

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

GlobalSCAPE, Inc. (GSB)



JIM MORRIS joined GlobalSCAPE, Inc., as President and Chief Executive Officer in 2008. He is responsible for guiding the company's strategy, growth, operations and customer satisfaction across GlobalSCAPE's enterprise, consumer and vertical markets. For more than three decades, Mr. Morris has been an innovator and leader in the fields of information technology, network security, assurance, and operations for both product-centric and independent system consulting solutions. He served in military intelligence, the civil service and for the past 25 years in senior executive positions for leading companies, including General Dynamics, Veridian and Trident Data Systems. In addition, Mr. Morris co-led the Y2K Cyber Assurance cell for the White House, was an Independent Adviser for two security software product companies, and served on numerous industry and government review panels. He is a frequent keynote

speaker/panelist at trade conferences, published internationally, and has provided the expert view for national news coverage of network risks. He has received advanced training from the national security community and served as a subject matter expert on network security-focused delegations to the People's Republic of China and Australia. He has received the award for Army Intelligence Action Officer of the Year and was named in *Who's Who in Technology and Engineering*.

SECTOR — COMPUTERS

TWST: Let's start with a brief company history, as well as an overview of your operations, products and services today.

Mr. Morris: GlobalSCAPE was established in 1996. It was purchased from a global communications and software company here in San Antonio. The stock was initially traded on the over-the-counter market in 2002. In 2006 we listed on the New York Euronext American Exchange and trade under the symbol GSB. We have 84 full-time employees, plus we have sales and engineering consultants located here in the United States and overseas, and that number would total approximately 20. We fundamentally build and sell our software around the world directly to customers and through resellers and distributors, and our product is sold into 150 countries. Most of the Fortune 100, Fortune 500 and Global 2000 use our products. Our products are used by both consumers and enterprises, small, midsize and large enterprises, to be able to securely transfer computer files across their network, across the Internet and across e-mail. We have approximately 15,000 enterprise cus-

tomers, 5,000 of which are located internationally and 10,000 within the United States. Our products are known to be secure and certified by both industry and government organizations for the transfer of computer files securely and to maintain that security all the way through the distribution.

TWST: Your second-quarter results were reported on August 11. Would you talk a bit about the key takeaways from the quarter?

Mr. Morris: We significantly increased our financial performance in the second quarter over the second quarter of 2010 across all financial metrics. We recorded \$5.7 million in revenue. This was up 28% from the second quarter last year and represented the second-highest revenue in the company's history. In addition, we saw our recurring revenue increase in dollar terms from the prior quarter and year. We increased our profitability and earnings by 250%. We returned \$0.03 of earnings per share versus \$0.01 in 2010. We continue to be cash generative. We currently have \$12.6 million in cash, up significantly from \$9.1 million in Q2 2010, and from \$11.1 million since the first of the year.

We have told the market during our financial results conference calls that we anticipate having revenues of \$21-million-plus in fiscal 2011. For reference, we generated \$18.6 million in revenue in fiscal 2010, so our revenue growth expectation would be in the low-to-mid teens. Through the first half of this year we had revenues of \$10.3 million, so we are on track to meet our expectations.

TWST: What were some of the factors that contributed to that profitable quarter and strong results?

Mr. Morris: The interesting thing is we didn't have any exceptionally large contracts that contributed to a \$5.7 million quarter. It was steady business. It was gaining traction through our distributors and resellers internationally and here in the United States. We have relationships with very well-known and established reseller organizations such as CDW. So we're basically getting traction across the whole spectrum of sales and no large deals. It was just steady business.

"It's very hard for [antivirus] vendors to keep up with the virus of the day, known as zero-day threats. Using our approach, we're not worried about that because you identify the 10 or 15 or 25 applications to run on your machine, and if it is not whitelisted, a virus will not be able to run and get into your operating system and corrupt it."

TWST: Do you expect that kind of steady business to continue? What's your financial outlook for the remainder of the year and heading into 2012?

Mr. Morris: We have told the Street and said in our recent earnings call that we do not expect that we're going to have that type of yearly revenue performance, up 28%, to happen throughout the rest of the year and moving into 2012. To increase revenue 28% and earnings 250% year over year was exceptional. What we do expect is — over time, through our cloud offering, our growing enterprise customer base and through growing distribution channels internationally — we will achieve our \$21-million-plus revenue this year, and we will continue to grow revenue going into 2012, assuming that these additional products get traction in the marketplace and also assuming that the global economy has some stability.

TWST: Are there particular products you would like to call attention to?

Mr. Morris: We have two in particular that I'd like to call attention to. One is a way of moving files. We historically have sold software known as on-premises, so you would buy our software and install our software in your data center, in your data closet, to be able to securely transfer and manage files. We entered into a relationship with Rackspace Hosting, also based in San Antonio, Texas, to be able to take our solution into a hosted environment — software as a service, SaaS, or cloud, if you will — to be able to move the information for our clients and actually manage the file transfers for them. That is a subscription-based service, so instead

of having to purchase our software, you lease it and you pay for it on a monthly basis, on a contract for a duration of 12, 24 or 36 months. We refer to that product as MIX, or Managed Information Xchange. Subscription-based software has a lot of appeal not only to the customer because of its reduced costs and its better return on investment, but also it has an appeal to the investment community who would invest in GlobalSCAPE stock.

The second item is a new product that is currently under testing. We have notified the market of this product. It's called appShield, and it provides an innovative way of countering viruses and malicious software. Instead of trying to keep track of 50 million virus signatures, what we do is we identify the applications that are allowed to execute on your PC, laptop or netbook, and if it is not on the approved whitelist, it will not execute. We are using a software capability developed by CoreTrace, which we have an investment in, to use their core software engine to do application whitelisting for the consumer end user.

TWST: The new appShield product, is that coming out in the next few months? And would you address why that kind of technology is important and what demand you see for it?

Mr. Morris: It's currently going through our quality assurance laboratories and undergoing testing. The product is going to be sold worldwide in our shopping cart on our Web site, where customers can enter credit cards, PayPal, etc., to buy the product. Out of the box, the product has to work smoothly for consumers. We do have a help desk here in San Antonio to help our customers worldwide resolve issues with their computer, their network, surrounding our software. We'll be in a better position in November at our Q3 earnings call to update everyone of when appShield will be released.

appShield is in a market called endpoint security. There are a lot of competitors that have both enterprise and endpoint security for consumer products for the identification and blocking or quarantining of malicious software and viruses. The household names would be Symantec, known as the yellow-box company with Norton Antivirus, McAfee, Trend, AVG, Kaspersky and the list goes on. They identify a virus signature, and then they are able to catalog or library those signatures, and they look for an attack, and then they are able to block it or contain it. The issue is, today there are approximately 50 million virus signatures. There are hundreds of new ones identified every day, and there is a new piece of malware identified approximately every two seconds. So it's very hard for those vendors to keep up with the virus

of the day, known as zero-day threats. Using our approach, we're not worried about that because you identify the 10 or 15 or 25 applications to run on your machine, and if it is not whitelisted, a virus will not be able to run and get into your operating system and corrupt it. The research analyst community — not stock analysts but the analysts at firms like Gartner, Forrester, IDC, etc. — believe that whitelisting will be a good addition to traditional antivirus solutions. Our product will work with existing antivirus solutions or products. But analysts believe in the next three to five years, the application whitelisting could overtake traditional antivirus methods because the propensity of new viruses being introduced into the market daily is just growing exponentially.

TWST: You mentioned the relationship with Rack-space, which I believe was announced about a year ago. How is that coming along? What are your expectations for that partnership over the next year or two?

Mr. Morris: We did establish a relationship with them in June of 2010 to develop a product to be able to do cloud-based, host-based file transfers. It also has a significantly reduced cost to the customer, and it has great return on investment, about 150% in the first year. There has been slower than we anticipated acceptance of file transfer in the cloud by customers. Some people are reluctant from a security standpoint, but we believe we have the industrial strength solution. In fact, we were identified last February by Info Security Products Guide as having the best cloud-security offering in the market. So we believe that once we get in front of a customer, we can explain the security function, features and benefits of our solution. It is cheaper than on-premises software. But now that the buyer of our solution is typically no longer an IT system administrator but somebody who works in the procurement organization, we have to identify the right buyer of this solution as opposed to on-site perpetual software licenses, which are typically a system administrator.

TWST: As you noted, your client base is both consumer and enterprises of all sizes. Are there particular trends you are seeing from those different groups in terms of their needs?

Mr. Morris: From an enterprise software perspective, where we sell software to be installed in servers as opposed to the home user consumer, people that buy our software for transfer of data securely can be any organization, but principally organizations that are regulated and have compliance mandates for them such as health care and HIPAA, finance and Sarbanes-Oxley, Gramm-Leach-Bliley, SAS 70, PCI compliance if you take credit cards, people in the transportation business, the shipping business — highly regulated industries that need to comply with both industry, government and international standards are buyers of our software.

TWST: Are there particular areas where you are experiencing the most growth currently, and/or see the best future growth prospects?

Mr. Morris: We've sold our products into 150 countries. One of the things that we have made a big push for in the last year is to be able to establish resellers, distributors, channel partners around the world that have the ability to sell our software to their clients. We continue to grow our international business, with roughly 35% of our business coming from outside of the United States, up from less than 30% five years ago.

This increase is even more notable because our solution portfolio five years ago was much more heavily weighted toward consumer sales of our CuteFTP product. There are large cultural differences, there are obviously large barriers to entry from a language standpoint, there are time-zone issues, so we have put forth a concerted effort to be able to sell our products through the channel both domestically in the United States and principally overseas, because there is a lot of money in the IT software industry outside of the United States. So of our total installed base for the enterprise we have, right now, about 20 highly qualified distributors of our software worldwide that have been trained and certified in our software so they can sell it standalone without having hand-holding help from our sales engineers here in San Antonio. It's been a big push to get a better balance of our market, our various verticals around the world and to be able to sell our products into more countries.

TWST: Do you have any particular goals for the company in the next year or two?

Mr. Morris: We will continue to develop two things: We have the best people and the best products in the market. We don't care about being the fanciest, and we don't care about being the cheapest. We care about having the best products and skills for our customers, and we achieve that by investing in and hiring and training and retaining the best talent there is in the marketplace. So we pride ourselves with the best people and the best products in the market.

TWST: Is there anything else you think investors should know about the company?

Mr. Morris: We have a great team. We have a management team in place and a leadership team in place and a technology team in place and a sales team in place to be able to accelerate and sustain our profitability in the coming quarters and coming years.

TWST: Thank you. (MN)

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