404	$ 236	$ 768	$ 437
Amortization expense	(442)	(453)	(848)	(806)

	Released Products	Unreleased Products
Gross capitalized amount at June 30, 2020	$ 11,828	$ 469
Accumulated amortization	(9,727)	-
Net capitalized cost at June 30, 2020	$ 2,101	$ 469
Future amortization expense:		
Six months ending December 31, 2020	657	
Year ending December 31,		
2021	825	
2022	535	
2023	84	
Total	$ 2,101	

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.

6. Deferred Revenue

As described in Note 4 regarding accounts receivable, when clients agree to purchase or renew M&S services, we bill and invoice our clients at that time which could be before the date we begin delivering those services. In that event, we exclude from deferred revenue (and from the related accounts receivable) the invoices we have issued for which the M&S services commencement date is in the future and which have not been paid by the client as of the date of our financial statements. Accordingly, we determine our deferred revenue as follows ($ in thousands):

	June 30, 2020		December 31, 2019	
Total invoiced for M&S contracts for which revenue will be recognized in future periods	$	20,347	$	19,161
Less: Unpaid invoices relating to M&S contracts with a start date subsequent to the balance sheet date		(1,129)		(906)
Total deferred revenue	$	19,218	$	18,255
Deferred revenue, current portion	$	16,500	$	15,683
Deferred revenue, non-current portion		2,718		2,572
Total deferred revenue	$	19,218	$	18,255

7. Notes Payable

In November 2019, we entered into a credit facility with J.P. Morgan Chase Bank, N.A, as Administrative Agent and East West Bank as Syndication Agent consisting of a $50.0 million term loan and a $5 million revolving agreement (the "Loan Agreement"), which is secured by substantially all of our assets. Funds from the term loan were substantially used to fund a special dividend of $3.35 to our common shareholders which was paid on December 5, 2019. The revolving loan may be accessed to fund working capital needs. The loans bear a variable interest rate of LIBOR plus a Term Loan Spread between 3.75% and 2.25%. The amount of the Term Loan Spread is a function of the Company's Leverage Ratio. Effective January 3, 2020, the Company entered into an Amendment and Waiver No. 1 to the Credit Agreement to increase the amount of the special dividend permitted to be paid to stockholders on December 5, 2019 to accommodate last minute option exercises and to exclude the May 28, 2019 special dividend from the fixed charges calculation. Effective April 13, 2020 the Company entered into Amendment No. 2 to the Credit Agreement which provided consent for the Company to borrow $2.0 million under the U.S. Small Business Administration Payroll Protection Program authorized by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Following receipt of the loan proceeds, we evaluated our access to credit through other sources of funding and returned the funds on May 5, 2020.

At June 30, 2020, the principal balance outstanding under the term note payable was $46.9 million and the balance of the revolving note payable was zero.

The aggregate maturities of our notes payable, as of June 30, 2020, are as follows: $2.5 million in 2020, $7.5 million in 2021, $7.5 million in 2022, $10.0 million in 2023, and $19.4 million in 2024.

Interest payments under the credit facility are due monthly. Principal payments are due quarterly. The loans may be prepaid at any time without penalty.

The Loan Agreement contains the following financial covenants:

- We must not exceed a Total Leverage Ratio of 3.25x. This ratio decreases to 3.0x at September 30, 2020, 2.75x at March 31, 2021 and 2.25x at March 31, 2022. This ratio is defined in the Loan Agreement as the ratio of consolidated total funded indebtedness to consolidated EBITDA minus capitalized software expenditures for the period of the four most recent consecutive fiscal quarters. As of June 30, 2020, this debt service coverage ratio was 2.57x.

- We must maintain a Fixed Coverage Charge Ratio of 1.25x. This ratio is defined in the Loan Agreement as the ratio of consolidated EBITDA minus unfinanced capital expenditures to cash interest expense plus scheduled principal payments made plus taxes paid in cash plus restricted payments made in cash. As of June 30, 2020, this debt to tangible net worth ratio was 2.69x.

The Loan Agreement contains customary covenants relating to maintaining legal existence and good standing, complying with applicable laws, delivery of financial statements, payment of taxes and maintaining insurance. The Loan Agreement also contains customary events of default including the failure to make payments of principal and interest, the breach of any covenants, the occurrence of a material adverse change, and certain bankruptcy and insolvency events. Additionally, we may be restricted from declaring dividends if an Event of Default exists, or if immediately prior to and after giving effect of such dividend it would cause us to exceed our maximum Total Leverage Ratio, or fall below our minimum Fixed Charge Coverage Ratio.

The following table represents the components of our long-term debt disclosed on the condensed consolidated balance sheet as of June 30, 2020.

	June 30, 2020
Credit facility	$ 46,875
Unamortized debt issuance costs	(1,842)
Total long-term debt	45,033
Less current portion of long-term debt	5,825
Total long-term debt, non-current portion	$ 39,208
Interest rate	5.4%

8. Stock Options, Restricted Stock and Stock-Based Compensation

We have granted stock-based incentive awards to our officers and employees under long-term equity incentive plans that originated in 2000, 2006, 2010, 2015 and 2016. We currently issue stock-based awards to our officers and employees under the 2015 Non-Employee Directors Long-Term Equity Incentive Plan (“2015 Directors Plan”) and 2016 Employee Long-Term Equity Incentive Plan (“2016 Employee Plan”). The 2015 Directors Plan and 2016 Employee Plan authorize the issuance of up to 500,000 and 5,000,000 shares of common stock for stock-based incentives, including stock options and restricted stock awards, respectively. As of June 30, 2020, stock-based incentives for up to 80,000 and 2,581,925 shares remained available for issuance in the future under these plans, respectively. The following shares are currently outstanding under our long-term equity incentive plans:

Plan	Shares outstanding
2010 Employee LT Equity Incentive Plan	23,207
2015 Directors Plan	-
2016 Employee LT Equity Incentive Plan	1,565,642
Total shares Outstanding at June 30, 2020	1,588,849

Under these stock-based compensation plans 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 our Board of Directors. Our stock-based compensation expense was as follows ($ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Stock-based compensation expense	$ 412	$ 574	$ 909	$ 1,449

Stock Options

During the 2020 six months, we granted stock options only under the 2016 Employee Plan.

Provisions and characteristics of the options granted to our officers and employees under our long-term equity incentive plans 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 our 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 or following a four-year period, expire ten years from the date of grant, and are exercisable for a period of ninety days after the end of employment.
- Upon exercise of a stock option, we issue new shares from the shares of common stock we are authorized to issue.

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, 2019	1,563,784	$ 5.78	8.69	$ 6,372
Granted	132,000	$ 9.56		
Forfeited	(18,668)	$ 7.33		
Exercised	(210,718)	$ 3.81		
Outstanding at June 30, 2020	1,466,398	$ 6.38	8.45	$ 4,995
Exercisable at June 30, 2020	195,428	$ 4.14	7.30	$ 1,096

Additional information about our stock options is as follows:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Weighted average fair value of options granted	$ 3.72	$ 2.78	$ 3.93	$ 2.76
Intrinsic value of options exercised	$ 79,754	$ 297,289	$ 1,299,868	$ 555,390
Cash received from stock options exercised	$ 35,307	$ 178,541	$ 803,238	$ 697,725
Number of options that vested	14,334	19,669	57,838	645,947
Fair value of options that vested	$ 33,583	$ 32,982	$ 105,310	$ 997,803
Unrecognized compensation expense related to non-vested options at end of period	$ 2,511,397	$ 2,651,482	$ 2,511,397	$ 2,651,482
Weighted average years over which non-vested option expense will be recognized	2.61	3.20	2.61	3.20

Range of Exercise Prices	As of June 30, 2020 Options Outstanding Underlying Shares Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Options Exercisable Number of Underlying Shares		Weighted Average Exercise Price
$2.35 - $3.53	83,649	7.56	$	3.35	25,355	$	3.13
$3.54 - $5.31	556,916	7.83	$	4.03	164,070	$	4.14
$5.34 - $8.01	328,833	8.80	$	6.81	2,001	$	6.99
$8.30 - $12.45	491,000	9.06	$	9.20	4,002	$	9.26
$13.07 - $19.61	6,000	9.30	$	13.21	-	$	-
Total options	1,466,398				195,428		

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

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Expected volatility	48%	47%	48%	47%
Expected annual dividend yield	0.00%	1.50%	1.43%	1.50%
Risk free rate of return	0.43%	2.19%	1.52%	2.20%
Expected option term (years)	6.00	4.05	6.19	4.10

The risk free rate of return has seen a significant decrease in the 2020 three months and 2020 six months as a direct result from the decrease in the U.S. Department of Treasury daily treasury yield curve rates in response to economic conditions including COVID-19.

Restricted Stock Awards

Prior to the fourth quarter of 2019 we issued restricted stock only from the 2015 Directors Plan. Beginning in the fourth quarter of 2019, shares of restricted stock were granted from the 2016 Employee Plan in addition to the 2015 Directors Plan. Provisions and characteristics of these plans include the following:

- The exercise price, term and other conditions applicable to each stock award granted are determined by the Compensation Committee of our Board of Directors.
- Restricted stock awards are initially issued as restricted shares with a legend restricting transferability of the shares until the recipient satisfies the vesting provision of the award, after which time the restrictive legend is removed from the shares.
- Restricted shares participate in dividend payments and may be voted.

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, 2019	184,079	$	9.32		
Shares granted with restrictions	-	$	-		
Shares forfeited	(1,418)	$	9.54		
Shares vested and restrictions removed	(60,210)	$	8.85	$	576,195
Restricted shares outstanding at June 30, 2020	122,451	$	9.54		

Unrecognized compensation expense for non-vested shares as of June 30, 2020		
Expense to be recognized in future periods	$	1,007,577
Weighted average number of months over which expense is expected to be recognized		41.0

9. Income Taxes

The components of our income tax expense are as follows ($ in thousands):

	Three months ended June 30,						Six months ended June 30,					
	2020			2019			2020			2019		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
Federal	$ (232)	$ 60	$ (172)	$ 904	$ (130)	$ 774	$ 21	$ 152	$ 173	$ 1,550	$ (139)	$ 1,411
State	119	22	141	167	(15)	152	211	46	257	282	(20)	$ 262
Total	$ (113)	$ 82	$ (31)	$ 1,071	$ (145)	$ 926	$ 232	$ 198	$ 430	$ 1,832	$ (159)	$ 1,673

Deferred income taxes on our consolidated balance sheet reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows ($ in thousands):

	June 30, 2020	December 31, 2019
Deferred tax assets:		
Deferred revenue	$ 480	$ 672
Right-of-use operating lease asset	599	609
Share-based compensation	207	200
Compensation and benefits	130	123
Texas franchise tax R&D credit	120	150
Allowance for doubtful accounts	37	37
Deferred state income taxes	29	45
Tangible assets	31	24
Accrued expenses not deducted for tax	10	8
Total deferred tax assets	1,643	1,868
Deferred tax liabilities:		
Right-of-use operating lease liability	601	610
Intangible assets	550	567
Deferred expenses	197	198
Total deferred tax liabilities	1,348	1,375
Net deferred tax assets	$ 295	$ 493

In assessing the realizability of deferred tax assets, we consider whether it is more-likely-than-not that some portion or all the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We have concluded it is more-likely-than-not that our ability to generate future taxable income will allow us to realize those deferred tax assets.

As of June 30, 2020, we had Texas Research and Development tax credit carryforwards of $120,000. These carryforwards expire in years 2034 through 2039.

The aggregate changes in the balance of our gross unrecognized tax benefits were as follows ($ in thousands):

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Balance at beginning of period	$ 24	$ 113
Increases for tax positions related to the current year	-	-
Increases for tax positions related to prior years	-	-
Decreases for tax positions where the statue has expired	-	-
Balance at end of period	$ 24	$ 113

Our unrecognized tax benefit is related to research and development credits taken on our 2017 U.S. income tax return and the uncertainty related to the realization of a portion of those credits based on prior experience. If we realized and recognized any of our unrecognized tax benefits, such benefits would reduce our effective tax rate in the year of recognition.

We record interest and penalty expense related to income taxes as interest and other expense, respectively. At June 30, 2020, no interest or penalties had been or were required to be accrued. We file income tax returns in the US and in various state jurisdictions with varying statues of limitations. We are no longer subject to income tax examination by tax authorities for years prior to 2016 with respect to our federal income tax returns and years prior to 2015 with respect to most of our state income tax returns. We do not file, and are not required to file, any foreign income tax returns.

Our income tax expense reconciles to an income tax expense resulting from applying an assumed statutory federal income tax rate of 21% for the 2020 quarter and 2019 quarter to income before income taxes as follows ($ in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Income tax expense at federal statutory rate	$ 729	$ 957	$ 1,323	$ 1,622
Increase (decrease) in taxes resulting from:				
State taxes, net of federal benefit	115	117	213	203
TappIn loss	(787)	-	(787)	-
Stock based compensation	(4)	(56)	(202)	8
Other	2	4	6	27
Research and development credit	(20)	-	(30)	(17)
Foreign derived intangible income deduction	(66)	(96)	(93)	(170)
Income tax expense per the statements of operations	$ (31)	$ 926	$ 430	$ 1,673

10. Earnings per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Numerators				
Numerator for basic and diluted earnings per share:				
Net income	$ 3,501	$ 3,633	$ 5,870	$ 6,053
Denominators				
Denominators for basic and diluted earnings per share:				
Weighted average shares outstanding - basic	18,750	17,268	18,681	17,233
Dilutive potential common shares				
Stock options and awards	369	1,111	391	887
Denominator for diluted earnings per share	19,119	18,379	19,072	18,120
Net income per common share - basic	$ 0.19	$ 0.21	$ 0.31	$ 0.35
Net income per common share – diluted	$ 0.18	$ 0.20	$ 0.31	$ 0.33

11. Dividends

The Company did not pay dividends during the 2020 six months. We paid dividends during the 2019 six months as follows:

	Three Months Ended	
	March 31, 2019	June 30, 2019
Dividend per share of common stock	$ 0.015	$ 0.500
Dividend record date	March 11, 2019	May 13, 2019
Dividend payment date	March 25, 2019	May 28, 2019

12. Commitments and Contingencies

Severance Payments

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 between approximately $700,000 and $1.5 million depending upon the circumstances.

Legal and Regulatory Matters

Litigation Relating to the Offer and Merger

On August 3, 2020, Shiva Stein, a purported stockholder of the Company, filed a complaint in the United States District Court of Delaware, captioned Shiva Stein v. GlobalSCAPE, Inc., Robert Alpert, Thomas E. Hicks, David L. Mann, and C. Clark Webb., Civil Action No. 1:20-cv-01035-UNA (the "Stein Complaint") against the Company and all members of the Board of Directors. Among other things, the Stein Complaint alleges that the Company, and the members of the Board of Directors in their capacity as controlling persons, caused a materially incomplete and misleading Solicitation Statement on Schedule 14D-9 (the "Solicitation Statement"), concerning, among other things, (i) the Company's financial projections relied upon by the Company's financial advisor, B. Riley Securities, Inc. ("B. Riley"), in its financial analyses; and (ii) the data and inputs underlying the financial valuation analyses that support the fairness opinion provided by B. Riley, filed on July 31, 2020 with the SEC and disseminated to Company stockholders, rendering the Solicitation Statement false and misleading and in violation of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and related regulations. The Stein Complaint seeks, among other things, an order preliminarily and permanently enjoining proceeding with the tender offer unless and until the allegedly omitted information is disclosed to the Company's stockholders or, in the event the Offer (as defined and further described below) is consummated, to recover damages resulting from the alleged violations of the Exchange Act by the Company and the members of the Board of Directors.

On August 4, 2020, John Thompson, a purported stockholder of the Company, filed a putative class action complaint in the United States District Court of Delaware, captioned John Thompson, individually and on behalf of all others similarly situated v. GlobalSCAPE, Inc., Robert Alpert, Thomas E. Hicks, David L. Mann, C. Clark Webb, Help/Systems, LLC and Grail Merger Sub, Inc., Civil Action No. 1:20-cv-01039-UNA (the "Thompson Complaint") against the Company, all members of the Board of Directors, Help/Systems, LLC, a Delaware limited liability company ("Parent") and Grail Merger Sub, Inc. a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"). Among other things, the Thompson Complaint alleges that the Company, Merger Sub and the members of the Board of Directors and Parent in their capacity as controlling persons, caused a materially incomplete and misleading Solicitation Statement, concerning, among other things, (i) the Company's financial projections relied upon by the Company's financial advisor, B. Riley, in its financial analyses, (ii) the data and inputs underlying the financial valuation analyses that support the fairness opinion provided by B. Riley, filed on July 31, 2020 with the SEC and disseminated to Company stockholders, (iii) the engagement of past services of B. Riley and Stephens Inc., the Company's financial advisors and (iv) non-disclosure agreements prior to and during the "go-shop" process, rendering the Solicitation Statement false and misleading and in violation of the Exchange Act and related regulations. The Thompson Complaint seeks, among other things, (i) an order enjoining proceeding with the tender offer, (ii) in the event the Offer is consummated, to recover damages resulting from the alleged violations of the Exchange Act by the Company, the members of the Board of Directors, Parent and Merger Sub and (iii) an order directing the Board of Directors to file a Solicitation Statement that does not contain any untrue statements of material fact and that states all material facts required in it or necessary to make the statements contained therein not misleading.

Other Legal and Regulatory Matters

As disclosed in a Current Report on Form 8-K filed on March 16, 2018, the Fort Worth, Texas Regional Office of the SEC has opened a formal investigation of issues relating to the Restatement, with which the Company is cooperating fully. At this time, the Company is unable to predict the duration, scope, result or related costs associated with the SEC's investigation. The Company is also unable to predict what, if any, action may be taken by the SEC, or what penalties or remedial actions the SEC may seek. Any determination by the SEC that the Company's activities were not in compliance with existing laws or regulations, however, could result in the imposition of fines, penalties, disgorgement, equitable relief, or other losses, which could have a material adverse effect on the Company's financial position, liquidity, or results of operations.

On May 31, 2018, the Company was served with a subpoena issued by a grand jury sitting in the United States District Court for the Western District of Texas (the "Grand Jury Subpoena"). The Grand Jury Subpoena requests all documents and emails relating to the Company's investigation of the potential improper recognition of software license revenue. The Company intends to fully cooperate with the Grand Jury Subpoena and related investigation being conducted by the United States Attorney's Office for the Western District of Texas (the "U.S. Attorney's Investigation"). At this time, the Company is unable to predict the duration, scope, result or related costs of the U.S. Attorney's Investigation. The Company is also unable to predict what, if any, further action may be taken in connection with the Grand Jury Subpoena and the U.S. Attorney's Investigation, or what, if any, penalties, sanctions or remedial actions may be sought. Any determination by the U.S. Attorney's office that the Company's activities were not in compliance with existing laws or regulations, however, could result in the imposition of fines, penalties, disgorgement, equitable relief, or other losses, which could have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations.

13. Leases

On April 18, 2019, the Company signed a new operating lease for our existing office space location. The lease is for a period of 10 years at an average annual rent of $462,000 beginning May 1, 2019. We recorded a right-of-use asset and lease liability of approximately $3 million at the commencement of the lease.

Our non-cancellable, contractual obligations at June 30, 2020 consisted primarily of the following ($ in thousands):

	Operating Lease
2020 (remaining six months)	$ 212
2021	431
2022	442
2023	453
2024	464
Thereafter	2,133
Total lease payments	$ 4,135

Supplemental other information related to leases:

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Operating lease cost	$ 101	$ 202
Weighted-average remaining lease term (years)	8.8	8.8
Weighted-average discount rate (%)	5%	5%
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 105	$ 208

14. 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 distributors even though those end users can also purchase those products directly from us. In the 2020 quarter and 2019 quarter, we earned approximately 18% and 15%, respectively, of our revenue from such sales through our largest third-party channel distributor. During the 2020 six months and the 2019 six months, we earned approximately 18% and 17% of our revenue from such sales, respectively. As of June 30, 2020, approximately 21% of our accounts receivable were due from this channel distributor with payment for substantially all such amounts having been received subsequent to that date.

15. Segment and Geographic Disclosures

In accordance with ASC 280, Segment Reporting, we view our operations and manage our business as principally one segment. As a result, the financial information disclosed herein represents all of the material financial information related to our principal operating segment.

Revenues derived from clients and partners located outside the United States accounted for approximately 26% and 22% of our total revenues in the 2020 quarter and 2019 quarter, respectively and 24% and 25% for the 2020 six months and 2019 six months, respectively. Each individual foreign country accounts for less than 10% of total revenue in all periods. We attribute revenues to countries based on the country in which the client or partner is located. We have no Company offices located in a foreign country and none of our property and equipment was located in a foreign country as of June 30, 2020.

16. Subsequent Events

As set forth in the Explanatory Note to this Quarterly Report on Form 10-Q, on July 19, 2020, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Help/Systems, LLC (“Parent”), Grail Merger Sub, Inc., a wholly owned subsidiary of Parent (“Merger Sub”), and solely with respect to certain sections therein, HS Purchaser, LLC and Help/Systems Holdings, Inc. Pursuant to the terms of the Merger Agreement, Merger Sub commenced a tender offer (“Offer”), on July 31, 2020, to purchase any and all of the outstanding shares (the “Shares”) of our common stock, at a price of $9.50 per Share (the “Offer Price”), subject to any required withholding of taxes, net to the seller in cash without interest. Parent and Merger Sub filed an Offer to Purchase with the Securities and Exchange Commission (the “SEC”) on July 31, 2020, as amended on August 4, 2020, and the Company filed a Solicitation/Recommendation Statement on Schedule 14D-9 with the SEC on July 31, 2020.

The consummation of the Offer is subject to, among other things: (i) there being validly tendered and not validly withdrawn prior to the expiration of the Offer a number of Shares which, considered together with all other Shares, if any, beneficially owned by Parent, and its affiliates, but excluding any Shares tendered to guaranteed delivery procedures that have not yet been received, represents at least a majority of the Shares outstanding on a fully diluted basis, (ii) the expiration or termination of any waiting period (and extensions thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, relating to the purchase of Shares pursuant to the Offer or the consummation of the Merger (which condition was satisfied on August 4, 2020) , (iii) the absence of any law, judgment, injunction, order or decree by any governmental authority that would make illegal or otherwise prevent or prohibit the consummation of the Offer or the Merger, (iv) that any change, event, effect or development that, individually or in the aggregate, has had or would reasonably be expected to have, a Company Material Adverse Effect (as defined in the Merger Agreement) shall not have occurred, (v) the accuracy of the representations and warranties of the Company contained in the Merger Agreement, subject to customary exceptions, (vi) the Company’s material compliance with its covenants contained in the Merger Agreement, (vii) the Merger Agreement shall not have been terminated, and (viii) other customary conditions.

Assuming the Offer is consummated in accordance with the Merger Agreement, then, following the consummation of the Offer, and subject to the satisfaction or waiver of the applicable conditions in the Merger Agreement, pursuant to Section 251(h) of the Delaware General Corporation Law, Merger Sub will merge with and into the Company (the “Merger”), with the Company surviving the Merger as a direct, wholly owned subsidiary of Parent, without a meeting or vote of the Company’s stockholders.

The Merger Agreement contains representations, warranties and covenants of the parties as customary for transactions of this type. The Company has also agreed to customary covenants governing the conduct of its business, including an obligation to conduct its business in the ordinary course consistent with past practices through the Effective Time. The Merger Agreement contains a "go-shop" provision pursuant to which the Company retains the right to initiate, solicit, propose, induce, receive, evaluate, encourage and engage in discussions and negotiations with respect to alternative acquisition proposals from third parties through August 24, 2020 (the "No-Shop Period Start Date"). The Merger Agreement also contains customary termination provisions for the Company and Parent and provides that, in the event of the termination of the Merger Agreement in connection with a competing acquisition proposal that the Company's Board of Directors determines is a Superior Proposal (as defined in the Merger Agreement) and in other certain specified circumstances, the Company may be required to pay Parent a termination fee of $5,527,500 or, under certain circumstances prior to the No-Shop Period Start Date, $3,685,000. The Merger Agreement also provides for Parent to pay the Company a reverse termination fee of $11,055,000 under certain circumstances. The Merger Agreement provides that at the Effective Time, each outstanding Company option to purchase Shares under the Company's equity plans (a "Company Option"), whether vested or unvested, will, without any action on the part of Parent, Merger Sub, the Company or the holder thereof, be cancelled and converted into and will become a right to receive an amount in cash, without interest, equal to the product obtained by multiplying (i) the Merger Consideration (as defined in the Merger Agreement)(less the exercise price per share attributable to such Company Option) by (ii) the total number of shares of Company Common Stock issuable upon exercise in full of such Company Option (the "Option Consideration"). Notwithstanding the foregoing, with respect to any Company Options for which the exercise price per share attributable to such Company Options is equal to or greater than the Merger Consideration, such Company Options will be cancelled without any cash payment being made in respect thereof. The payment of the Option Consideration will be subject to withholding for all required taxes.

The Merger Agreement also provides that at the Effective Time, each outstanding Share of restricted stock granted under the Company's equity plans (a "Company Restricted Stock") that, as of immediately prior to the Effective Time, remains subject to any performance-vest, time-vest or other condition(s) that constitutes a "substantial risk of forfeiture" within the meaning of Section 83 of the Internal Revenue Code, which is outstanding immediately prior thereto shall become fully vested as of the Effective Time. Each award of Company Restricted Stock will, without any action on the part of Parent, Merger Sub, the Company or the holder thereof, be cancelled and converted into and will become a right to receive an amount in cash, without interest, equal to the product obtained by multiplying (i) the amount of the Merger Consideration by (ii) the total number of shares of Company Restricted Stock.

Assuming that all conditions to the consummation of the Offer and Merger are satisfied or, where permitted, waived, the Offer and Merger are expected to close in the third quarter of 2020.

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

This Quarterly Report on Form 10-Q (this "Quarterly Report") of GlobalSCAPE, Inc. and its wholly-owned subsidiary (collectively referred to as "GlobalSCAPE", the "Company", "we" or "our"), 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, (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). "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 Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "2019 Form 10-K") and other documents filed with the Securities and Exchange Commission (the "SEC"). 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 2020 quarter and the 2019 quarter refer to the three months ended June 30, 2020 and 2019, respectively. Our references to the 2020 six months and the 2019 six months refer to the six months ended June 30, 2020 and 2019, respectively.

Overview

We develop and sell computer software that provides secure information exchange, data transfer and sharing capabilities for enterprises and consumers. We have been in business for more than twenty years.

Our primary business is selling and supporting managed file transfer ("MFT") software for enterprises. MFT software facilitates the transfer of data from one location to another across a computer network within a single enterprise or between multiple computer networks in multiple enterprises.

Our MFT products are based upon our Enhanced File Transfer ("EFT") platform. This on-premise and cloud-based delivery platform emphasizes secure and efficient data exchange for virtually any organization. It enables business partners, clients and employees to share information safely and securely. The EFT platform provides enterprise-level security while automating the integration of back-end systems which are features often missing from traditional file transfer software. The EFT platform features built-in regulatory compliance, governance, and visibility controls to maintain data safety and security. It can replace legacy systems, homegrown servers, expensive leased lines and virtual area networks. The EFT platform promotes ease of administration while providing the detailed capabilities necessary for complete control of a file transfer system.

We continue to explore all strategic alternatives to maximize value for shareholders, including without limitation to improve the market position and profitability of our product offerings in the marketplace, generate additional liquidity, and enhance our valuation. We may pursue our goals through organic growth or strategic or other alternatives. We will also continue to monitor capital markets for opportunities to repurchase shares, as well as consider other actions designed to enhance shareholder value.

We earn most of our revenue from the sale of products and services that are part of our EFT platform. Clients can purchase the capabilities of our EFT platform in two ways:

- Under a perpetual software license for which they pay a one-time fee and under which they typically install our product on computers that they own and/or manage. Our brand name for this product is EFT. Almost all clients who purchase EFT also purchase a maintenance and support ("M&S") contract for which they pay us an annual recurring fee. Most of the revenue we have earned from our EFT platform products has been from sales of perpetual software licenses and related M&S.

- As a software-as-a-service, or SaaS, under which they pay us ongoing fees to access the capabilities of the EFT platform in the cloud. In January 2018, we introduced EFT Arcus, our SaaS offering of the EFT platform for which users pay a base monthly subscription fee plus an additional variable amount determined based upon their metered usage of EFT Arcus resources.

We sell other products that are synergistic to our EFT platform including CuteFTP. Collectively, these products constituted less than 2% of our total revenue in the 2020 quarter and the 2020 six months. Clients pay a one-time fee to purchase these products under a perpetual software license. Some clients also purchase an M&S contract. We do not offer a SaaS version of these products and have no plans to do so. We continue to offer product support for Mail Express and WAFS, which we discontinued as products for sale as of January 1, 2019.

We focus on selling our EFT platform products in a business-to-business environment. The majority of the resources we will expend in the future for product research, development, marketing and sales will focus on this product line. We expect to expend minimal resources developing and selling our other products. We believe our EFT platform products and business capabilities are well-positioned to compete effectively in the market for these products. For a more comprehensive discussion of the products we sell and the services we offer, see “Software Products and Services*”* below.

During the 2020 quarter and the 2020 six months, license revenue from our EFT platform products decreased 21% and 23%, respectively. The decline is primarily attributable to a slowdown in deal velocity related to COVID-19. We believe some clients and prospects decided to defer their buying decisions to a later period. Economic downturns or other adverse economic conditions, including but not limited to, public health crises that reduce economic activity (including the recent coronavirus COVID-19 outbreak) could have an adverse effect on spending on information technology projects since in such environments, prospects and clients may reduce, sometimes greatly, their discretionary spending to focus on preserving mandatory spending budgets.

Key Business Metrics

We review two key business metrics on an ongoing basis to help us monitor our performance and to identify material trends which may affect our business: revenue growth and Adjusted EBITDA (as defined and further described below).

Revenue Growth

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 regularly review our revenue mix and changes in revenue across all solutions to identify emerging trends.

See “*Comparison of the Condensed Consolidated Statement of Operations for the Three Months Ended June 30, 2020 and 2019”* and *“Comparison of the Condensed Consolidated Statement of Operations for the Six Months Ended June 30, 2020 and 2019”* for a discussion of trends in our revenue growth that we monitor using this metric*.*

Adjusted EBITDA (Non-GAAP Measurement)

We utilize Adjusted EBITDA (Earnings Before Interest, Taxes, Total Other Income/Expense, Depreciation, Amortization, and Stock-Based Compensation Expense) to provide us a view of income and expenses that is supplemental and secondary to our primary assessment of net income as presented in our condensed consolidated statement of operations and comprehensive income. We use Adjusted EBITDA to provide another perspective for measuring profitability that does not include the effects of the following items:

- Expenses that typically do not require us to pay them in cash in the current period (such as depreciation, amortization and stock-based compensation);
- The cost of financing our business; and
- The effects of income taxes.

We monitor Adjusted EBITDA to assess our performance relative to our intended strategies, expected patterns of action, and budgets. We use the results of that assessment to adjust our future activities to the extent we deem necessary.

Adjusted EBITDA is not a measure of financial performance under United States generally accepted accounting principles (“GAAP”). It should not be considered as a substitute for net income presented on our condensed consolidated statement of operations and comprehensive income. Adjusted EBITDA has limitations as an analytical tool and when assessing our operating performance. Adjusted EBITDA should not be considered in isolation or without a simultaneous reading and consideration of our condensed consolidated financial statements prepared in accordance with GAAP.

We compute Adjusted EBITDA as follows ($ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net Income	$ 3,501	$ 3,633	$ 5,870	$ 6,053
Add (subtract) items to determine Adjusted EBITDA:				
Income tax expense	(31)	926	430	1,673
Interest (income) expense, net	628	(30)	1,402	(54)
Depreciation and amortization	476	506	917	916
Stock-based compensation expense	412	574	909	1,449
Adjusted EBITDA	$ 4,986	$ 5,609	$ 9,528	$ 10,037

See "*Comparison of the Condensed Consolidated Statement of Operations for the Three Months Ended June 30, 2020 and 2019*" and "*Comparison of the Condensed Consolidated Statement of Operations for the Six Months Ended June 30, 2020 and 2019*" for discussion of the variances between periods in the components comprising Adjusted EBITDA.

Software Products and Services

We develop and sell computer software that provides secure information exchange, data transfer, and data sharing capabilities for enterprises and consumers. We have been in business for more than twenty years having sold our products to thousands of enterprises and individual consumers globally.

Our primary business is selling and supporting MFT software for enterprises. MFT software facilitates the transfer of data from one location to another across a computer network within a single enterprise or between multiple computer networks in multiple enterprises. Examples of enterprise-level activities that rely on MFT software include:

- Transfer of transactional information within an enterprise on a repetitive basis from one geographic location to another, such as a transfer of deposit and withdrawal information throughout the day from a branch of a bank to a central data processing center at another location.

- Movement of accumulated information within an enterprise from one data processing application to another on a periodic basis, such as a transfer of bi-weekly payroll information from a payroll system that is used to pay employees to a job cost system that is used to manage the cost of a project.

- Exchange of information between enterprises to facilitate the completion of one or more business transactions, such as a retailer transmitting inventory purchasing requirements produced by its material requirements planning system to an order entry system at a supplying vendor.

We earn over 98% of our revenue from the sale of MFT products and services that are part of our EFT platform. We have multiple revenue streams from the EFT platform that include:

- Perpetual software licenses under which clients pay a one-time fee for the right to install our products in their information systems environment on computers they manage and either own or otherwise procure from a cloud services provider, including deploying our products at a cloud services provider in a bring-your-own-license, or BYOL, environment. Our brand name for this product is EFT. Historically, most of the revenue we have earned from our EFT platform products has been from sales of EFT perpetual software licenses and related M&S.

- Cloud-based, SaaS solutions that we sell on an ongoing subscription basis. In January 2018, we introduced EFT Arcus, our SaaS offering of the EFT platform going forward, for which users pay a base monthly subscription fee plus an additional variable amount based upon their metered usage of EFT Arcus resources.

- M&S.

- Professional services for product installation, integration and training.

We focus on selling our EFT platform products in a business-to-business environment. The majority of the resources we will expend in the future for product research, development, marketing and sales will focus on this product line. We expect to expend minimal resources developing and selling our other products. We believe our EFT platform products and business capabilities are well-positioned to compete effectively in the market for these products. For a more comprehensive discussion of the products we sell and the services we offer, see below.

We sell other products that are synergistic to our EFT platform including CuteFTP. Collectively, these products constituted less than 2% of our total revenue in the 2020 quarter. Clients pay a one-time fee to purchase these products under a perpetual software license. Some clients also purchase an M&S contract. We do not offer a SaaS version of these products and have no plans to do so. We continue to offer product support for Mail Express and WAFS, which we discontinued as products for sale as of January 1, 2019.

We earn most of our revenue from the sale of our EFT platform products that support business-to-business activities and are strategically focused on selling products in that environment. We intend to expend the majority of our resources in the future for product research and development, marketing, and sales in a manner that concentrates on the business-to-business market. We believe our products and business capabilities are well-positioned to compete effectively in that market.

The following discussion presents a summary description of our specific products and solutions.

Managed File Transfer – Enhanced File Transfer Platform

EFT is the brand name of our core MFT product platform. The EFT platform provides users the ability to securely transmit data from one location to another using any number of files of any size or configuration. It facilitates management, monitoring, and reporting on file transfers and delivers advanced data transfer workflow capabilities to move data and information into, out of, and throughout an enterprise.

The EFT platform provides a common, scalable MFT environment that accommodates a broad family of accompanying modules to provide enterprises with increased security, automation, compliance and performance when compared to traditional FTP-based and email delivery systems. Various optional modules allow users to select the solution configuration most applicable to their requirements for auditing, 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.

General features and capabilities of the EFT platform include:

- State-of-the-art, enterprise-level security when transferring information within or between computer networks as well as for collaboration with business partners, clients, and employees. EFT also provides automation that supports effective integration of back-end systems. It has built-in regulatory compliance, governance, and visibility controls to provide a means of safely maintaining information. EFT offers a high level of performance and scalability to support operational efficiency and maintain business continuity. Administrative tools provide for complete control and monitoring of file transfer activities.

- Transmission of critical information such as financial data, medical records, client 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, compliance and security requirements. In addition to enabling the secure, flexible transmission of critical information using servers, computers and a wide range of network-enabled mobile devices, our products also provide clients with the ability to monitor and audit file transfer activities.

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

EFT Platform – Delivery Offerings

Our clients can purchase the capabilities of our EFT platform in two ways:

- Under a perpetual software license for which they pay a one-time fee and under which they typically install our product on computers that they own and or manage. The EFT platform purchased in this manner can also be used in a bring-your-own-license environment hosted by major cloud providers such as Amazon Web Services or Microsoft Azure. Almost all clients who purchase a perpetual license to use the EFT platform also purchase an M&S contract for which they pay us a recurring fee that is typically 20% to 30% of the perpetual license fee per year.

- As a SaaS under which the client pays us monthly subscription and usage fees to access the capabilities of the EFT platform in the cloud. Our brand name for this product is EFT Arcus. We introduced this product in January 2018. We have not yet earned significant revenue from the SaaS offering of our EFT platform.

File Transfer Solution for Consumers - CuteFTP

CuteFTP is our original product introduced in 1996. It is a file transfer program generally used by individuals and small businesses. It generates incremental revenue for us at a relatively low cost. We will continue selling CuteFTP as a stand-alone product and providing M&S services to clients, but will not invest significantly in enhancing or marketing the product.

Professional Services

We offer a wide range of professional services to complement our on-premises and SaaS solutions. These services can include:

- System integration and implementation
- Business process and workflow planning
- Policy development
- Education and training
- Solution health checks

Maintenance and Support

We offer 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 email and telephone during our regular business hours. For certain products, we offer a Platinum M&S contract which provides access to emergency technical assistance 24 hours per day, 7 days a week.

Most of our M&S contracts are for one year although we also sell multi-year contracts. M&S is purchased by substantially all buyers of our EFT platform as well as by many clients who purchase our other products. Clients with M&S contracts pay us a recurring, annual fee that is typically 20% to 30% of the software license price. A majority of our clients with M&S contracts renew them each year.

Employees

Our workforce is organized as follows:

Department	June 30, 2020	2019
Sales and Marketing	45	43
Engineering	17	9
Professional Services	6	6
Customer Support	23	21
Management and Administration	18	17
Total	109	96

Solution Perspective and Trends

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

	Three Months Ended June 30, 2020		2019		Six Months Ended June 30, 2020		2019	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Revenue By Type								
License	$ 2,228	22.2%	$ 2,835	27.6%	$ 4,223	21.4%	$ 5,469	27.8%
M&S	7,295	72.7%	6,602	64.3%	14,361	72.7%	12,678	64.4%
Professional Services	508	5.1%	832	8.1%	1,159	5.9%	1,535	7.8%
Total Revenue	$ 10,031	100.0%	$ 10,269	100.0%	$ 19,743	100.0%	$ 19,682	100.0%
Revenue by Product Line								
License								
EFT Platform	$ 2,197	98.6%	$ 2,784	98.2%	$ 4,147	98.2%	$ 5,368	98.2%
Other	31	1.4%	51	1.8%	76	1.8%	101	1.8%
Total License Revenue	2,228	100.0%	2,835	100.0%	4,223	100.0%	5,469	100.0%
M&S								
EFT Platform	7,178	98.4%	6,394	96.8%	14,108	98.2%	12,262	96.7%
Other	117	1.6%	208	3.2%	253	1.8%	416	3.3%
Total M&S Revenue	7,295	100.0%	6,602	100.0%	14,361	100.0%	12,678	100.0%
Professional Services (all EFT Platform)	508	100.0%	832	100.0%	1,159	100.0%	1,535	100.0%
Total Revenue								
EFT Platform	9,883	98.5%	10,010	97.5%	19,414	98.3%	19,165	97.4%
Other	148	1.5%	259	2.5%	329	1.7%	517	2.6%
Total Revenue	$ 10,031	100.0%	$ 10,269	100.0%	$ 19,743	100.0%	$ 19,682	100.0%

Revenue from our EFT platform products decreased 1% for the 2020 quarter compared to the 2019 quarter and increased 1% for the 2020 six months compared to the 2019 six months. Revenue for our other product lines decreased 43% for the 2020 quarter compared to the 2019 quarter and 36% for the 2020 six months compared to the 2019 six months, which is consistent with our expectations as discussed below. For a more detailed discussion of these revenue trends, see “Comparison of the Condensed Consolidated Statement of Operations for the Three Months Ended June 30, 2020 and 2019” and “Comparison of the Condensed Consolidated Statement of Operations for the Six Months Ended June 30, 2020 and 2019”.

Liquidity and Capital Resources

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

	June 30, 2020	December 31, 2019
Cash and cash equivalents	$ 12,463	$ 4,702
Current assets	$ 21,438	$ 15,066
Current liabilities	(24,464)	(22,602)
Working capital	$ (3,026)	$ (7,536)

When assessing our liquidity and capital resources, we consider the following factor:

- 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 clients 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 although we will incur operating expenses in the future as we deliver those M&S services.

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

We rely on cash and cash equivalents 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. If our revenue declines and/or our expenses increase, our cash flow from operations and cash on hand could decline.

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

	Cash Provided (Used) During the Six Months Ended June 30,	
	2020	2019
Operating activities	$ 10,286	$ 10,261
Investing activities	(828)	(469)
Financing activities	(1,697)	(9,094)

Our cash provided by operating activities increased during the 2020 six months compared to the 2019 six months primarily due to the following factors:

- Accounts receivable decreasing $927,000 in the 2020 six months compared to decreasing $537,000 in the 2019 six months due primarily to increased customer collections in the 2020 six months compared to the 2019 six months.

- Deferred revenue increasing $963,000 in the 2020 six months compared to increasing $749,000 in the 2019 six months. The increase is due to increasing the resources dedicated to securing M&S renewals and an increase in multi-year renewals.

Offset by:

- Accrued expenses decreasing $98,000 in the 2020 six months compared to increasing $303,000 in the 2019 six months due primarily to the accrual of two contingent liabilities in the 2019 six months where no comparable event occurred in the 2020 six months.

- Federal income tax receivable decreasing $388,000 in the 2020 six months compared to increasing $179,000 in the 2019 six months primarily due to decreased estimated tax payments due to prior period overpayments credit and receiving $263,000 of income tax refunds.

- Net income after considering items not involving cash at the time they are recorded in the statement in the statement of operations and comprehensive income, as set forth on our Condensed Consolidated Statement of Cash Flows, decreased to $8.1 million for the 2020 six months as compared to $8.3 million for the 2019 six months. See *"Comparison of the Consolidated Statement of Operations for the Six Months Ended June 30, 2020 and 2019"* for a discussion of the changes in the components of these amounts.

- Accounts payable decreasing $107,000 in the 2020 six months compared to increasing $63,000 in the 2019 six months due to normal variations in the timing of payment to our vendors.

The amount of cash we used for investing activities during the 2020 six months increased compared to the 2019 six months due primarily to an increase in our capitalized software development costs.

Financing activities used less cash during the 2020 six months than during the 2019 six months primarily due to no dividend payment in the 2020 six months compared to dividend payments of $9.0 million in the 2019 six months offset by the principal loan payment of $2.5 million in the 2020 six months.

Loan Agreement

In November 2019, we entered into a credit facility with J.P. Morgan Chase Bank, N.A, as Administrative Agent and East West Bank as Syndication Agent consisting of a $50.0 million term loan and a $5 million revolving agreement (the "Loan Agreement"). Funds from the term loan were substantially used to fund a special dividend of $3.35 to our common shareholders which was paid on December 5, 2019. The revolving loan may be accessed to fund working capital needs. The loans bear a variable interest rate of LIBOR plus a Term Loan Spread between 3.75% and 2.25%. The amount of the Term Loan Spread is a function of the Company's Leverage Ratio. Effective January 3, 2020, the Company entered into an Amendment and Waiver No. 1 to the Credit Agreement to increase the amount of the special dividend permitted to be paid to stockholders on December 5, 2019 to accommodate last minute option exercises and to exclude the May 28, 2019 special dividend from the fixed charges calculation. Effective April 13, 2020, the Company entered into Amendment No. 2 to the Credit Agreement which provided formal consent for the Company to borrow $2.0 million under the U.S. Small Business Administration Payroll Protection Program authorized by the CARES Act. Following receipt of the loan proceeds, we evaluated our access to credit through other sources of funding and returned the funds on May 5, 2020.

As permitted by the above consent, we entered into an agreement with EastWest Bank to borrow $1,987,700 under the U.S. Small Business Administration Payroll Protection Program authorized by the CARES Act. Following receipt of the loan proceeds, we evaluated our access to credit through other sources of funding and determined to repay the funds borrowed under the CARES Act. On May 5, 2020, we returned the $1,987,700 in proceeds from the loan, which was not used by the Company.

At June 30, 2020, the principal balance outstanding under the term note payable was $46.9 million and the balance of the revolving note payable was zero.

The aggregate maturities of our notes payable, as of June 30, 2020, are as follows: $2.5 million in 2020, $7.5 million in 2021, $7.5 million in 2022, $10.0 million in 2023, and $19.4 million in 2024.

Interest payments under the credit facility are due monthly. Principal payments are due quarterly. The loans may be prepaid at any time without penalty.

The Loan Agreement contains the following financial covenants:

● We must not exceed a Total Leverage Ratio of 3.25x. This ratio decreases to 3.0x at September 30, 2020, 2.75x at March 31, 2021 and 2.25x at March 31, 2022. This ratio is defined in the Loan Agreement as the ratio of (a) consolidated total funded indebtedness to consolidated EBITDA minus capitalized software expenditures for the period of the four most recent consecutive fiscal quarters. As of June 30, 2020, this debt service coverage ratio was 2.57x.

● We must maintain a Fixed Coverage Charge Ratio of 1.25x. This ratio is defined in the Loan Agreement as the ratio of consolidated EBITDA minus unfinanced capital expenditures to cash interest expense plus scheduled principal payments made plus taxes paid in cash plus restricted payments made in cash. As of June 30, 2020, this debt to tangible net worth ratio was 2.69x.

The Loan Agreement contains customary covenants relating to maintaining legal existence and good standing, complying with applicable laws, delivery of financial statements, payment of taxes and maintaining insurance. The Loan Agreement also contains customary events of default including the failure to make payments of principal and interest, the breach of any covenants, the occurrence of a material adverse change, and certain bankruptcy and insolvency events.

Contractual Obligations and Commitments

At June 30, 2020, our contractual obligations and commitments consisted primarily of the following items:

- Obligations outstanding under the Loan Agreement described above.
- An obligation to deliver services in the future to satisfy our right to earn our deferred revenue of $19.2 million. Those future services primarily relate to our obligations under M&S contracts. 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 clients 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.

Comparison of the Condensed Consolidated Statement of Operations for the Three Months Ended June 30, 2020 and 2019

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	$ Change
		$ in thousands	
Total revenues	$ 10,031	$ 10,269	$ (238)
Total cost of revenues	1,607	1,587	20
Gross profit	8,424	8,682	(258)
Operating expenses			
Sales and marketing	2,062	1,899	163
General and administrative	1,450	1,757	(307)
Legal and professional	462	222	240
Research and development	352	275	77
Total operating expenses	4,326	4,153	173
Income from operations	4,098	4,529	(431)
Other income (expense)	(628)	30	(658)
Income before income taxes	3,470	4,559	(1,089)
Income tax expense	(31)	926	(957)
Net income	$ 3,501	$ 3,633	$ (132)

In the discussion below, the percentage changes cited are based on the 2020 quarter amounts compared to the 2019 quarter amounts.

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

	Three Months Ended June 30,			
	2020		2019	
	Amount	Percent of Total	Amount	Percent of Total
Revenue By Type				
License	$ 2,228	22.2%	$ 2,835	27.6%
M&S	7,295	72.7%	6,602	64.3%
Professional Services	508	5.1%	832	8.1%
Total Revenue	$ 10,031	100.0%	$ 10,269	100.0%
Revenue by Product Line				
License				
EFT Platform	$ 2,197	98.6%	$ 2,784	98.2%
Other	31	1.4%	51	1.8%
	2,228	100.0%	2,835	100.0%
M&S				
EFT Platform	7,178	98.4%	6,394	96.8%
Other	117	1.6%	208	3.2%
	7,295	100.0%	6,602	100.0%
Professional Services (all EFT Platform)	508	100.0%	832	100.0%
Total Revenue				
EFT Platform	9,883	98.5%	10,010	97.5%
Other	148	1.5%	259	2.5%
	$ 10,031	100.0%	$ 10,269	100.0%

Our total revenue decreased 2%. Revenue from our EFT platform products and services decreased 1%. Revenue from our other products that consist of Mail Express, WAFS, and CuteFTP decreased to less than 2% of our total revenue, which is a trend that is in line with our ongoing de-emphasis of those products.

We continue to offer product support for Mail Express and WAFS, which we discontinued as products for sale as of January 1, 2019.

EFT Platform Products

License revenue from our EFT platform products decreased 21%. The decline is primarily attributable to a slowdown in deal velocity related to COVID-19. We believe some clients and prospects decided to defer their buying decisions to a later period. Economic downturns or other adverse economic conditions, including but not limited to, public health crises that reduce economic activity (including the recent coronavirus COVID-19 outbreak) could have an adverse effect on spending on information technology projects since in such environments, prospects and clients may reduce, sometimes greatly, their discretionary spending to focus on preserving mandatory spending budgets.

M&S revenue from our EFT platform products increased 12% primarily due to:

- The addition of sales resources that are focused on (i) increasing the number of clients who renew M&S and (ii) increasing annual contract prices to better reflect the value provided by our support teams.

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

- Sustaining high renewal rates of M&S contracts by clients who initially purchased these services in earlier periods. We believe these renewals are the result of clients recognizing the value provided by our Maintenance and Support team.

Our professional services revenue was $324,000 less for the 2020 quarter compared to the 2019 quarter, a decrease of 39%. This decrease was primarily due to the decreased license revenue from our EFT platform since there generally is a direct relationship between the licenses our customers purchase and their need for professional services.

Cost of Revenues. These expenses are associated with the production, delivery and support of our products and services. We believe it is meaningful to view cost of revenues as a percent of the revenues to which those costs relate since many of those costs are variable relative to revenue.

Cost of license revenue primarily consists of:

- Amortization of capitalized software development costs we incur when producing our software products. Amortization begins when a product is ready for general release to the public and generally is an expense that is not directly variable relative to revenue.
- Royalties we pay to use software developed by others for certain features of our products that is generally an expense that is variable relative to revenue.
- Fees we pay to third parties who provide services supporting our SaaS and cloud-based subscription solutions that generally have components that are both variable and not variable relative to revenue.

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 software license revenue was relatively flat and as a percent of software license revenue was 33% in the 2020 quarter compared to 26% in the 2019 quarter. Variable costs increased despite the decrease in license revenue due to the mix of products sold.

Cost of M&S revenue as a percent of M&S revenue was 8% in the 2020 quarter and 9% in the 2019 quarter. Cost of revenue for M&S in absolute dollars increased by 7%. The increase in absolute dollars was due primarily to an increase in personnel related expenses.

Cost of professional services revenue as a percent of that revenue was 53% in the 2020 quarter as compared to 35% in the 2019 quarter. The cost of revenue associated with professional services is mainly personnel related and a decrease in the associated revenue will cause a decrease in the gross margin.

Sales and Marketing. We believe it meaningful to view cost of sales and marketing as a percent of revenues since many of those costs, particularly sales commissions, are variable relative to revenue. These expenses were 21% of total revenue for the 2020 quarter compared to 18% of total revenue for the 2019 quarter. In absolute dollars these expenses increased 9% due primarily to an increase in personnel related expenses.

General and Administrative. These expenses decreased 17% primarily due to a decrease in compensation expense related to the accelerated vesting of restricted stock granted to a former member of our Board of Directors in May 2019. The vesting acceleration was approved by the Compensation Committee of the Board of Directors.

Legal and Professional. These expenses increased 108% primarily due to an increase in professional fees and related expenses associated with the previously disclosed internal investigation, the restatement of certain of our financial statements and related litigation.

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

	Three Months Ended June 30,	
	2020	2019
R&D expense	$ 352	$ 275
Capitalized software development costs	404	236
Total resources expended for R&D	$ 756	$ 511

Our total R&D expenditures increased 48% between the 2020 and 2019 quarters mainly due to higher personnel related expenses.

Total resources expended for R&D 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 costs individually.

Other Income (Expense). Other income (expense) consists primarily of interest expense related to our credit facility more fully described in Note 7 of our financial statements.

Income Taxes. Our effective rate differed from the federal statutory tax rate of 21% in the 2020 quarter and 2019 quarter primarily due to:

- Certain expenses in our condensed consolidated 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 condensed consolidated financial statements.

Offset by:

- The research and development credit which is a tax credit incentive that serves to reduce the rate at which we pay federal income taxes in exchange for us conducting certain aspects of our business in a manner promoted by the Internal Revenue Code.
- The foreign derived intangible income deduction which was a part of the 2017 Tax Cuts and Jobs Act that lowered the tax rate for US corporations' foreign derived intangible income.
- For 2020 an ordinary loss under Section 165(g)(3) of the Internal Revenue Code related to the worthlessness of the stock of our 100% owned subsidiary TappIn, Inc., which was dissolved on June 16, 2020.

Comparison of the Condensed Consolidated Statement of Operations for the Six Months Ended June 30, 2020 and 2019

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	$ Change
	$ in thousands		
Total revenues	$ 19,743	$ 19,682	$ 61
Total cost of revenues	3,189	3,021	168
Gross profit	16,554	16,661	(107)
Operating expenses			
Sales and marketing	4,137	3,815	322
General and administrative	2,974	3,776	(802)
Legal and professional	1,077	798	279
Research and development	664	600	64
Total operating expenses	8,852	8,989	(137)
Income from operations	7,702	7,672	30
Other income (expense)	(1,402)	54	(1,456)
Income before income taxes	6,300	7,726	(1,426)
Income tax expense	430	1,673	(1,243)
Net income	$ 5,870	$ 6,053	$ (183)

In the discussion below, the percentage changes cited are based on the 2020 six month amounts compared to the 2019 six month amounts.

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

	Six Months Ended June 30, 2020		2019	
	Amount	Percent of Total	Amount	Percent of Total
Revenue By Type				
License	$ 4,223	21.4%	$ 5,469	27.8%
M&S	14,361	72.7%	12,678	64.4%
Professional Services	1,159	5.9%	1,535	7.8%
Total Revenue	$ 19,743	100.0%	$ 19,682	100.0%
Revenue by Product Line				
License				
EFT Platform	$ 4,147	98.2%	$ 5,368	98.2%
Other	76	1.8%	101	1.8%
	4,223	100.0%	5,469	100.0%
M&S				
EFT Platform	14,108	98.2%	12,262	96.7%
Other	253	1.8%	416	3.3%
	14,361	100.0%	12,678	100.0%
Professional Services (all EFT Platform)	1,159	100.0%	1,535	100.0%
Total Revenue				
EFT Platform	19,414	98.3%	19,165	97.4%
Other	329	1.7%	517	2.6%
	$ 19,743	100.0%	$ 19,682	100.0%

Our total revenue was relatively flat. Revenue from our EFT platform products and services increased 1%. Revenue from our other products that consist of Mail Express, WAFS, and CuteFTP decreased to less than 2% of our total revenue, which is a trend that is in line with our ongoing de-emphasis of those products.

We continue to offer product support for Mail Express and WAFS, which we discontinued as products for sale as of January 1, 2019.

EFT Platform Products

License revenue from our EFT platform products decreased 23%. The decline is primarily attributable to a slowdown in deal velocity related to COVID-19. We believe some clients and prospects decided to defer their buying decisions to a later period. Economic downturns or other adverse economic conditions, including but not limited to, public health crises that reduce economic activity (including the recent coronavirus COVID-19 outbreak) could have an adverse effect on spending on information technology projects since in such environments, prospects and clients may reduce, sometimes greatly, their discretionary spending to focus on preserving mandatory spending budgets.

M&S revenue from our EFT platform products increased 15% primarily due to:

- The addition of sales resources that are focused on (i) increasing the number of clients who renew M&S and (ii) increasing annual contract prices to better reflect the value provided by our support teams.

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

- Sustaining high renewal rates of M&S contracts by clients who initially purchased these services in earlier periods. We believe these renewals are the result of clients recognizing the value provided by our Maintenance and Support team.

Our professional services revenue was $376,000 less for the 2020 six months compared to the 2019 six months, a decrease of 24%. This decrease was primarily due to the decreased license revenue from our EFT platform since there generally is a direct relationship between the licenses our customers purchase and their need for professional services.

Cost of Revenues. These expenses are associated with the production, delivery and support of our products and services. We believe it is meaningful to view cost of revenues as a percent of the revenues to which those costs relate since many of those costs are variable relative to revenue.

Cost of license revenue primarily consists of:

- Amortization of capitalized software development costs we incur when producing our software products. Amortization begins when a product is ready for general release to the public and generally is an expense that is not directly variable relative to revenue.
- Royalties we pay to use software developed by others for certain features of our products that is generally an expense that is variable relative to revenue.
- Fees we pay to third parties who provide services supporting our SaaS and cloud-based subscription solutions that generally have components that are both variable and not variable relative to revenue.

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 software license revenue increased 5% and as a percent of software license revenue was 33% in the 2020 six months compared to 25% in the 2019 six months. These increases were primarily due to an increase in amortization of capitalized software development costs.

Cost of M&S revenue as a percent of M&S revenue was 8% in the 2020 six months and 9% in the 2019 six months. Cost of revenue for M&S in absolute dollars increased by 11%. The increase in absolute dollars was due primarily to an increase in personnel related expenses.

Cost of professional services revenue as a percent of that revenue was 48% in the 2020 six months as compared to 38% in the 2019 six months. The cost of revenue associated with professional services is mainly personnel related and a decrease in the associated revenue will cause a decrease in the gross margin.

Sales and Marketing. We believe it meaningful to view cost of sales and marketing as a percent of revenues since many of those costs, particularly sales commissions, are variable relative to revenue. These expenses were 21% of total revenue for the 2020 six months compared to 19% of total revenue for the 2019 six months. In absolute dollars these expenses increased 8% due primarily to an increase in personnel related expenses.

General and Administrative. These expenses decreased 21% primarily due to a decrease in stock-based compensation expense related to the accelerated vesting of options granted to our former Chief Executive Officer who passed away unexpectedly in March 2019 and the accelerated vesting of restricted stock granted to a former member of our Board of Directors in May 2019. The vesting acceleration of the stock options was pursuant to the terms of the applicable option agreements and the vesting of the restricted stock grant was approved by the Compensation Committee of the Board of Directors.

Legal and Professional. These expenses increased 35% primarily due to an increase in professional fees and related expenses associated with the previously disclosed internal investigation, the restatement of certain of our financial statements and related litigation.

Research and Development. The overall profile of our R&D activities was as follows ($ in thousands):

	Six Months Ended June 30,	
	2020	2019
R&D expense	$ 664	$ 600
Capitalized software development costs	768	437
Total resources expended for R&D	$ 1,432	$ 1,037

Our total R&D expenditures increased 38% between the 2020 and 2019 six months mainly due to higher personnel related expenses.

Total resources expended for R&D 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 costs individually.

Other Income (Expense). Other income (expense) consists primarily of interest expense related to our credit facility more fully described in Note 7 of our financial statements.

Income Taxes. Our effective rate differed from the federal statutory tax rate of 21% in the 2020 six months and the 2019 six months primarily due to:

- Certain expenses in our condensed consolidated 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 condensed consolidated financial statements.

Offset by:

- The research and development credit which is a tax credit incentive that serves to reduce the rate at which we pay federal income taxes in exchange for us conducting certain aspects of our business in a manner promoted by the Internal Revenue Code.
- The foreign derived intangible income deduction which was a part of the 2017 Tax Cuts and Jobs Act that lowered the tax rate for US corporations' foreign derived intangible income.
- For 2020 a deduction related to disqualifying disposition of incentive stock options.
- For 2020 an ordinary loss under Section 165(g)(3) of the Internal Revenue Code related to the worthlessness of the stock of our 100% owned subsidiary TappIn, Inc., which was dissolved on June 16, 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, our Chairman of the Board 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 Exchange Act Rules 13a-15(e) and 15d-15(e)) and concluded that the disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

We transitioned to a remote work force effective March 16, 2020 due to the coronavirus COVID-19 outbreak. This transition had no effect on our internal control procedures and there have been no other changes in our internal control over financial reporting during the six months ended June 30, 2020 that could have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The information set forth under “Note 12 – Commitments and Contingencies – Legal and Regulatory Matters” to the notes to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report is incorporated herein by reference.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our 2019 Form 10-K filed with the SEC on March 16, 2020. Except as set forth in this Quarterly Report, the risks and uncertainties described in “Item 1A. Risk Factors” of our 2019 Form 10-K have not materially changed. These risk factors could materially affect our business, financial condition or future results, but they are not the only risks facing the Company. 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. Reference is made to the “Explanatory Note” set forth immediately prior to Item 1 of Part I of this Quarterly Report for certain information, and for references to certain defined terms, that have a bearing on the risk factors set forth below.

Our results of operations may be negatively impacted by the coronavirus outbreak.

We are closely monitoring the impact of the 2019 novel coronavirus, or COVID-19, on all aspects of our business. In March 2020, the World Health Organization characterized COVID-19 as a pandemic and the President of the United States declared the COVID-19 outbreak a national emergency. Since then, the COVID-19 pandemic has rapidly spread across the globe and has already resulted in significant volatility, uncertainty and economic disruption. The outbreak of COVID-19 has caused and may continue to cause travel bans or disruptions, and in some cases, prohibitions of non-essential activities, disruption and shutdown of businesses and greater uncertainty in global financial markets. The impact of COVID-19 is fluid and uncertain, but it has caused and may continue to cause various negative effects, including an inability to meet with actual or potential customers, our end customers deciding to delay or abandon their planned purchases or failing to make payments, the Company to delay, cancel, or withdraw from user and industry conferences and other marketing events, and delays or disruptions in our or our partners’ supply chains. As a result, we may experience extended sales cycles, our ability to close transactions with new and existing customers and partners may be negatively impacted, our ability to recognize revenue from software transactions we do close may be negatively impacted, our demand generation activities, and the efficiency and effect of those activities, may be negatively affected, our ability to provide 24x7 worldwide support to our end customers may be effected, and it has been and, until the COVID-19 outbreak is contained, will continue to be more difficult for us to forecast our operating results. These macroeconomic challenges and uncertainties, including the COVID-19 outbreak, have, and may continue to, put pressure on global economic conditions and overall IT spending and may cause our end customers to modify spending priorities or delay or abandon purchasing decisions, thereby lengthening sales cycles and potentially lowering prices for our solutions, and may make it difficult for us to forecast our sales and operating results and to make decisions about future investments, any of which could materially harm our business, operating results and financial condition.

The COVID-19 pandemic may prevent us from conducting business activities at full capacity for an indefinite period of time, including due to spread of the disease or due to shutdowns that are requested or mandated by governmental authorities. For example, we have taken precautionary measures intended to help minimize the risk of the virus to our employees which may disrupt our operations, including temporarily closing our offices and requiring all employees to work remotely, suspending all non-essential travel worldwide for our employees, and discouraging employee attendance at in-person work-related meetings. An extended period of remote work arrangements could strain our business continuity plans, introduce operational risk, including, but not limited to, cybersecurity risks, and impair our ability to effectively manage our business.

Further, our management team is focused on addressing the impacts of COVID-19 on our business, which has required and will continue to require, a large investment of their time and resources and may distract our management team or disrupt our 2020 operating plans. The extent to which COVID-19 ultimately impacts our results of operations, cash flow and financial position will depend on future developments, which are uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions taken by governments and authorities to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic has subsided, we may continue to experience materially adverse impacts to our business as a result of its global economic impact, including as a result of any recession that may occur.

The proposed Offer and Merger providing for the acquisition of our Company are subject to various closing conditions and uncertainties, and there can be no assurances as to whether and when the Offer and Merger may be completed.

Completion of the Offer and Merger are subject to a number of conditions, some of which are outside of the parties' control, that may prevent, delay, or otherwise materially adversely affect their completion. The consummation of the Offer is subject to, among other things, (i) there being validly tendered and not validly withdrawn prior to the expiration of the Offer a number of Shares which, considered together with all other Shares, if any, beneficially owned by Parent, and its affiliates, but excluding any Shares tendered to guaranteed delivery procedures that have not yet been received, represents at least a majority of the Shares outstanding on a fully diluted basis, (ii) the expiration or termination of any waiting period (and extensions thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, relating to the purchase of Shares pursuant to the Offer or the consummation of the Merger (which condition was satisfied on August 4, 2020) , (iii) the absence of any law, judgment, injunction, order or decree by any governmental authority that would make illegal or otherwise prevent or prohibit the consummation of the Offer or the Merger, (iv) that any change, event, effect or development that, individually or in the aggregate, has had or would reasonably be expected to have, a Company Material Adverse Effect (as defined in the Merger Agreement) shall not have occurred, (v) the accuracy of the representations and warranties of the Company contained in the Merger Agreement, subject to customary exceptions, (vi) the Company's material compliance with its covenants contained in the Merger Agreement, (vii) the Merger Agreement shall not have been terminated, and (viii) other customary conditions. If any of these conditions are not satisfied or waived, it is possible that the Offer and Merger will not be consummated in the expected time frame or that the Merger Agreement may be terminated. If the proposed sale or a similar transaction is not completed, the market price of our common stock will likely decline, as we believe that our market price reflects an assumption that the proposed acquisition will be completed.

If the proposed Offer and Merger are not consummated, there may be additional material adverse consequences beyond the anticipated decline in our market price.

Other than specific performance if and when it is available to us under the Merger Agreement, our recourse against Parent is generally limited to an amount equal to the reverse termination fee of $11,055,000.00. In addition, under circumstances defined in the Merger Agreement, we may be required to pay a termination fee of $5,527,500.00 or $3,685,000.00 to Parent. Further, a failed transaction may result in negative publicity and a negative impression of us in the investment community. Finally, any disruption to our business resulting from the announcement and pendency of the transaction and from intensifying competition from our competitors, including any adverse changes in our relationships with our customers, employees or suppliers, could continue or accelerate in the event of a failed transaction. There can be no assurance that our business, these relationships or our financial condition will not be materially adversely affected, as compared to the Company's condition prior to the announcement of the transaction, if the transaction is not consummated.

While the proposed Offer and Merger are pending, we are subject to business uncertainties that could materially adversely affect our operating results, financial position and/or cash flows or result in a loss of employees, customers or suppliers.

The Offer will be completed and the Merger consummated only if stated conditions are met; accordingly, there may be uncertainty regarding the completion of the Offer and the consummation of the Merger. This uncertainty may cause customers or suppliers to refrain from doing business with us or to change the terms under which they do business with us, which could materially adversely affect our business, results of operations and financial condition. Due to this uncertainty, there can be no assurance that our employees, including key personnel, can be retained during the pendency of the proposed transaction to the same extent that we have previously been able to attract and retain employees. Any loss or distraction of such employees could materially adversely affect our business and operations. In addition, we have diverted, and will continue to divert, significant management resources toward the completion of the transaction, which could materially adversely affect our business and operations.

While the proposed Offer and Merger are pending, we are subject to contractual restrictions and other factors that could materially adversely affect our operations and the future of our business or result in a loss of employees.

The Merger Agreement includes customary restrictions on the conduct of our business prior to the completion of the Merger, generally requiring us to conduct our businesses in the ordinary course, consistent with past practice, and subjecting us to a variety of specified limitations unless we obtain Parent's prior written consent, which they may not unreasonably withhold. We may find that these and other contractual arrangements in the Merger Agreement may delay, prevent or otherwise limit us from responding effectively to changes in our business, industry developments and future business opportunities that may arise prior to closing. In addition, whether or not the Offer and Merger are consummated, while they are pending we will continue to incur costs, fees, expenses and charges related to the proposed transactions, which may materially adversely affect our business, results of operations and financial condition. In addition to the Stein and Thompson Complaints, plaintiffs may file additional lawsuits against the Company and our Board of Directors challenging the proposed transaction. An adverse ruling in any such lawsuit may have a material adverse financial impact on the Company and/or prevent the proposed transactions from being completed. Even if we are successful in any such litigation, such proceedings could result in significant costs of defense, indemnification and liability.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 5. Other Information.

On April 7, 2020, we entered into an agreement with EastWest Bank to borrow $1,987,700 under the U.S. Small Business Administration Payroll Protection Program authorized by the CARES Act. Effective April 13, 2020, the Company entered into Amendment No. 2 to the Credit Agreement which provided consent for the Company to borrow such funds under the U.S. Small Business Administration Payroll Protection Program authorized by the CARES Act. Following receipt of the loan proceeds, we evaluated our access to credit through other sources of funding and determined to repay the funds borrowed under the CARES Act. On May 5, 2020, we returned the $1,987,700 in proceeds from the loan, which was not used by the Company.

Item 6. Exhibits

(a) Exhibits

2.1	Agreement and Plan of Merger dated as of July 19, 2020, by and among the Company, Merger Sub, Parent and solely with respect to certain sections therein, HS Purchaser, LLC and Help/Systems Holdings, Inc. (incorporated by reference to Exhibit 2.1 to Form 8-K filed with the Securities and Exchange Commission by the Company on July 20, 2020).
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	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) the Consolidated Statements of Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) related notes to these financial statements, tagged as blocks of text and in detail.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted as Inline XBRL and contained in Exhibit 101.
*	Filed herewith.

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.
August 10, 2020	By: /s/ Karen J. Young
Date	Karen J. Young
	Chief Financial Officer

EXHIBIT 31.1

CERTIFICATIONS

I, Robert H. Alpert, 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: August 10, 2020

/s/ Robert H. Alpert

Robert H. Alpert
Chairman of the Board and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Karen J. Young, 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: August 10, 2020

/s/ Karen J. Young
Karen J. Young
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 June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert H. Alpert, Chairman of the Board and Chief Executive Officer, and Karen J. Young, 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.

August 10, 2020

/s/ Robert H. Alpert
Robert H. Alpert
Chairman of the Board and Chief Executive Officer

/s/ Karen J. Young
Karen J. Young
Chief Financial Officer