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

FORM 10-K

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from to

Commission File No. 001-33601

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

Delaware	**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 Office)	(Zip Code)

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

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)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
☐ Yes ☒ No

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, a 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 ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $120,695,655 based on the closing sale price as reported on the NYSE American.

As of February 28, 2020, there were 18,709,064 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to the 2020 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Preliminary Notes

GlobalSCAPE®, CuteFTP®, CuteFTP Pro®, DMZ Gateway®, EFT Cloud Services, ®GlobalSCAPE Securely Connected®, and Mail Express® are registered trademarks of GlobalSCAPE, Inc. (together with its wholly owned subsidiary, "GlobalSCAPE", the "Company" or "we").

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 Annual Report on Form 10-K (this "Annual Report") are the property of their respective owners.

In this Annual Report, we use the following terms:

"B2B" means business-to-business.

"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.

"RFC" or Request for Comment is a memorandum published by the Internet Engineering Task Force describing methods, research, or innovations applicable to the working of the Internet and Internet-connected systems.

"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.

"SSL" or Secure Sockets Layer uses cryptography to encrypt data between the web server and the web browser.

Forward-Looking Statements

This Annual Report contains "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 Annual Report by using words such as "will", "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 this Annual Report and other documents filed with the Securities and Exchange Commission, or SEC. Therefore, GlobalSCAPE's actual results could differ materially from those discussed in this Annual Report.

Transition to Accelerated Filer

The Company met the "accelerated filer" requirements as of the end of its 2017 fiscal year pursuant to Rule 12b-2 of the Exchange Act. However, pursuant to Rule 12b-2, as amended June 28, 2018, and applicable SEC guidance, the Company also qualifies as a smaller reporting company and is eligible to comply with the scaled disclosure requirements in Regulation S-K and Regulation S-X and is also eligible to check the "smaller reporting company" box on the cover of this Annual Report.

PART I

Item 1. Business

Company Overview

GlobalSCAPE was incorporated in Delaware in 1996. 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 and serve over 100 companies in the Fortune 500.

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 critical 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 earn most of our revenue from the sale of products and services that compose our EFT platform. 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 they own and/or manage. Our brand name for this product is EFT. Almost every client who initially purchases EFT also purchases an annual maintenance and support ("M&S") contract for which they pay an annual 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 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 Mail Express, WAFS, and CuteFTP. Collectively, these products constituted 2% of our total revenue in 2019. 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 also earn revenue from professional services we provide to assist our clients in configuring and integrating our EFT platform products into their environments.

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, sales and marketing will focus on this product line. We expect to expend minimal resources developing and selling 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.

We have won multiple awards for performance and reputation, including:

- In 2019:
  - Awarded "Leader Winter 2020" by G2, for being rated highly by G2 users and having substantial Satisfaction and Market Presence scores. G2 is a respected peer to peer review site.

- Awarded “Best Support Fall 2019” by G2 for having the Highest Quality of Support Relationship Index.

- Awarded “High Performer Fall 2019” by G2 for having high customer Satisfaction scores and low Market Presence scores compared to the rest of the category.

- Named one of the “Top 30 Most Valuable Companies to Watch in 2019” by CIO Bulletin. The publication selected Globalscape based on a number of factors, including its high-performance secure data exchange solutions, as well as the company's longevity and ability to grow and adapt.

- Recognized in CV’s (Corporate Vision magazine) 2019 Corporate Excellence Awards as the “Best Enterprise File Transfer Solutions Provider 2019”.

● In 2018:

- Named to The Channel Company’s list of CRN Channel Chiefs as top leaders in the IT channel for the 5th consecutive year.

- Awarded a 5-star rating in The Channel Company’s 2018 CRN Partner Program Guide for the 4th consecutive year.

Industry Background

Communication across computer networks that facilitates the movement and sharing of information between central and remote locations and with associates, employees, partners, suppliers, and clients is an integral part of daily operations for enterprises of all sizes. Corporate information technology (IT) managers must protect business assets, follow strict regulatory and compliance guidelines and ensure that the right people have access to the right information, at the right place and at the right time. Global operations, diverse business partners and networks further emphasize the need for software applications that ensure compatibility, scalability, privacy, and security. These requirements have created the need for maintaining the security of data and information in motion and at rest.

The increase in high-profile and large-scale data breaches in corporate enterprises and government agencies involving access to information in an unauthorized manner have created a heightened awareness of the vulnerability of critical and confidential data. As a result, attention at an unprecedented level is being paid to the security and integrity of systems that store and transfer data electronically. In many cases, this emphasis involves assessing the adequacy of the security, reliability and visibility provided by existing MFT systems.

The need for secure MFT solutions is particularly strong for organizations faced with a daunting array of privacy, security, and remote accessibility challenges stemming from various regulatory and business requirements for data privacy and confidentiality. Regulatory requirements regarding privacy and security include federal legislation and regulations such as the Health Insurance Portability and Accountability Act (HIPAA), the Gramm-Leach-Bliley Act (GLBA) and the Federal Trade Commission Red Flags Rules. In the European Union, the General Data Protection Regulation (GDPR) also places requirements on organizations who will have a need for our solutions. Some of these statutes and regulations impose severe penalties for improper disclosure of confidential information. In addition to legal obligations, industry best-practices such as the Payment Card Industry Data Security Standard (PCI DSS) and self-imposed business requirements lead to the need to secure and protect consumer information, intellectual property and trade secrets. Use of secure MFT solutions offers protection against disclosure of proprietary information and also reduces corporate risks associated with the potentially devastating consequences of security breaches.

Our industry is known as managed file transfer. The MFT industry has its technical origin in the file transfer protocol, or FTP. FTP dates back to 1980. The use of file transfer protocols increased dramatically with the explosive growth of the Internet during the 1990s. The MFT industry arose from recognition that FTP alone does not provide adequate security and management capabilities for file transfers. MFT solutions offer a greater degree of security and control than FTP. Features available in MFT solutions include integrated security, auditing capabilities, performance monitoring, and reporting. The MFT industry includes low cost, or even free, solutions that offer basic capabilities. However, we believe businesses and even individuals require more advanced solutions that provide scalability, enhanced security options, automated workflow and dedicated maintenance and support.

Cloud computing is a model for enabling convenient, on-demand network access to a shared pool of configurable computing resources that can be rapidly provisioned, released, and scaled to meet requirements. We believe the continuing movement to cloud services is a favorable trend that offers us increased opportunities to win clients and expand our market presence.

Strategy

We intend to build upon our leadership position in the MFT market to provide organizations and individual users with the solutions necessary to meet their growing need for secure information exchange.

As we evolve our solution portfolio, we intend to maintain an appropriate balance between legacy and new solutions, including making choices about transitioning, sustaining, or retiring solutions as necessary to best operate under prevailing business conditions. Transitioning or sustaining solutions may involve consolidating capabilities within our solution portfolio, releasing upgrades in response to market or client needs, or making bug fixes. We also may phase out solutions and earlier versions of our solutions periodically in accordance with our end-of-life, or EOL, policy.

In addition to expanding our products into areas adjacent to MFT, we also believe that we need to continue to expand the means of delivering our MFT products. To that end, we intend to continue expanding our capability to deliver our EFT platform through our EFT Arcus SaaS delivery model. EFT Arcus provides organizations the flexibility of deploying on-premises, in the cloud or in a hybrid cloud environment with the security, compliance, scalability, and visibility features of an on-premise managed file transfer solution. Our strategic focus consists of:

- Continuing innovation of our EFT platform to address the expanding needs of our existing clients and to enhance our products' appeal to new clients.
- Enhancing sales and marketing programs to improve identification of demand for our products and to increase revenue.
- Licensing, developing and/or acquiring technologies with features and functions that are complementary to and synergistic with our EFT platform.

Continuing Innovation of our EFT Platform to Address the Expanding Needs of our Existing Clients and to Enhance our Products' Appeal to New Clients

We seek to continue to improve and enhance our core technology, especially as it relates to existing clients. This may require new product features to be released. We believe that by adding new features and product functionality, we will increase sales to existing clients by helping them solve additional problems within their organizations. It will also position us to attract new clients.

We believe clients in the markets we serve will increasingly begin assessing the viability of accessing and using MFT capabilities through cloud-based, SaaS offerings. EFT Arcus is designed to meet the needs of clients who wish to access MFT through a cloud delivery model.

Enhancing Sales and Marketing Programs to Improve Identification of Demand for our Products and to Increase Revenue

Sales and marketing efforts will continue to focus on enabling our salespeople and channel partners to successfully engage clients and prospects. We believe that much of our new business will be attributable to current client relationships and we intend to continue to deepen these relationships. As we deepen our client relationships, we will seek to identify opportunities for additional deployments of our products and services.

We provide solutions to some of the world's largest brokerage firms, manufacturers, oil companies, banks, insurance companies, healthcare providers, airlines, cruise ship operators and technology providers. Given the breadth and depth of these market opportunities, we believe the effectiveness of a direct sales approach using only our in-house personnel to sell our products is limited by the number of qualified sales people we can hire and the number of prospective clients to whom they can present our products. As a result, we plan to continue emphasizing our third-party sales channel relationships.

We believe our channel sales program helps us establish and maintain a lower-touch delivery model through which we train these partners to sell and distribute our solutions and provide them sales and marketing tools to support that effort. We utilize this approach to reduce the overall cost of marketing and selling our solutions in areas where it would be costly to establish a presence with our own employees.

Licensing, Developing and/or Acquiring Technologies with Features and Functions that are Complementary to and Synergistic with our EFT Platform

Another area of strategic focus continues with product innovation but extends beyond pure MFT into adjacent segments and technologies such as data movement and data security. We intend to continue to focus on determining which areas of our business will contribute to our future growth in their current state, need additional investment to contribute in the desired manner, or require further analysis to determine their future strategy.

Our solution portfolio may evolve over time, for example, through development of new offerings in adjacent markets or through acquisitions of technologies by licensing, partnering or by acquiring companies which own such technologies. We also maintain a research and development program and work closely with partners and others in the industry to identify new solution opportunities. We also intend to remain alert for attractive opportunities to collaborate with others or perhaps combine other revenue-producing technologies with ours to expand our product offerings and reach.

As we evolve our solution portfolio, we intend to maintain an appropriate balance between legacy and new solutions, including making choices about transitioning, sustaining, or retiring solutions as necessary to best operate under prevailing business conditions. Transitioning or sustaining solutions may involve consolidating capabilities within our solution portfolio, releasing upgrades in response to market or client needs, making bug fixes, or phasing-out solutions periodically pursuant to our EOL policy.

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, strategic initiatives 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.

Software Products and Services

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 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 us 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 for which users pay a base monthly subscription fee plus an additional variable amount based upon their metered usage of EFT Arcus resources.

- Maintenance and Support.

- 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 3% of our total revenue in 2019. 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.

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

Managed File Transfer–EFT 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, 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 and reporting, encryption, 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.

<u>EFT Platform – Delivery Offerings</u>

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 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 initially 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.

EFT Arcus

While we currently earn most of our EFT platform revenue from sales of perpetual licenses combined with an M&S contract, we recognize that a major shift toward a SaaS environment is underway in the marketplace. Key features of EFT Arcus include:

- Consumption-based pricing that allows clients to pay only for the capacity and throughput they use.
- No long-term contractual commitment.
- Automatic scalability to accommodate varying workloads to mitigate concerns about capacity planning.
- A single tenant environment that allows each client to have a private deployment.
- On-the-fly upgrades.
- Data encrypted while at rest.
- A minimum service level commitment of 99.9%.

The features and functions of EFT Arcus are similar to those of our EFT Product delivered for on-premise installation.

We host and deploy EFT Arcus on Microsoft Azure. It provides clients with a global platform on which to use EFT Arcus and provides infrastructure security, compliance and redundancy features. Microsoft Azure provides clients with geo-redundant storage which replicates data to a secondary region that is geographically distant from the primary region.

For the first 24 to 36 months that a client subscribes to EFT Arcus, we believe that the cumulative cost of ownership will typically be less than the total cost of purchasing an EFT platform perpetual license combined with an M&S contract. Accordingly, we expect the revenue we earn during that period from an EFT Arcus client will be less than the revenue we would have earned from that same client during that same period if the client had purchased a perpetual license with an M&S contract. However, we believe thereafter and over the long term, the cumulative, recurring revenue stream we will earn from an EFT Arcus client will exceed what we would have otherwise earned from the sale of a perpetual license combined with an M&S contract.

Clients subscribing to EFT Arcus may deem that controls pertaining to EFT Arcus are relevant to their internal control over financial reporting. In that case, a client may request us to provide them our management description of a service organization's system and a service auditor's report on that description and on the suitability of the design and operating effectiveness of controls (commonly referred to as a SOC Type 1 or SOC Type 2 report prescribed under SSAE 18 issued by the American Institute of Certified Public Accountants). Currently, we rely on our third-party service provider who hosts EFT Arcus for that report as it pertains to controls they have in place. We do not presently have this report in place with respect to controls that we design, implement and manage at GlobalSCAPE. We are currently assessing the work necessary to provide such a report. The absence of this report could cause certain potential clients to choose not to subscribe to EFT Arcus.

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 who purchased CuteFTP in the past and who purchase it in the future, but we will not invest significantly in marketing the product. We do not expect to expend significant resources in the future expanding the features and capabilities of CuteFTP.

Professional Services

We offer a range of professional services to complement our solutions. These professional services include product configuration and system integration, solution "Quickstart" implementations, business process and workflow refinement, policy development, education and training, and solution health checks. In addition, we may provide longer-term engineering services, including supporting multi-year contracts, if necessary, to support certain solution implementations and integrations.

Maintenance and Support

We offer M&S contracts to licensees of all of our on-premise software products. These M&S contracts entitle the licensee to software upgrades and technical support services in accordance with the contract terms. Standard technical support services are provided via email and telephone during our regular business hours. For certain of our products, we offer a Premier M&S contract which provides access to emergency technical assistance 24 hours per day, 7 days a week. For our Arcus product, M&S is included in the subscription fee.

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 products as well as by many clients who purchase our other products. Clients pay an annual amount that is typically 20% to 30% of the software license price. A majority of our clients with M&S contracts renew them each year.

In 2019, we earned 65% of our revenue from M&S contracts. Sustaining that revenue stream is dependent upon our ability to continue selling new licenses for which clients purchase M&S services and to sustain a high renewal rate for existing M&S contracts.

Clients

We have sold our solutions throughout the world to individuals and enterprises ranging from SMBs to Fortune 100 companies. In order to leverage the resources of third parties, we make our products available for purchase by end users through third-party, channel resellers even though end users can also purchase those products directly from us. During 2019 and 2018, we earned a total of 37% and 35%, respectively, from resellers and approximately 16% and 14%, respectively of our revenue from such sales through our largest, third-party channel reseller. Although we believe that we are not substantially dependent on this distributor, if it were to experience a significant disruption of its business or if our relationship with it were to significantly deteriorate, it is possible that our ability to sell to end users would be, at least temporarily, negatively impacted. We believe that such termination would not have a material adverse effect on us because we have engaged, or believe that we would be able to engage, alternative distributors, resellers and other distribution channels to deliver our products to clients shortly following the termination of any agreement with any distributor.

We derive a significant portion of our revenue from risk averse and/or regulated commercial clients in North America and throughout the world. Our primary commercial vertical markets include finance, health care, energy, retail, manufacturing, and engineering. We also have a client base in the local, state, and federal government spaces. We continue to pursue additional government business by leveraging our certifications and industry validations.

Seasonality

Our products are marketed to individuals, SMBs and large organizations. As a result of this mix within our client base, we typically have not experienced significant seasonality in our sales other than a typical modest decline from time-to-time in first quarter sales as compared to sales in the preceding fourth quarter.

As a result of client buying patterns and the efforts of our sales force and channel partners to meet or exceed their sales objectives, we have historically received a substantial portion of orders from our clients and generated a substantial portion of revenue during the last few weeks of each quarter. If a delay in an expected order for our products occurs near the end of a quarter this could result in revenue we expected to earn in that period being delayed until a subsequent quarter.

Network and Equipment

We conduct business through various Tier 1 Internet services providers. Our arrangements provide for redundancy in the event of a failure and for expansion of available bandwidth in the event there is a dramatic increase in demand. To protect critical client data, our online shopping cart utilizes SSL encryption. We maintain technical and physical measures and procedures compliant with the PCI DSS. We use a certified Approved Scanning Vendor for security scans and PCI scan attestation.

We have dedicated servers on and off site and expansion plans in place to allow rapid and cost effective scalability. Our offsite servers and data backup procedures provide a warm backup to our onsite servers for contingency purposes. The backups are performed in accordance with our disaster recovery plan.

We rely on unrelated third parties to host on their computers our EFT Arcus product. We have contracts and/or service agreements in place with those third parties that we believe provide us the ability to continue delivering those products without interruption.

Research and Development

To keep pace with client and market demand, we maintain an ongoing program of new product development.

Our software engineers are responsible for creating and building our software products. They do so by combining their expertise with input from our sales, marketing and product management groups as to market trends and needs. Our software engineers design and write software and manage its testing and quality assurance. We utilize third-party software developers both domestically and overseas working under our supervision to supplement our software engineers. Using these external software developers in a strategic manner allows us to access highly skilled labor pools, maintain a 24-hour development schedule, decrease time to market, and minimize programming costs.

All phases of research and development, or R&D, including scope approval, functional and implementation design, object modeling and programming, are subject to extensive internal quality assurance testing. We maintain an ongoing focus on improving our quality assurance testing infrastructure and practices. Technical reporting and client support feedback confirm the continuing positive effect of our ongoing enhancement of research and development and quality assurance processes.

Our EFT Arcus product is hosted by third-party cloud services providers. We rely upon those third parties, such as Microsoft Azure, for the continued development and enhancement of their cloud services infrastructures on which our products are hosted. We do not perform significant research and development of cloud services infrastructures using our own personnel.

Our R&D expenditures profile has been as follows ($ in thousands):

	Year ending December 31, 2019	Year ending December 31, 2018
R&D expensed	$ 1,355	$ 1,883
Capitalized software development costs	1,074	1,276
Total resources expensed for R&D	$ 2,430	$ 3,159

Our total R&D expenditures decreased 23% in 2019 as compared to 2018 primarily due to fewer employed software engineers and technical personnel.

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.

Competition

The managed file transfer software market sector is highly competitive, subject to rapid change, and significantly affected by new product introductions and other activities of market participants.

Some of our competitors in certain markets have greater financial, technical, sales, marketing and other resources than we do. Because of these and other factors, competitive conditions in these industries are likely to continue to intensify in the future. Increased competition could result in price reductions, reduced net revenue and profit margins and loss of market share, any of which could harm our business. See “Risk Factors – Risks Related to Our Operations” for further discussion of risks regarding competition.

We believe that our future results depend largely upon our ability to better serve clients and by offering new product enhancements whether by internal development or acquisition. We also believe we must continue to provide existing product offerings that compete favorably with respect to ease of use, reliability, performance, range of useful features, reputation, and price.

There is limited information regarding the market shares of our solutions in their respective categories. Some of our competitors have substantially greater financial, technical, sales, marketing, personnel, and other resources, as well as greater name recognition and a larger client base than we do. Significant competition characterizes the markets for our traditional MFT products. We anticipate we will continue to face increasing pricing pressures from competitors in the future. Given that there are low barriers to entry into the software market and that the market is subject to rapid technological change, we believe that competition will persist and intensify in the future. For more discussion on the risks associated with our competition, see “Risk Factors — Risks Related to Our Operations”.

EFT Platform Products. Our EFT Enterprise and EFT Arcus products compete against a number of secure, Windows-based FTP servers. We believe our primary competitors are IBM, GoAnywhere, Axway, Accellion, Ipswitch, BMC, Cleo, Acronis, Signiant, Serv-U, and JSCAPE. We believe the features and functions of our products are competitive with those of other MFT providers. In particular, we believe the ease of installation and use of our products combined with a competitive price position us to compete effectively.

We do not offer a Linux version of our EFT platform. Accordingly, we do not compete in environments in which the client needs an MFT product that operates in a Linux operating system environment.

Delivering MFT products through a cloud-based, SaaS offering is a rapidly evolving sector of the markets in which we compete. Many of our MFT competitors are also introducing SaaS products. The nature of the SaaS delivery model lowers the barriers to entry into this market such that we expect competition in this area to intensify in the future.

CuteFTP. CuteFTP exists in a highly competitive environment with numerous FTP software utilities available on the Internet for both the personal and professional user. CuteFTP is positioned as one of the only secure FTP client programs that support a wide range of security standards related to the FTP protocol. We believe our primary competitors are consumer file transfer solutions sold by Ipswitch, Serv-U and Van Dyke Software, Inc. CuteFTP was an early Windows-based FTP client to market and historically has been among the most frequently downloaded FTP clients on popular download sites.

Governmental Regulation

Export Control Regulations. All of our products are subject to U.S. export control laws and applicable foreign government import, export and/or use requirements. The level of control generally depends on the nature of the goods and services in question. For example, the level of control is impacted by the nature of the software and encryption incorporated into our products. Where controls apply, the export of our products may require an export license or authorization or that the transaction qualifies for a license exception or the equivalent and may also be subject to corresponding reporting requirements. For the export of some of our products, we may be subject to various post-shipment reporting requirements. Minimal U.S. export restrictions apply to all of our products, whether or not they perform encryption functions. Additionally, because we are a Department of Defense contractor, there are certain registration requirements that may be triggered by our sales. In addition, certain of our items and/or transactions may be subject to the International Traffic in Arms Regulations (ITAR) if our software or services are specifically designed or modified for defense purposes. Companies engaged in manufacturing or exporting ITAR-controlled goods and services (even if these companies do not export such items) are required to register with the U.S. State Department.

Enhancements to existing products may, and new products will, be subject to review under the Export Administration Act to determine what export classification they will receive. In light of the ongoing discussions regarding anti-terrorism legislation in the U.S. Congress, there continues to be discussions regarding the correct level of export control. Export regulations may be modified at any time. Modifications to the export regulations could reduce or eliminate our ability to export some or all of our products from the U.S. without a license in the future, which could put us at a disadvantage in competing for international sales compared to companies located outside of the U.S. that would not be subject to these restrictions. Modifications to the export regulations could prevent us from exporting our existing and future products in an unrestricted manner without a license or make it more difficult to receive the desired classification. If export regulations were to be modified in such a way, we may be put at a competitive disadvantage with respect to selling our products internationally. We will complete technical reviews on any new products that we acquire or develop that may be subject to these regulations before we can export them.

Privacy Laws. As our business evolves to incorporate more cloud and SaaS solutions, we will receive, transmit, and store a greater volume and diversity of information. As a result, we may be subject to various international, federal and state regulations regarding the treatment and protection of personally identifying and other regulated information. Applicable laws may include, without limitation, U.S. federal laws and implementing regulations such as the GLBA and HIPAA, as well as state laws and regulations, and international laws and regulations including the European Union General Data Protection Regulation, or the GDPR, which replaced the European Union Data Protection Directive in May 2018. Additionally, some of these laws have requirements on the transmittal of data from one jurisdiction to another. In the event our systems are compromised by an unauthorized party, many of these privacy laws require that we provide notices to our clients whose personally identifiable data we reasonably believe may have been compromised. Additionally, if we transfer data in violation of these laws, we could be subjected to substantial fines. To mitigate the risk of compromised information, we use encryption and other security to protect our databases. We also have adopted policies to comply with the GDPR in the European Union.

Intellectual Property

We regard some of the features of our internal operations, our software, our brands and marketing message, and our documentation as proprietary and rely on copyright, patent, and trademark and service mark laws and trade secret protection, such as confidentiality procedures, contractual arrangements, non-disclosure agreements and other measures to protect our proprietary information. Our intellectual property is an important and valuable asset that enables us to gain recognition for our products, services, and technology and enhance our competitive position and market value.

As part of our confidentiality procedures, we enter into non-disclosure agreements with our employees and independent contractors, resellers, and corporate partners. We enter into license or subscription services agreements with respect to our software, documentation, and other proprietary information. Our standard license agreements are transferable only in limited circumstances and have a perpetual term. Our subscription services agreements for our hosted and managed solutions restrict access and have a definite term. We also educate our employees on trade secret protection and employ measures to protect our facilities, equipment, and networks.

Our trademarks and copyrights are central to our business. We have the following trademarks in the United States:

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

In addition to the United States trademarks listed above, we have trademarks registered in Canada and the European Union for GlobalSCAPE. We have obtained United States copyright registrations for all but the most recent versions of our software applications. We have two patents in the United States.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products, which are licensed by the thousands and sold world-wide, is difficult. While we are unable to determine the extent to which piracy of our software products exists, software piracy is a persistent problem. In selling our products, we rely primarily on click-wrap licenses which are not signed in writing by licensees and may be unenforceable under the laws of certain jurisdictions. Additionally, our new offerings through Microsoft Azure require the platform to present the applicable licensing terms and if we cannot prove that a licensee received the intended notice of the license terms, we may have difficulty enforcing the applicable agreements. The laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Companies in the software industry, and other patent and trademark holders seeking to profit from royalties in connection with grants of licenses, own large numbers of patents, copyrights, trademarks, service marks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have received, and may receive in the future, communications from third parties asserting that our products infringe, or may infringe, the proprietary rights of third parties, seeking damages resulting from such infringement or indicating that we may be required to obtain a license from or pay a royalty to, such third parties. For more discussion on the risks associated with our intellectual property, you should read the information under the caption “Risk Factors,” especially “Risks Related to Intellectual Property.”

Employees

Our number of employees is as follows**:**

	March 1,	
Department	**2020**	**2019**
Sales and Marketing	41	38
Engineering	13	9
Professional Services	6	6
Customer Support	22	22
Management and Administration	18	17
Total	100	92

On August 3, 2018, we implemented a plan to restructure our organization, which included a reduction in workforce of approximately 40 employees, representing approximately 30% of the Company’s total pre-restructuring workforce. We recorded a charge of $381,000 in the third quarter of 2018 relating to this reduction in force, consisting primarily of one-time severance payments and termination benefits. The Company’s goal in the restructuring is to better focus our workforce on retaining current clients, gaining incremental business from current clients, and winning new business in the market segments where we can leverage our expertise and long history as an EFT pioneer.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC’s public reference room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an Internet web site that contains annual, quarterly and current reports, proxy statements and other information that issuers (including GlobalSCAPE) file electronically with the SEC. The SEC’s web site is www.sec.gov. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and amendments filed with the SEC are available free of charge on our web site at www.globalscape.com in the Investor Relations section as soon as practicable after such reports are filed. Information on our website is not incorporated by reference into this Annual Report and should not be considered part of this Annual Report or any other filing that we make with the SEC.

Item 1A. Risk Factors

We have described below risks we are aware of that could have a material adverse effect on our business, financial results of operations and financial condition and the value of our stock owned by our stockholders.

Risks Related to Our Operations

A significant portion of our revenue is generated through maintenance and support services. Decreases in maintenance and support sales or renewal rates, or a decrease in the number of new licenses we sell, will negatively impact our future revenue and financial results.

Revenue from maintenance and support services, or M&S, comprised 65% and 63% of our total revenue in 2019 and 2018, respectively. We earn M&S revenue from new M&S contracts, typically sold with new software licenses, and from renewals of such contracts. Any reduction in the number of new software licenses that we sell, or a reduction in sales of associated initial M&S contracts, therefore may have a long-term negative impact on our future M&S revenue, even if our clients continue to renew M&S contracts at historical rates. This situation, in turn, would impact our business and harm our financial results.

Our clients have no obligation to purchase M&S with their initial software license or to renew their M&S contract after the expiration of their initial M&S period, which is typically one year, but may also be for two or three years. Our clients' purchases of M&S, and our renewal rates, may decline or fluctuate as a result of a number of factors, including the overall global economy, the health of their businesses, client dissatisfaction with our products' functionality, features or performance, the level and quality of our M&S services, or pricing, and the perceived value of the M&S program. Renewal rates may also change due to competitors' product offerings, clients converting to in-house developed solutions, clients' inability to continue their operations and spending levels, migration path issues for new versions of our products, and other factors, a number of which are beyond our control. If our clients do not purchase M&S with their initial software license or do not renew their M&S contract for our products, our M&S revenue will decline, and our financial results will suffer. In addition, clients are generally entitled to a reduced annual maintenance fees for entering into long-term maintenance contracts, i.e. those contracts with a term longer than one year. Declines in our license sales, increases in the proportion of long-term maintenance contracts and/or increased discounting could lead to declines in our M&S revenue growth rates. Should clients migrate away from systems and applications which our products support, utilize alternatives to our products, including solutions offering free maintenance, or become dissatisfied with our maintenance services, increased cancellations could lead to declines in our maintenance revenue.

If we are unable to develop, offer and deliver new and enhanced products and services that achieve widespread market acceptance, or if we are unable to continually improve the performance, features, and reliability of our existing products and services, our business and operating results could be adversely affected.

We believe our industry will continue to evolve in response to continued adoption of mobile devices, acceptance of cloud-based SaaS products, and the growth of big data. In response, we have devoted resources to the development of new solutions, such as our SaaS solutions. We are making such investments through our internal efforts, including further development and enhancement of our existing products. We may also make acquisitions of new product lines. Innovation, new product development or acquisition, and go-to-market activities involve a significant commitment of time and resources and are subject to a number of risks and challenges including:

- Developing, sustaining, and appropriately leveraging market intelligence to identify areas of market need that offer attractive return on investment.
- Managing the length of the development cycle for new products and product enhancements which may be longer than originally expected.
- Adapting to emerging industry standards and to technological developments.
- Addressing the evolution of operating systems and industry platforms that presently may not be served by our existing products.
- Entering new or unproven markets with which we have limited experience.
- Managing new product and service strategies, including integrating our various security and file replication technologies, management solutions, client service, and support into unified enterprise security and file replication solutions.
- Incorporating products and technologies acquired through mergers, acquisitions or other relationships with third parties.
- Developing or expanding efficient sales channels.
- Obtaining sufficient licenses to technology and technical access from operating system software vendors on reasonable terms to enable the development and deployment of interoperable products, including source code licenses for certain products with deep technical integration into operating systems.
- Changing purchasing trends such as purchasing through on-line marketplaces rather than through direct sales or traditional channels.

Investments in new products may not result in sufficient revenue generation to justify their costs or may cause short or long-term harm to our financial results. For example, client adoption of our SaaS products has not occurred as rapidly as anticipated, or competitors may introduce new products and services that achieve acceptance among our current clients thereby adversely affecting our competitive position, or we may not be successful in future attempts to achieve disruptive innovation.

Our executive management team must act quickly, continuously and with vision due to the rapid speed of changing client expectations and advancement of technology inherent in the software industry, the extensive and complex efforts required to create useful and widely accepted products, the rapid evolution of cloud computing, mobile devices, new computing platforms, and the creation of other new technologies. Although we have adopted a strategy that we believe will fulfill these challenges, if we fail to internalize and execute properly on that strategy or adapt that strategy as market conditions evolve, we may fail to meet our clients' expectations, fail to compete with our competitors' products and technology, and lose the confidence of our channel partners and employees. Such circumstances could adversely affect our business and financial performance.

We earn most of our revenue and operating margins from our Enhanced File Transfer licensed software solution suite and related maintenance and support services and, as a result, are highly dependent upon the continued success of this product line.

Our Enhanced File Transfer product platform, or EFT platform, is our MFT solution targeted primarily to the enterprise and small and medium business user environments. Our clients may purchase EFT as an on-premise license or may subscribe to it as SaaS. License (both on-premise and SaaS), M&S, and professional services revenue from this product line was responsible for 98% and 96% of our total revenue in 2019 and 2018, respectively. Our EFT product has provided substantially all of our recent revenue growth and most of the operating margin necessary to fund our operations including, most notably, our sales and marketing and research and development activities. Declines and variability in demand for our EFT products could occur as a result of:

- Improved products or product versions being offered by competitors in our markets.
- Competitive pricing pressures.
- Failure to release new or enhanced versions of the EFT solution on a timely basis or at all.
- Technological changes that we are unable to address with file transfer products or that change the way enterprises utilize our products.
- General economic conditions.

Due to our product concentration, our business, results of operations, financial condition, and cash flows would be adversely affected by a decline in demand for the EFT solution suite.

We rely on third parties to provide us with a number of operational services, including hosting and delivery of our SaaS products, certain of our client support services, and other operations. Any interruption or delay in service from these third parties, breaches of security or privacy, or failures in data collection could expose us to liability, harm our reputation and adversely impact our financial performance.

We rely on hosted computer services from third parties for certain services that we provide our clients. As we gather client data and host certain client data in third-party facilities, a security breach could compromise the integrity or availability or result in the theft of client data. In addition, our operations could be negatively affected in the event of a security breach, and we could be subject to the loss or theft of confidential or proprietary information.

Unauthorized access to this data may be obtained through break-ins, breach of our secure network by an unauthorized party, employee theft or misuse, or other misconduct. We rely on a number of third-party suppliers in the operation of our business for the provisioning of various services and materials that we use in the production of our products. Although we seek to diversify our third-party suppliers, we may from time to time rely on a single or limited number of suppliers, or upon suppliers in a single country, for these services or materials. The inability of such third parties to satisfy our requirements could disrupt our business operations or make it more difficult for us to implement our business strategy. If any of these situations were to occur, our reputation could be harmed, we could be subject to third-party liability, including under data protection and privacy laws in certain jurisdictions, and our financial performance could be negatively impacted.

If we are unable to generate significant volumes of sales leads from our various marketing and demand generation efforts, then our revenue may not grow as expected or may decline.

We may generate leads through various marketing activities such as targeted email campaigns, attending networking-based trade shows, purchasing information and services from third-party experts in generating leads, and hosting webinars on enterprise IT management issues. Our marketing efforts may be unsuccessful, resulting in fewer sales leads. If we fail to generate a sufficient volume of leads from these activities and/or such sales leads do not result in actual sales, our revenue may not grow as expected or could decrease and our operating results could suffer.

Some of our sales leads are generated through visits to our websites by potential end-users interested in purchasing or downloading evaluations of our products. Many of these potential end-users find our websites by searching for secure file transfer products through Internet search engines, such as Google. A factor in attracting potential clients to our websites is how prominently our websites are displayed in response to search inquiries. If we are listed less prominently or fail to appear in search result listings for any reason, visits to our websites by clients and potential clients could decline significantly. We may not be able to replace this traffic, and, if we attempt to replace this traffic, we may be required to increase our sales and marketing expenses, which may not be offset by additional revenue and could adversely affect our operating results.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, our sales and revenue are difficult to predict and may vary substantially from period to period, which may cause our results of operations to fluctuate significantly.

Our results of operations may fluctuate, in part, because of the resource intensive nature of our sales efforts, the length and variability of our sales cycle, and the short-term difficulty in adjusting our operating expenses. Our results of operations depend in part on sales to large organizations. The length of our sales cycle, from proof of concept to delivery of and payment for our products, is typically three to nine months but can be more than a year. If our competitors offer or develop products that our prospective clients may want to compare to our products, that situation could cause our average sales cycle to become longer. Because the length of time required to close a sale varies substantially from client to client, it is difficult to accurately predict when, or even if, we will make a sale to a potential client. As a result, large individual sales have, in some cases, occurred in periods subsequent to those periods in which we anticipated they would occur or have not occurred at all. The loss or delay of one or more large transactions in a period could impact our results of operations for that period and any future periods for which revenue from that transaction is delayed. As a result of these factors, it is difficult for us to forecast accurately our revenue for any particular period in the future. Because a substantial portion of our expenses are relatively fixed in the short term, our results of operations will suffer if our revenue falls below expectations in a particular period, which could cause the price of our common stock to decline.

We may acquire new products, capabilities or entire business enterprises in the future that could give rise to risks and challenges that could adversely affect our future financial results.

Acquisitions of new products, capabilities or entire business enterprises involve a number of risks and challenges, including:

- Complexity, time, and costs associated with integration of the acquired business operations, workforce, products, and technologies into our existing business, sales force, employee base, product lines, marketing and technology which ultimately may not be successful.
- Diversion of management time and attention from our existing business and other business opportunities throughout the integration.
- Potential loss or termination of employees, including costs associated with the termination or replacement of those employees.
- Assumption of debt or other liabilities of the acquired business, including any future litigation related to alleged liabilities of the acquired business.
- The incurrence of additional acquisition-related debt as well as increased expenses and working capital requirements.
- Potential dilution of earnings per share.
- Increased costs and efforts in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002.
- Potentially substantial accounting charges for restructuring and related expenses, write-off of in-process research and development, impairment of goodwill, amortization of intangible assets, and share-based compensation expense.

The ongoing integration of any acquired products, capabilities or entire business enterprises involves continually determining and leveraging the actual market synergies, sustaining and even extending the business performance of the acquired entity, implementing our technology systems in the acquired operations, and integrating and managing the personnel related to the acquired products and/or operations. We also must continue to effectively integrate the different cultures of acquired business organizations into our own culture in a way that aligns various interests.

Any of the foregoing, and other factors, could harm our ability to achieve anticipated levels of financial performance or to realize other anticipated benefits of an acquisition. In addition, because acquisitions of technology-based products and companies are inherently risky, no assurance can be given that our previous, current, or future acquisitions will be successful and will not adversely affect our business, operating results, or financial condition.

Our ability to sell our products is highly dependent on the quality of our support and services offerings. Our failure to offer high-quality support and services could have a material and adverse effect on our business and results of operations.

Once our products are deployed for use by our clients, our clients may depend on our support organization and our channel partners to resolve issues relating to our products. High-quality support is critical for the successful marketing and sale of our products. If we or our channel partners do not assist our clients in deploying our products effectively, succeed in helping our clients resolve post-deployment issues quickly, or provide ongoing support, it could adversely affect our ability to sell our products to existing clients and could harm our reputation. As we expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. Our failure or the failure of our channel partners to maintain high-quality support and services could have a material and adverse effect on our business and operating results.

The transition from an on-premise to a cloud-based, SaaS subscription business model is subject to numerous risks and uncertainties.

We believe some clients and potential purchasers of our products are evaluating MFT via the cloud. Some will choose to embrace cloud delivery as a complete MFT solution or possibly employ a hybrid architecture. This potential shift in client preferences, and our pursuit of a SaaS strategy, may give rise to a number of risks, including the following:

- If clients are uncomfortable with cloud-based solutions and desire only perpetual licenses, we may experience longer than anticipated sales cycles and sales of our cloud-based solutions may lag behind our expectations;
- Our cloud-based strategy may raise concerns among our client base, including concerns regarding changes to pricing over time, service availability, information security of a cloud-based solution and access to files while offline or once a subscription has expired;
- We may be unsuccessful in maintaining our target pricing, adoption and projected renewal rates;
- We may select a target price that is not optimal and could negatively affect our sales or earnings; and
- We may incur costs at a higher than forecasted rate as we expand our cloud-based solutions.

The potential shift of our clients' preference to cloud-based, SaaS solutions may also require a considerable investment of technical, financial, legal and sales resources, and a scalable organization. Market acceptance of such offerings is affected by a variety of factors, including but not limited to: security, reliability, scalability, customization, performance, current license terms, client preference, client concerns with entrusting a third party to store and manage their data, public concerns regarding privacy and the enactment of restrictive laws or regulations.

If we are unable to successfully establish our cloud-based solutions and navigate our business model transition in light of the foregoing risks and uncertainties, our results of operations could be negatively impacted.

Cloud-based computing trends present competitive and execution risks.

Clients are transitioning to a hybrid computing environment utilizing various cloud-based software and services accessed via various smart client devices. Pricing and delivery models are evolving, and our competitors are developing and deploying cloud-based services for clients. We are devoting resources to develop and deploy our own competing cloud-based software and services strategies. While we believe our expertise and investments in software for cloud-based services provide us with a strong foundation to compete, it is uncertain whether our strategies will attract the clients or generate the revenue required to be successful. Delivering our products through cloud-based, SaaS solutions requires that we pay third parties, such as Microsoft Azure, to host our products and make them available to our clients. As a result, we incur ongoing, recurring third-party hosting expenses associated with delivering SaaS solutions that we do not incur with respect to our on-premise license products. These expenses may cause the gross margin we realized from our SaaS software products to be lower than the gross margin we realized from our on-premises software products. Whether we are successful in this new business model depends on our execution in a number of areas, including:

- Continuing to innovate and bring to market compelling cloud-based services that generate increasing traffic and market share;
- Maintaining the utility, compatibility and performance of our software on the growing array of cloud computing platforms and the enhanced interoperability requirements associated with orchestration of cloud computing environments; and
- Successfully deploying our SaaS products on platforms hosted by third-party services upon which we rely for delivery of those computing solutions to our clients.

These new business models may reduce our revenues or operating margins and could have a material adverse effect on our business, results of operations and financial condition.

We must keep up with rapid and ongoing technological change to remain competitive in the rapidly evolving cloud-based technology industry.

The cloud-based technology industry is characterized by rapid and ongoing technological change, frequent new product and service introductions, and evolving industry standards. Our future success will depend on our ability to adapt quickly to rapidly changing technologies, to adapt our solutions to evolving industry standards and to improve the performance and reliability of our applications and services. To maintain and increase market acceptance of our applications and services, we must anticipate client needs and offer solutions that meet changing demands quickly and effectively. Clients may require features and functionality that our current applications and services do not have or that our platforms are not able to support. If we fail to develop solutions that satisfy client preferences in a timely and cost-effective manner, our ability to renew our agreements with existing clients and our ability to increase demand for our solutions will be harmed.

If we are required to, and fail to successfully manage any changes to our business model, including the transition of our products to cloud offerings, our results of operations could be harmed.

We are beginning to transition from an on-premise to a cloud-based, SaaS subscription business model. This adjustment to our business model requires a considerable investment of technical, financial, legal and sales resources. Our transition to cloud offerings will continue to divert resources and increase costs, especially in cost of license and other revenues, in any given period. Such investments may not improve our long-term growth and results of operations. Further, the increase in some costs associated with our cloud services may be difficult to predict over time, especially in light of our lack of historical experience with the costs of delivering cloud-based versions of our applications. We may assume greater responsibilities for implementation related services during this transition. As a result, we may face risks associated with new and complex implementations, the cost of which may differ from original estimates. The consequences in such circumstances could include monetary credits for current or future service engagements, reduced fees for additional product sales, and a client's refusal to pay its contractually obligated subscription or service fees.

Offering cloud services may result in the loss of other business opportunities and negatively impact our revenue growth.

We have allocated resources related to our sales and marketing activities, software product development, management team and other personnel toward growing our cloud business. This strategic direction and redirection of resources could potentially result in the loss of sales opportunities in our traditional perpetual license and M&S sales business. If our cloud business does not grow in accordance with our expectations and we are not able to cover the shortfall with other sales opportunities, then our business could be harmed. Although the subscription model used for our cloud business is designed to create a recurring revenue stream that is more predictable, the shift to this model may reduce our license sales, spread revenue over a longer period and negatively affect future license and M&S sales revenue.

Subscription offerings create risks related to the timing of revenue recognition.

Although the subscription model is designed to increase the number of clients who purchase our products and services and create a recurring revenue stream that is more predictable, it creates certain risks related to the timing of revenue recognition and potential reductions in cash flows.

A decline in new or renewed subscriptions in any period may not be immediately reflected in our reported financial results for that period but may result in a decline in our revenue in future periods. If we were to experience significant downturns in subscription sales and renewal rates, our reported financial results might not reflect such downturns until future periods. Our subscription model could also make it difficult for us to rapidly increase our revenues from subscription or SaaS-based services through additional sales in any period as revenue from new clients will be recognized over the applicable subscription term. Increases in sales under our subscription sales model could result in decreased revenues over the short term if they are offset by a decline in sales from perpetual license clients.

Our cloud and SaaS offerings bring additional business and operational risks.

We offer delivery of several of our products using a SaaS model. Our SaaS offerings provide our clients with existing and new software management through a cloud service as opposed to traditional on-premises software deployments. There can be no assurance that SaaS revenue will be significant in the future despite our levels of investment in developing this product delivery method. Margins associated with our SaaS offerings are generally lower than margins associated with our on-premises solutions.

SaaS subscription agreements have a cancellation provision provided the client provides a thirty-day notice. Accordingly, our clients generally have no long-term obligation to us and may cancel their SaaS subscription at any time. Even if our clients are satisfied with our SaaS products and services, they may elect not to continue their SaaS subscription. Renewal rates in the future may differ from historical trends such that we may not be able to accurately predict client renewal rates. Our clients' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our services and their ability to continue their operations and spending levels. If we experience a decline in the renewal rates for our clients or they opt for lower-priced editions of our offerings or fewer subscriptions, our operating results may be adversely impacted.

There is a risk that we could find it difficult or costly to support both traditional software installed by clients and software delivered as a service. To the extent that our SaaS offerings are defective or there are disruptions to our services, demand for our SaaS offerings could diminish, and we could be subject to substantial liability.

Interruptions or delays in service from our third-party service delivery hosts could impair the delivery of our services and harm our business. If we or our third-party service delivery hosts experience security breaches and unauthorized access is obtained to a client's data or our data, our services may be perceived as not being secure, clients may curtail or stop using our services, and we may incur significant legal and financial exposure and liabilities.

SaaS software solutions can be complex, and the deployment of our secure file transfer solutions in the desired manner may require additional professional services and implementation services for which we may not have the ability to provide at an appropriate margin. Our SaaS products are dependent upon third-party hardware, software and hosting vendors, all of which must interoperate for end users to achieve their computing goals. We expect other companies to enter this market and to introduce their own initiatives that may compete with, or not be compatible with, our cloud solutions.

If any of these events were to occur, our business, results of operations and financial condition could be adversely affected.

If we fail to manage our sales and distribution channels effectively, our operating results could be adversely affected.

We sell our software products both directly and through a network of distributors and resellers that we collectively refer to as the channel, as well as through marketplaces such as Amazon Web Services and Microsoft Azure. Sales through these different methods involve distinct risks. Risks associated with direct sales include:

- Challenges in scaling the size of the direct sales team to levels required for revenue growth.
- Difficulty in hiring, retaining, and motivating our direct sales force.
- Substantial amounts of training for sales representatives to become productive, including regular updates to cover new and revised products.
- Leads obtained from paid advertising (for example, Google ads) impacting direct sales should the marketing and advertising effectiveness decline due to non-attributable declines in leads, unforeseen search engine algorithm changes, or other occurrences that may adversely impact the lead generation aspects of the direct sales cycle. Increased competition may materially impact the costs associated with such marketing and advertising.

From time-to-time, we make significant changes in the organizational structure and compensation plans of our sales organization, which may increase the risk of sales personnel turnover. To the extent that we experience turnover within our direct sales force or sales management, there is a risk that the productivity of our sales force would be negatively impacted which could lead to revenue declines. Turnover within our sales force can cause disruption in sales cycles leading to delay or loss of business. It can take time to implement new sales management plans and to effectively recruit and train new sales representatives. We review and modify our compensation plans for the sales organization periodically. Changes to our sales compensation plans could make it difficult for us to attract and retain top sales talent.

Sales through third-party distributors and resellers involve a number of risks, including:

- Our lack of control over the timing of delivery of our products to our clients.
- Our resellers and distributors currently not being subject to minimum sales requirements or any obligation to market our products to their clients.
- Our reseller and distributor agreements generally being nonexclusive and terminable at any time without cause.
- Our resellers and distributors frequently marketing and distributing competing products and, from time to time, placing greater emphasis on the sale of these products due to pricing, promotions, and other terms offered by our competitors.

For 2019 and 2018, approximately 37% and 35% of our revenue was derived from indirect channel sales through distributors and resellers, respectively. We expect that a significant portion of our revenue will continue to be derived from indirect channel sales in the future. Our ability to effectively distribute our products through those channels depends in part upon the financial and business condition of our distributor and reseller network. Computer software distributors and resellers typically are not highly capitalized, have previously experienced difficulties during times of economic contraction, and have experienced difficulties during the past several years. If our distributors and resellers were not be able to sustain their business at a level necessary to sell our products or provide client support services, our business and revenue could be negatively impacted.

We rely upon major distributors and resellers in both the U.S. and international regions. Our largest distributor accounted for 16% and 14% of our total revenues in 2019 and 2018, respectively. Although we believe that we are not substantially dependent on this distributor, if it were to experience a significant disruption with its business or if our relationship with it were to deteriorate, it is possible that our ability to sell to our clients would be, at least temporarily, negatively impacted. This could, in turn, negatively impact our financial results.

Over time, we have modified and will continue to modify aspects of our relationship with our distributors and resellers, such as their incentive programs, pricing to them and our distribution model, to motivate and reward them for aligning their businesses with our strategy and business objectives. Changes in these relationships and underlying programs could negatively impact their business and/or harm our business. In addition, the loss of or a significant reduction in business with those distributors or resellers or the failure to achieve anticipated levels of sell-through with any one of our major international distributors or large resellers could harm our business. In particular, if one or more of such distributors or resellers were unable to meet their obligations with respect to our accounts receivable from them, we could be forced to write off such accounts receivables and may be required to delay the recognition of revenue on future sales to these clients. These events could have a material adverse effect on our financial results.

It may be difficult for us to recruit and retain software developers and other technical and management personnel because we are a relatively small company.

We compete intensely with other software development and distribution companies domestically and internationally as well as information technology departments supporting larger businesses all of whom strive to recruit and hire employees from a limited pool of qualified personnel. Some qualified candidates prefer to work for larger, better known companies or in another geographic area. In order to attract and retain personnel in a competitive marketplace, we believe that we must provide a competitive compensation package, including cash, equity-based compensation, and other employee benefits including medical insurance and healthcare plans. The volatility in our stock price may from time to time adversely affect our ability to recruit or retain employees. In addition, we may be unable to obtain required stockholder approvals of future increases in the number of shares available for issuance under our equity compensation plans. Also, accounting rules require us to treat the issuance of employee stock options and other forms of equity-based compensation as compensation expense. As a result, we may decide to issue fewer equity-based incentives and may be impaired in our efforts to attract and retain necessary personnel. If we are unable to hire and retain qualified employees, or conversely, if we fail to manage employee performance or reduce staffing levels when required by market conditions, our business and operating results could be adversely affected.

Key personnel have left our company in the past. There likely will be additional departures of key personnel from time to time in the future. The loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives, the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, and the results of our operations. Hiring, training, and successfully integrating replacement sales, engineering, and other personnel could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful, which could negatively impact future revenues.

We may engage third parties to develop products on our behalf. These engagements may involve reliance on resources owned and managed by those third parties over which we have no direct control.

In addition to research and development of new products by our employees, we engage third parties from time-to-time to conceive, design and develop products on our behalf. Arrangements of this type involve high levels of risk as a result of inherent uncertainties about the timely delivery and ultimate viability of those products due to the reliance we must place on third parties to plan, perform and successfully complete work for us. These are processes for which we could have notably less direct control than if we performed the work ourselves. These arrangements involve our reliance on the ongoing financial viability of the enterprise performing the work. This risk is challenging to manage because we do not always have clear visibility as to the overall condition of the third-party enterprise. These risks could result in the product not being successfully completed within the expected timeframe, or at all. If actual results from these types of endeavors that we may undertake in the future differ materially from original and ongoing expectations, our business, operating results and financial position could be harmed.

Our ability to develop our software will be seriously impaired if we are not able to use our foreign subcontractors.

We rely on foreign subcontractors to help us develop some aspects of some of our software. If these programmers decided to stop working for us, or if we were unable to continue using them because of political or economic instability, we would have difficulty finding comparably skilled developers in a timely manner. In addition, we would likely have to pay considerably more for the same work, especially if we used U.S. personnel. If we could not replace the contract programmers, it could take us longer to develop certain products and product upgrades and at a higher cost.

Reliance on delivery of our products near or at the end of each quarter could cause our revenue for the applicable period to fall below expected levels.

As a result of client buying patterns and the efforts of our sales force and channel partners to meet or exceed their sales objectives, we have historically received a substantial portion of orders from our clients and generated a substantial portion of revenue during the last few weeks of each period. A significant interruption in our IT systems, which manage critical functions such as order processing, trade compliance reviews, delivery of our products, billings, collections, revenue recognition, and financial reporting, among others, could result in delayed order fulfillment and decreased revenue for that period. If expected revenue at the end of any period is delayed for any reason, including the failure of anticipated purchase orders to materialize, our logistics or channel partners' inability to deliver products prior to period-end to fulfill purchase orders received near the end of the period, our inability to release new products on schedule, any failure of our systems related to order review and processing, or any delays in product delivery based on trade compliance requirements, our revenue for that period could fall below our expectations and the estimates of market analysts, if any, which could adversely impact our business and results of operations and cause a decline in the trading price of our common stock.

Fluctuations in professional services revenue may be greater than experienced in previous reporting periods and have a disproportionate impact on our financial results. For example, increased professional services sales, especially to the government, may result in lower earnings as a percentage of revenue.

Our solution portfolio includes software licenses, subscription services, M&S, and professional services. Because they are relatively labor intensive, professional services typically have substantially lower margins than software license sales, M&S and subscription services. Professional services were 7% of our total revenue in 2019 and 2018. However, this percentage can fluctuate significantly from period to period depending on the needs of our clients.

Depending on our mix of software licenses, subscription, M&S, and professional services revenue in a given reporting period, our earnings as a percentage of revenue may fluctuate from historical norms. For example, if we were to derive a relatively large (compared to historical norms) component of our revenue from professional services in a reporting period, earnings as a percentage of revenue may decline in that period due to lower margin contribution from those labor-intensive services as compared to software license, subscription, and M&S revenue.

We may not be able to compete effectively with larger, better-positioned companies, resulting in lower margins and loss of market share.

We operate in competitive markets that experience rapid technological developments, market consolidation, changes in industry standards, changes in client requirements, and frequent new product introductions and product improvements by existing and new competitors. If we are unable to anticipate or react to these competitive challenges or if existing or new competitors take or gain additional market share in any of our markets, our competitive position could weaken, and we could experience a decrease in revenues that could adversely affect our business and operating results. To compete successfully, we must maintain a successful research and development effort to create new products and services and enhance existing products and services, effectively adapt to changes in the technology or product rights held by our competitors, appropriately respond to competitor strategies as such strategies become apparent, and effectively adapt to technological changes and changes in the ways that our information is accessed, used, and stored within our enterprise and consumer markets. If we are unsuccessful in responding to our competitors or to changing technological and client demands, we could experience a negative effect on our competitive position and our financial results.

We compete with a variety of companies that have significantly greater revenues and financial resources, more partners, resellers and distribution channels than we have, and greater quantities of personnel and technical resources. For example, our EFT solution suite competes with products from IBM Sterling, Ipswitch, Axway and several other vendors. Large companies may be able to develop new technologies, across multiple solution spaces, and on more operating systems, more quickly than we can, to offer a broader array of products, and to respond more quickly to new opportunities, industry standards or client requirements.

Additional competitors may enter the market and also may have significantly greater financial capabilities and resources than we do. Some existing competitors also may be able to sustain and adopt more aggressive pricing strategies.

As we develop new products or new features, functions and capabilities for existing products, we capitalize certain of our costs related to those activities and defer the expense arising from those activities to future periods.

In accordance with GAAP, we capitalize certain of our costs related to the development of new products or new features, functions and capabilities for existing products. We present these capitalized costs as an asset on our balance sheet. We amortize these costs to expense in future periods after these work products are completed and released for sale so as to match these expenses with the associated revenue we earn in the future. If we were to deem these capitalized costs not to be realizable through future revenue, and accordingly had to reduce the carrying value of these assets, possibly to zero, we could incur significant expenses earlier than anticipated.

Our products are complex and operate in a wide variety of computer configurations, which could result in errors or product failures.

Addressing MFT both on-premise licenses and SaaS models typically requires complex products. Undetected errors, failures, or bugs may occur, especially when products are first introduced or when new versions are released. Our products are often installed and used in large-scale computing environments with different operating systems, system management software, and equipment and networking configurations, which may cause errors or failures in our products or may expose undetected errors, failures, or bugs in our products. Our clients' computing environments also are often characterized by a wide variety of standard and non-standard configurations that make pre-release testing for programming or compatibility errors difficult and time-consuming. In addition, despite testing by us and others, errors, failures, or bugs may not be found in new products or releases until after commencement of commercial shipments. In the past, we have discovered software errors, failures, and bugs in certain of our product offerings after their introduction and have experienced delayed or lost revenues during the time required to correct these errors.

Errors, failures, or bugs in products released by us could result in negative publicity, product returns, loss of or delay in market acceptance of our products, loss of competitive position, or claims by clients or others. Many of our end-user clients use our products in applications that are critical to their businesses and may have a greater sensitivity to defects in our products than to defects in other, less critical, software products. In addition, if an actual or perceived breach of information integrity or availability occurs in one of our end-user client's systems, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products could be harmed. Alleviating any of these problems could require significant expenditures of our capital and other resources and could cause interruptions, delays, or cessation of our product licensing, which could cause us to lose existing or potential clients and could adversely affect our operating results.

Our business is subject to the risks of warranty claims, product returns, product liability and product defects.

Real or perceived errors, failures or defects in our products could result in claims by clients for losses that they sustain. If clients make these types of claims, we may be required, or may choose, for client relations or other reasons, to expend additional resources in order to help correct the problem. Liability provisions in our standard terms and conditions of sale, and those of our resellers and distributors, may not be enforceable under some circumstances or may not fully or effectively protect us from client claims and related liabilities and costs, including indemnification obligations under our agreements with resellers and distributors. The sale and support of our products also entail the risk of product liability claims. We maintain insurance to protect against certain types of claims associated with the use of our products, but our insurance coverage may not adequately cover any such claims. Even claims that ultimately are unsuccessful could result in expenditures of funds in connection with litigation and divert management's time and other resources.

Turmoil and uncertainty in U.S. and international economic markets could adversely affect our business and operating results.

Demand for our products depends in large part upon the level of capital and maintenance expenditures by many of our clients. 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.

These adverse impacts to client spending may be directly, and adversely, reflected in our future business and operating results because we believe a substantial part of their MFT spending budget is considered discretionary by our prospects and clients. The perception of MFT solutions spending as discretionary is further reinforced by the existence of low cost, or even free, products that deliver some subset of the capabilities found in our solutions. In the event of an economic downturn, some clients may decide to defer spending for our solutions or may elect to obtain low cost or free "good enough" products as an interim measure. The potential adverse impacts of such decisions may persist for an extended period of time, even well into a period of economic recovery, given that many prospects will not change their IT infrastructure for a considerable period of time after that infrastructure has been installed and is operating adequately.

Adverse financial results from another economic downturn or other adverse economic conditions and uncertainty could include flat, or even decreasing, sales, lower gross and net margins, and impairment of current or future goodwill and long-lived assets. In addition, some of our clients could delay paying their obligations to us. Potentially reduced sales and margins and client payment problems could limit our ability to fund research and development, marketing, sales, and other activities necessary to sustain and expand our market position.

In past economic downturns, we have sometimes experienced a decrease in our stock price. If investors have concerns that our business, financial condition and results of operations will be negatively impacted by another economic downturn, our stock price could decrease again.

Regardless of economic conditions, fluctuations in demand for our products and services are driven by many factors and a decrease in demand for our products could adversely affect our financial results.

We are subject to fluctuations in demand for our products and services due to a variety of factors, including competition, product obsolescence, technological change, budget constraints of our actual and potential clients awareness of security threats to IT systems, and other factors. While such factors may, in some periods, increase product sales, fluctuations in demand can also negatively impact our product sales. If demand for our products declines, our revenues, as well as our gross and net margins, could be adversely affected.

Sales to the U.S. Government make up a portion of our business, and changes in government defense spending could have consequences on our financial position, results of operations and business.

Our revenues from the U.S. Government largely result from contracts awarded to us under various U.S. Government programs, primarily defense-related programs with the Department of Defense ("DoD"). The funding of our programs is subject to the overall U.S. Government foreign policy, budget and appropriation decisions, and processes which are driven by numerous factors, including geo-political events and macroeconomic conditions, and are beyond our control. Projected defense spending budgets are uncertain and difficult to predict.

Significant changes in defense spending could have long-term consequences for our size and structure. Changes in government priorities and requirements could impact the funding, or the timing of funding, of our programs which could negatively impact our results of operations and financial condition. Government contracts typically have long sales cycles such that closure of such contracts is difficult to predict.

U.S. Government contracts generally also permit the government to terminate the contract, in whole or in part, without prior notice, at the government's convenience or for default based on performance. A termination arising out of our default could expose us to liability and have a negative impact on our ability to obtain future contracts and orders. Furthermore, on contracts for which we are a subcontractor and not the prime contractor, the U.S. Government could terminate the prime contract for convenience or otherwise, irrespective of our performance as a subcontractor.

Because we are a DoD contractor, certain of our items and/or transactions may be subject to the ITAR if our software or services are specifically designed or modified for defense purposes. Companies engaged in manufacturing or exporting ITAR-controlled goods and services (even if these companies do not export such items) are required to register with the U.S. State Department. Failure to comply with these requirements could result in fines and sanctions which could negatively impact our results of operations and financial condition.

If we lose key personnel, we may not be able to execute our business plan.

Our future success depends on the continued services of our employees. If employees leave, it can be difficult to replace them because of the intense competition in the marketplace for people with the skillsets we need to operate our business. New employees may not be productive for weeks or months as they learn about our solutions, our personnel and the administrative practices within our company.

Seasonality may cause fluctuations in our revenue.

We believe there could be notable seasonal factors in the future that may cause us to record higher revenue in some quarters compared with others. We believe this variability is possible largely due to our clients' budgetary and spending patterns, as many clients spend the unused portions of their discretionary budgets prior to the end of their fiscal years. For example, we have historically recorded our highest level of revenue in our fourth quarter, which we believe corresponds to the fourth quarter of a majority of our clients. If our rate of growth slows over time, seasonal or cyclical variations in our operations may become more pronounced, and our business, results of operations and financial position may be adversely affected.

Our current indebtedness requires us to comply with certain restrictive loan covenants which may limit our ability to operate our business.

Under the terms of our Credit Agreement, dated November 18, 2019 by and among us, JPMorgan Chase Bank, N.A. and the other parties thereto (the "Credit Agreement"), we have made certain customary representations and we are subject to customary affirmative and negative covenants, including restrictions on our ability to incur additional debt that is not subordinated, create additional liens, transfer or dispose of assets, make distributions, consolidate, dissolve or merge, and customary events of default (including payment defaults, covenant defaults, cross defaults and bankruptcy defaults). The Credit Agreement also contains financial covenants including a minimum leverage ratio. We can provide no assurance that, if we are unable to comply with these covenants in the future, we will be able to obtain the necessary waivers or amend our Credit Agreement to prevent a default.

A breach of any of these covenants or requirements could result in a default under our Credit Agreement. If we default under our Credit Agreement and we are unable to cure the default or obtain a waiver, we will not be able to access the credit available under our Credit Agreement and there can be no assurance that we would be able to obtain alternative financing. Our Credit Agreement also includes customary default provisions that entitle our lenders to take various actions in the event of a default, including, but not limited to, demanding payment for all amounts outstanding. If this occurs, we may not be able to repay such indebtedness or borrow sufficient funds to refinance. Even if new financing is available, it may not be on terms that are acceptable to us. No assurance can be given that our future operating results will be sufficient to achieve compliance with the covenants and requirements of our Credit Agreement.

To the extent that certain borrowings under our Credit Agreement extend beyond 2021, the interest rates for these obligations might be subject to change based on recent regulatory changes.

The interest rate on Eurodollar loans under our Credit Agreement is determined by reference to the LIBO rate, which is derived from the London interbank offered rate. In July 2017, the U.K. Financial Conduct Authority announced that, after the end of 2021, it would no longer persuade or compel contributing banks to make rate submissions to the ICE Benchmark Administration (together with any successor to the ICE Benchmark Administrator, the “IBA”) for purposes of the IBA setting the London interbank offered rate. As a result, it is possible that commencing in 2022, the London interbank offered rate may no longer be available or may no longer be deemed an appropriate reference rate upon which to determine the interest rate on Eurodollar loans, and it is unclear whether new methods of calculating LIBOR will be established. If LIBOR ceases to exist after 2021, a comparable or successor reference rate as approved by the Administrative Agent under the Credit Agreement will take effect. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere. To the extent these interest rates increase, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

Our operations potentially are vulnerable to security breaches that could harm the quality of our products and services or disrupt our ability to deliver our products and services.

Information security is a dynamic discipline that historically has faced threats that develop and emerge in ways that are sometimes unpredictable. Third parties may breach our systems and information security and damage our products and services or misappropriate confidential client information. This might cause us to lose clients, or even cause clients to make claims against us for damages. We may be required to expend significant resources to protect against potential or actual security breaches and/or to address problems caused by such breaches.

Improper disclosure of personal data could result in liability and harm our reputation.

While we have derived the majority of our historical revenues from on-premises delivery of our products, we now also offer our products on third-party, hosted platforms. As we continue to execute our strategy of increasing the number and scale of our cloud-based offerings, we may store and process increasingly large amounts of personally identifiable information of our clients. At the same time, the continued occurrence of high-profile data breaches provides evidence of an external environment increasingly hostile to information security. This environment demands that we continuously improve our design and coordination of security controls. It is possible our security controls over personal data, our training of employees and vendors on data security, and other practices we follow may not prevent the improper disclosure of personally identifiable information. Improper disclosure of this information could harm our reputation, lead to legal exposure to clients, or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue. We believe consumers using our subscription services increasingly will want efficient, centralized methods of choosing their privacy preferences and controlling their data. Perceptions that our products or services do not adequately protect the privacy of personal information could inhibit sales of our products or services and could constrain consumer and business adoption of our solutions.

Breaches of our cybersecurity systems could degrade our ability to conduct our business operations and deliver products and services to our clients, delay our ability to recognize revenue, compromise the integrity of our software products, result in significant data losses and the theft of our intellectual property, damage our reputation, expose us to liability to third parties and require us to incur significant additional costs to maintain the security of our networks and data.

We increasingly depend upon our IT systems to conduct virtually all of our business operations, ranging from our internal operations and product development activities to our marketing and sales efforts and communications with our clients and business partners. Cyber threats may attempt to penetrate our network security, or that of our website, and misappropriate our proprietary information or cause interruptions of our service. Because the techniques used by such attackers to access or sabotage networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of the system. We have also outsourced a number of our business functions to third-party contractors. Therefore, our business operations also depend, in part, on the success of our contractors' own cybersecurity measures. Similarly, we rely upon distributors, resellers, system vendors and systems integrators to sell our products and our sales operations depend, in part, on the reliability of their cybersecurity measures.

Additionally, we depend upon our employees to appropriately handle confidential data and deploy our IT resources in a safe and secure fashion that does not expose our network systems to security breaches and the loss of data. Accordingly, if our cybersecurity systems and those of our contractors fail to protect against unauthorized access, sophisticated cyber-attacks and the mishandling of data by our employees and contractors, our ability to conduct our business effectively could be damaged in a number of ways, including:

- Sensitive data regarding our business, including intellectual property and other proprietary data, could be stolen.
- Our electronic communications systems, including email and other methods, could be disrupted, and our ability to conduct our business operations could be seriously damaged until such systems can be restored.
- Our ability to process client orders and electronically deliver products and services could be degraded, and our distribution channels could be disrupted, resulting in delays in revenue recognition.
- Defects and security vulnerabilities could be introduced into our software products, thereby damaging the reputation and perceived reliability and security of our products and potentially making the data systems of our clients vulnerable to further data loss and cyber incidents.
- Personally identifiable data of our clients, employees and business partners could be lost.

Should any of the above events occur, we could be subject to significant claims for liability from our clients or from regulatory actions of governmental agencies, our ability to protect our intellectual property rights could be compromised and our reputation and competitive position could be significantly harmed. Also, the regulatory and contractual actions, litigations, investigations, fines, penalties and liabilities relating to data breaches that result in losses of personally identifiable or credit card information of users of our services could be significant in terms of fines and reputational impact and necessitate changes to our business operations that may be disruptive to us. Additionally, we could incur significant costs in order to upgrade our cybersecurity systems and remediate damages. Consequently, our financial performance and results of operations could be adversely affected.

Certain components of the software code comprising some of our products are licensed from third parties making us dependent upon those licenses remaining in place for those products to operate in their current form.

Certain key components of the software code comprising certain of our products are licensed from unrelated, third parties. These licenses are not perpetual and, as such, with advance notice as provided in the license agreements, these third parties could terminate these licenses. Even with advance notice, termination of these licenses could create a severe hardship for us due to the need to locate substitute software code from other third parties or create alternative software code ourselves in order for our products to continue to operate in the manner designed or for us to keep pace with client requirements, including our obligations under maintenance and support agreements. There is no assurance we could achieve either of those alternative solutions in a timely and effective manner that would not disrupt our ability to continue selling and supporting those products, or without the consumption of significant company resources in the form of time spent by our personnel creating alternative solutions or cash paid to third parties to assist us. Such a situation could delay the completion and introduction to the marketplace of other products we are developing to remain competitive due to the diversion of the attention of certain of our key personnel away from that work. If any of these events occur, our future business and financial results could be adversely affected.

We utilize "open source" software in some of our products.

The open source software community develops software technology for free use by anyone. We incorporate a limited amount of open source code software into our products. We may use more open source code software in the future.

Our use, in some instances, of open source code software may impose limitations on our ability to commercialize our solutions and may subject us to possible intellectual property litigation. Open source code may impose limitations on our ability to commercialize our products because, among other reasons, open source license terms may be ambiguous and may result in unanticipated obligations regarding our solution, and open source software cannot be protected under trade secret law. In addition, it may be difficult for us to accurately determine the identities of the developers of the open source code and whether the acquired software infringes third-party intellectual property rights. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. From time to time, companies that incorporate open source software into their products have been subject to such claims.

Claims of infringement or misappropriation against us could be costly for us to defend and could require us to re-engineer our solution or to seek to obtain licenses from third parties in order to continue offering our solution. We also might need to discontinue the sale of our solution in the event re-engineering could not be accomplished on a timely or cost-effective basis. If any such claim, attempted remediation, or solution discontinuance occur, our business and operating results could be harmed.

Our products may expose clients to invasion of privacy, causing client dissatisfaction or possible claims against us for damages.

Our products and solutions are intended to facilitate data and information transfer and sharing, sometimes by providing outsiders access to a client's computer. Such access potentially may make the client vulnerable to security breaches, which could result in the loss of the client's privacy or property. Invasions of privacy or other client harm occurring in an environment where our solutions are operating could result in client dissatisfaction and possible claims against us for any resulting damages.

We are subject to governmental export and import controls and sanctions laws that could subject us to liability or impair our ability to compete in international markets.

All products that are exported, re-exported or that are worked on by foreign nationals are subject to export controls. Such controls include prohibitions on end uses, end users and exports to certain sanctioned countries. In addition, incorporation of encryption technology into our products increases the level of U.S. export controls. We are subject to these requirements as certain of our products include the ability for the end user to encrypt data. Therefore, our products may be exported outside the United States or revealed to foreign nationals only by complying with the required level of export controls/restrictions. Restrictions applicable to our products may include a requirement to have a license to export the technology, a requirement to have software licenses approved before export is allowed, and outright bans on the licensing of certain encryption technology to particular end users or to all end users in a particular country. In addition, various countries regulate the import and re-export of certain technology and have enacted laws that could limit our ability to distribute our products or could limit our clients' ability to implement our products in those countries or that make it a violation for us to comply with U.S. sanctions requirements.

There can be no assurance that we will be successful in obtaining or maintaining the licenses and other authorizations required to export our products from applicable government authorities. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, changes in the list of countries to which we cannot export, or changes in persons or technologies targeted by such regulations could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential clients with international operations. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our clients with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries, companies or individuals altogether. Any change in export, import or sanctions regulations or related legislation, a shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential clients with international operations.

Export and sanctions laws and regulations can be extremely complex in their application. If we are found not to have complied with applicable export control or sanctions laws, we may be sanctioned, fined or penalized by, among other things, having our ability to obtain export licenses curtailed or eliminated, possibly for an extended period of time. Our failure to receive or maintain any required export licenses or authorizations or our being penalized for failure to comply with applicable export control or sanctions laws would hinder our ability to sell our products, could result in financial penalties, and could materially adversely affect our business, financial condition, and results of operations. Any failure on our part or the part of our distributors to comply with encryption or other applicable export control or sanctions requirements could harm our business and operating results.

Import and export regulations of encryption/decryption technology vary from country to country. We may be subject to different statutory or regulatory controls, including licensing requirements, in different foreign jurisdictions, and as such, importation or re-exportation of our technology may not be permitted in these foreign jurisdictions. Violations of foreign regulations or regulation of international transactions could prevent us from being able to sell our products in international markets. Our success depends in large part on our having access to international markets. A violation of foreign regulations could limit our access to such markets and have a negative effect on our results of operations.

As our international sales grow, we could become increasingly subject to additional risks that could harm our business.

We conduct significant sales and client support in countries outside of the United States. Approximately 24% and 26% of our sales were to purchasers outside the United States in 2019 and 2018, respectively. If our sales outside the United States increase, we may be required to further expand our international operations. To successfully expand international sales, we must establish additional foreign operations, hire additional personnel, including regulatory compliance professionals, and recruit additional international resellers. We may also incur additional expense translating our applications into additional languages. In addition, there is significant competition for entry into high growth markets. Our international operations are subject to a variety of risks, which could cause fluctuations in the results of our international operations. These risks include:

- Compliance with foreign regulatory and market requirements.
- Variability of foreign economic, political and labor conditions.
- Changing restrictions imposed by regulatory requirements, tariffs or other trade barriers or by U.S. export laws.
- Potential increase in expenses to comply with international data protection laws.
- The imposition by the United States government of sanctions on countries, individuals or business entities.
- Longer accounts receivable payment cycles.
- Potentially adverse tax consequences.
- Difficulties in protecting intellectual property.
- Burdens of complying with a wide variety of foreign laws.
- Difficulty transferring funds to the U.S. in a tax efficient manner from non-U.S. jurisdictions in which the cash flow originates.

We are subject to risks associated with compliance with laws and regulations globally which may harm our business.

We are a global company subject to varied and complex laws, regulations and customs domestically and internationally. These laws and regulations relate to a number of aspects of our business, including trade protection, import and export control, sanctions laws, data and transaction processing security, payment card industry data security standards, records management, user-generated content hosted on websites we operate, corporate governance, employee and third-party complaints, gift policies, conflicts of interest, employment and labor relations laws, securities regulations and other regulatory requirements affecting trade and investment. The application of these laws and regulations to our business is often unclear and may at times conflict. Compliance with these laws and regulations may involve significant costs or require changes in our business practices that result in reduced revenue and profitability. Non-compliance could also result in fines, damages, or criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business, and damage to our reputation. We incur additional legal compliance costs associated with our global operations and could become subject to legal penalties if we fail to comply with local laws and regulations in U.S. jurisdictions or in foreign countries, which laws and regulations may be substantially different from those in the U.S.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us, including the Foreign Corrupt Practices Act. Although we implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, including those based in or from countries where practices that violate such U.S. laws may be customary, will not take actions in violation of our internal policies. Any such violation, even if prohibited by our internal policies, could have an adverse effect on our business.

Our interaction with foreign parties can also increase our costs with respect to compliance. For example, the EU has recently adopted a comprehensive overhaul of its data protection regime from the current national legislative approach to a single European Economic Area Privacy Regulation, the GDPR, which came into effect in May 2018. The EU data protection regime extends the scope of the EU data protection law to all foreign companies processing data of EU residents. Although the GDPR will apply across the EU without a need for local implementing legislation, as has been the case under the current data protection regime, local data protection authorities ("DPAs") will still have the ability to interpret the GDPR, which has the potential to create inconsistencies on a country-by-country basis. Since we act as a data processor for our SaaS clients, we are taking steps to cause our processes to be compliant with applicable portions of the GDPR, but we cannot assure you that such steps will be effective. We have adopted policies to comply with the GDPR, but ongoing implementation and maintenance of compliance regimes could require changes to certain of our business practices, thereby increasing our costs.

A number of U.S. states have enacted data privacy and security laws and regulations that govern the collection, use, disclosure, transfer, storage, disposal, and protection of sensitive personal information, such as social security numbers, financial information and other personal information. For example, several U.S. territories and all 50 states now have data breach laws that require timely notification to individual victims, and at times regulators, if a company has experienced the unauthorized access or acquisition of sensitive personal data. Other state laws include the California Consumer Privacy Act ("CCPA"), which was signed into law on June 28, 2018 and largely took effect on January 1, 2020. The CCPA, among other things, contains new disclosure obligations for businesses that collect personal information about California residents and affords those individuals new rights relating to their personal information that may affect our ability to use personal information or share it with our business partners. Regulations from the California Attorney General have not been finalized, and it is expected that additional amendments to the CCPA will be introduced in 2020. Meanwhile, other states have considered privacy laws like the CCPA.

Failure to comply with existing or future privacy and data use and security laws, regulations, and requirements to which we are subject or could become subject, including by reason of inadvertent disclosure of confidential information, could result in fines, sanctions, penalties or other adverse consequences and loss of consumer confidence, which could materially adversely affect our results of operations, overall business and reputation especially since we market our products as a means by which compliance can be achieved.

Failure to maintain proper and effective internal controls has affected, and could in the future affect, our ability to produce accurate financial statements which has resulted, and could in the future result, in the restatement of our consolidated financial statements as of and for the years ended December 31, 2016 and 2015 of our condensed consolidated financial statements and for the three months ended March 31, 2017 (the "Restatement"), and such failure to maintain proper and effective internal controls could adversely affect our operating results, our ability to operate our business, and our stock price.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We maintain a system of internal control over financial reporting, which is defined as a process designed by, or under the supervision of, our principal executive officer and principal financial officer, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Failure to establish and maintain appropriate internal financial reporting controls and procedures has caused us to fail to meet our reporting obligations, resulted in the restatement of our financial statements, harmed our operating results, subjected us to regulatory scrutiny and investigation, potentially caused investors to lose confidence in our reported financial information, and had a negative effect on the market price for shares of our common stock. Failure to maintain our internal control over financial reporting could result in similar consequences in the future.

There are inherent limitations in all control systems, and misstatements due to error or fraud have occurred and may occur again in the future and not be detected.

The ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002 require us to identify material weaknesses in internal control over financial reporting, which is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with GAAP. Our management, including our principal executive officer and principal financial officer, does not expect that our internal controls and disclosure controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud in our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions, such as growth of the company or increased transaction volume, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur in the future and not be detected.

In addition, discovery and disclosure of a material weakness, such as those material weaknesses we have previously discovered and disclosed, by definition, could have a material adverse impact on our financial statements. Such an occurrence could discourage certain clients or suppliers from doing business with us and affect how our stock trades. This could, in turn, negatively affect our ability to access public debt or equity markets for capital.

The amount of income taxes we compute as payable on our income tax returns filed with the Internal Revenue Service and certain states could be challenged by those taxing authorities resulting in us paying more taxes than anticipated.

We file income tax returns with the Internal Revenue Service and taxing authorities in certain states. We prepare and file those returns based on our interpretations of the relevant tax code as to revenue to be reported and deductions and credits allowed. We use third-party experts to assist us in preparing our tax returns and computing our tax liabilities to help us ensure we pay the proper amount of tax due. Our tax returns are subject to examination by taxing authorities that could interpret the tax code in a different manner from us and conclude we are obligated to pay more taxes than we originally computed and paid. While we would defend the position taken on our tax returns as filed, a challenge from a taxing authority can be costly to defend with no assurance of a favorable outcome for us. In the event of an unfavorable result under these circumstances, our business, operating results and financial position could be harmed.

The amount of sales tax we collect on sales could be challenged by taxing authorities both in jurisdictions in which we have a corporate presence as well as by taxing authorities in areas where we have no corporate presence.

We collect and remit sales tax on sales in jurisdictions where we have an obligation to do so. States in which we collect sales tax could audit our activities and assess us with additional tax based on their interpreting the sales tax code differently than we interpret it. States where we do not collect sales tax could make an assertion that we should have been collecting sales tax and could assess us with that tax. While we would defend our position taken as to our obligation to collect sales tax and the amount of sales tax collected, a challenge from a taxing authority can be costly to defend with no assurance of a favorable outcome for us. In the event of an unfavorable result under these circumstances, our business, operating results and financial position could be harmed.

Risks Related to Stock Ownership

Our stock price is, and may continue to be, volatile.

The trading price of our common stock has been and could continue to be subject to wide fluctuations in response to certain factors, including:

- U.S. and global economic conditions leading to general declines in market capitalizations, with such declines not associated with operating performance.
- Quarter-to-quarter variations in results of operations.
- Our announcements of new products.
- Our announcements of acquisitions or divestitures.
- Our announcements of significant new clients or contracts.
- Our competitors’ announcements of new products.
- Our product development or release schedule.
- Changes in our management team.
- General conditions in the software industry.
- Investor perceptions and expectations regarding our products, plans and strategic position and those of our competitors and clients.

In addition, the public stock markets experience extreme price and trading volume volatility, particularly in high-technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons often unrelated to the operating performance of the specific companies. The broad market fluctuations may adversely affect the market price of our common stock.

Accounting charges may cause fluctuations in our annual or quarterly financial results.

Our financial results may be affected by non-cash and other accounting charges, including:

- Amortization of intangible assets, including acquired technology and product rights.
- Acquisition or financing expenses.
- Impairment of goodwill and intangibles.
- Share-based compensation expense.
- Restructuring charges.
- Impairment of long-lived assets.
- Reserves for uncertain tax positions.

Anti-takeover provisions in our charter and Delaware law could inhibit others from acquiring us.

Some of the provisions of our certificate of incorporation and bylaws and in Delaware law could, together or separately:

- Discourage potential acquisition proposals.
- Delay or prevent a change in control.
- Limit the price that investors may be willing to pay in the future for shares of our common stock.

In particular, our certificate of incorporation and bylaws prohibit stockholders from voting by written consent or calling meetings of the stockholders. We are also subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder, as defined in the statute, for a period of three years following the date on which the stockholder became an interested stockholder.

Our directors and executive officers continue to have substantial control over us.

Our directors and executive officers, together with their affiliates and related persons, beneficially owned, in the aggregate, approximately 25% of our outstanding common stock as of February 29, 2020. These stockholders would have the ability to substantially control our operations and direct our policies, including the outcome of matters submitted to our stockholders for approval, such as the election of directors and any acquisition or merger, consolidation or sale of all or substantially all of our assets. In addition, our certificate of incorporation and bylaws provide for our Board of Directors to be divided into three classes of directors serving staggered three-year terms. As a result, approximately one-third of our Board of Directors will be elected each year.

Stockholders' ownership of our stock may be significantly diluted as a result of the exercise of stock options, thereby affecting the value of the stock.

There were options to purchase 1,563,784 shares of our common stock outstanding under our employee and director stock option plans as of December 31, 2019, of which options to purchase 348,979 shares were vested. We have filed registration statements under the Securities Act, covering stock issued upon the exercise of options by non-affiliates, and we may file a registration statement covering options held by affiliates as well. If we do not file a registration statement covering affiliates, affiliates who exercise their options may choose to sell the stock under an exemption from registration, such as Rule 144 under the Securities Act. The exercise of these options and sale of the resulting stock could depress the value of our stock.

Risks Related to Intellectual Property

We are vulnerable to claims that our products infringe third-party intellectual property rights particularly because our products are partially developed by independent parties.

From time to time, we experience claims that our products infringe third-party intellectual property rights. We may be exposed to future litigation based on claims that our products infringe the intellectual property rights of others. This risk is exacerbated by the fact that some of the code in our products is developed by independent parties or licensed from third parties over whom we have less control than we exercise over internal developers. In addition, we expect that infringement claims against software developers will become more prevalent as the number of products and developers grows and the functionality of software programs in the market increasingly overlaps. Companies in the technology industry, and other patent and trademark holders seeking to profit from royalties in connection with grants of licenses, own large numbers of patents, copyrights, trademarks, service marks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. In addition, we may be the target of aggressive and opportunistic enforcement of patents by third parties, including non-practicing entities.

Responding to and defending against such claims may cause us to incur significant expense and divert the time and efforts of our management and employees. Successful assertion of such claims could require that we pay substantial damages or ongoing royalty payments, prevent us from selling our products and services, damage our reputation, or require that we comply with other unfavorable terms, any of which could materially harm our business. In addition, we may decide to pay substantial settlement costs in connection with any claim or litigation, whether or not successfully asserted.

While it is not possible to predict the outcome of patent litigation incidents to our business, defense costs may be significant, and we believe the costs associated with this litigation or other claims of infringement could generally have a material adverse impact on our results of operations, financial position or cash flows. Regardless of the merit of such claims, responding to infringement claims can be expensive and time-consuming.

For any intellectual property rights claim against us or our clients, we may have to pay damages and indemnify our clients against damages.

Claims of infringement could require us to re-engineer our products or seek to obtain licenses from third parties in order to continue offering our products in a manner that may include licensing technologies from others. In addition, an adverse legal decision affecting our intellectual property, or the use of significant resources to defend against this type of claim could place a significant strain on our financial resources and harm our reputation.

We may not be able to protect our intellectual property rights.

Our software code and trade and service marks are some of our most valuable assets. Given the global nature of the Internet and our business, we are vulnerable to the misappropriation of this intellectual property, particularly in foreign markets, such as China and Eastern Europe, where laws or law enforcement practices are less developed. The global nature of the Internet makes it difficult to control the ultimate destination or security of our software making it more likely that unauthorized third parties will copy certain portions of our proprietary information or reverse engineer the proprietary information used in our programs. If our proprietary rights were infringed by a third-party and we did not have adequate legal recourse, our ability to earn profits, which are highly dependent on those rights, would be severely diminished.

Other companies may own, obtain or claim trademarks that could prevent, limit or interfere with our use of our trademarks.

Our various trademarks are important to our business. If we were to lose the use of any of our trademarks, our business could be harmed and we could have to devote substantial resources towards developing an independent brand identity. Defending or enforcing our trademark rights at a local and international level could result in the expenditure of significant financial and managerial resources.

Risks Related to the Investigation and the Restatement

Matters relating to or arising from our Audit Committee investigation, including regulatory proceedings, litigation matters and potential additional expenses, may adversely affect our business and results of operations.

As previously disclosed in our public filings, the Audit Committee of the Company's Board of Directors has recently completed the investigation relating to revenue recognition. We are also the subject of an investigation by the SEC and the United States Attorney's Office for the Western District of Texas related to these matters.

We have incurred significant expenses related to legal, accounting, and other professional services in connection with the Audit Committee investigation and related matters and related remediation efforts. The expenses incurred, and expected to be incurred, in connection with the Audit Committee and government investigations, the impact of our delay in 2017 and through June 14, 2018 in meeting our periodic reporting requirements on the confidence of investors, employees and clients, and the diversion of the attention of the management team that has occurred, and is expected to continue, has adversely affected, and could continue to adversely affect, our business, financial condition and results of operations or cash flows.

As a result of the matters reported above, we are exposed to greater risks associated with litigation, regulatory proceedings and government enforcement actions. In addition, we have incurred significant legal expenses in connection with a securities class action that was filed against us and certain of our directors and officers, which the Court gave final approval of a settlement on December 18, 2018. The Company has also received stockholder demand letters related to the above matters, and the Board has established a Special Litigation Committee to analyze and investigate claims that could be potentially asserted against the Company. Any future investigations or additional lawsuits may adversely affect our business, financial condition, results of operations and cash flows.

We are also subject to claims, investigations and proceedings arising out of the restatement of our previously issued financial results. For additional information regarding this litigation, see Part I, Item 3, "Legal Proceedings" of this Annual Report.

The restatement of our previously issued financial results has resulted in private litigation and could result in private litigation judgments that could have a material adverse impact on our results of operations and financial condition.

We are subject to shareholder litigation relating to the restatement of our previously filed financial statements and to certain of our previous public disclosures. For additional discussion of this litigation, see Part I, Item 3, "Legal Proceedings", of this Annual Report. Our management has been, and may in the future be, required to devote significant time and attention to this litigation, and this and any additional matters that arise could have a material adverse impact on our results of operations and financial condition as well as on our reputation. While we cannot estimate our potential exposure in these matters at this time, we have already incurred significant expense defending this litigation and expect to continue to need to incur significant expense in the defense.

The existence of the litigation may have an adverse effect on our reputation with our clients, which could have an adverse effect on our results of operations and financial condition.

We face risks related to an ongoing Securities and Exchange Commission investigation.

On January 11, 2018, we received a subpoena from the SEC which has since opened a formal investigation relating to, among other things, the Restatement (the "SEC Investigation"). See Part I, Item 3, "Legal Proceedings" of this Annual Report for a discussion of the SEC Investigation. We are cooperating fully with the SEC Investigation. At this point, we are unable to predict what the outcome of the SEC Investigation may be or what, if any, consequences the SEC Investigation may have with respect to the Company or any current or former Company personnel. However, the SEC Investigation could result in considerable legal expenses, divert management's attention from other business concerns and harm our business. If the SEC were to determine that legal violations occurred, we could be required to pay significant civil and/or criminal penalties and/or other amounts and we could become subject to a cease and desist order and/or other remedies or conditions imposed as part of any resolution. We can provide no assurances as to the outcome of the SEC Investigation.

We face risks related to an ongoing investigation by the United States Attorney's Office for the Western District of Texas.

On May 31, 2018, we were 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. We intend 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, we are unable to predict the duration, scope, result or related costs of the U.S. Attorney's Investigation. We are 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.

Our indemnification obligations and limitations of our director and officer liability insurance may have a material adverse effect on our financial condition, results of operations and cash flows.

Under Delaware law, our certificate of incorporation and bylaws and certain indemnification agreements to which we are a party, we have an obligation to indemnify, or we have otherwise agreed to indemnify, certain of our current and former directors and officers with respect to current and future investigations and litigation, including the matters discussed in Part I, Item 3, "Legal Proceedings" of this Annual Report. In connection with some of these pending matters, we are required to, or we have otherwise agreed to, advance, and have advanced, legal fees and related expenses to certain of our current and former directors and officers and expect to continue to do so while these matters are pending. Certain of these obligations are not and may not be "covered matters" under our directors' and officers' liability insurance, or there may be insufficient coverage available. Further, in the event the directors and officers are ultimately determined not to be entitled to indemnification, we may not be able to recover the amounts we previously advanced to them.

In addition, we have incurred significant expenses in connection with the Audit Committee's independent investigation, the pending SEC Investigation, the U.S. Attorney's Investigation and shareholder litigation. We cannot provide any assurances that past or future claims related to those or other matters, including the cost of fees, penalties or other expenses, will not exceed the limits of our insurance policies, that such claims are covered by the terms of our insurance policies or that our insurance carrier will be able to cover our claims. Additionally, to the extent there is coverage of these claims, the insurers also have and may seek to deny or limit coverage in some or all of these matters. Furthermore, the insurers could become insolvent and unable to fulfill their obligation to defend, pay or reimburse us for insured claims. Accordingly, we cannot be sure that claims will not arise that are in excess of the limits of our insurance or that are not covered by the terms of our insurance policy. Due to these coverage limitations, we may incur significant unreimbursed costs to satisfy our indemnification obligations, which may have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate office is in San Antonio, Texas. That office contains approximately 21,000 square feet for which the average annual rent under the current lease is $462,000. This lease expires April 30, 2029. We believe these facilities are suitable for our current business needs and that suitable, additional space would be available if needed in the future under acceptable terms.

Item 3. Legal Proceedings

On October 12, 2018 and November 30, 2018, the Company received letters (the "Litigation Demand Letters") from two stockholders demanding that the Company take action to remedy alleged harm caused to the Company, including to remedy alleged breaches of fiduciary duties by certain current and/or former directors and executive officers of the Company. The stockholders alleged, inter alia, that certain current and former directors and executive officers violated their fiduciary duties beginning at least in July 2016 by engaging in an illegal scheme to misrepresent the Company's performance by falsely reporting accounts receivable, license revenue, total current assets and total assets, total stockholders' equity, and total liabilities for the year ended December 31, 2016, causing the Company to suffer damages by overstating financial results for the fourth quarter of 2016.

The allegations referenced in the Litigation Demand Letters are related to the claims asserted in the securities class action Anthony Giovagnoli v. GlobalSCAPE, Inc., et. Al., Case No. 5:17-cv-00753, previously disclosed in the Company's Current Report on Form 8-K filed on November 15, 2017 (the "Prior Litigation").

On November 7, 2018, a special litigation committee ("Special Litigation Committee") consisting of Dr. Thomas Hicks and Frank Morgan was formed by the Board to analyze and investigate claims asserted in the October 12, 2018 Litigation Demand Letter and, subsequently, the November 30, 2018 Litigation Demand Letter, and consider claims that could potentially be asserted in stockholder derivative litigation related to facts connected to the claims and allegations in the Prior Litigation and the Litigation Demand Letters (the "Potential Derivative Litigation"). The Board charged the Special Litigation Committee with, among other things, determining what actions are appropriate and in the best interests of the Company, and determining whether it is in the best interests of the Company to pursue, dismiss, or consensually resolve any claims that may be asserted in the Potential Derivative Litigation. The Board determined that each member of the Special Litigation Committee is disinterested and independent with respect to the Potential Derivative Litigation. Among other things, the Special Litigation Committee had the power to retain counsel and advisors, as appropriate, to assist it in the investigation, to gather and review relevant documents relating to the claims, to interview persons who may have knowledge of the relevant information, to prepare a report setting forth its conclusions and recommended course of action with respect to the Potential Derivative Litigation, and to take any actions, including, without limitation, directing the filing and prosecution of litigation on behalf of the Company, as the Special Litigation Committee in its sole discretion deems to be in the best interests of the Company in connection with the Potential Derivative Litigation. The Board resolved that the Special Litigation Committee's findings and determinations shall be final and not subject to review by the Board and in all respects shall be binding upon the Company.

Between November 2018 and March 2019, the Special Litigation Committee, with the assistance of outside legal counsel to the Special Litigation Committee, conducted an investigation of the Potential Derivative Litigation.

On March 28, 2019, the Special Litigation Committee reported that it had completed its investigation and delivered its recommendation to the Board that the Company should not pursue the Potential Derivative Litigation because, among other things, it would not be in the best interest of the Company to do so.

On April 18, 2019, outside counsel for the Special Litigation Committee informed the two stockholders that sent the Litigation Demand Letters of the Special Litigation Committee's recommendation and informed the stockholders that the Company would not pursue the Potential Derivative Litigation. The Company is not aware of any subsequent litigation commenced by these two stockholders or any other stockholders concerning claims related to the Potential Derivative Litigation.

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.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the NYSE American Exchange under the symbol "GSB".

Price Range of Common Stock

The following table sets forth the quarterly high and low closing sale prices for our common stock for the last two fiscal years.

	2019		2018	
	High	Low	High	Low
First Quarter (ending March 31)	$ 7.00	$ 4.39	$ 3.73	$ 3.33
Second Quarter (ending June 30)	$ 10.98	$ 6.25	$ 4.18	$ 3.54
Third Quarter (ending September 30)	$ 14.25	$ 8.20	$ 4.08	$ 3.23
Fourth Quarter (ending December 31)	$ 14.14	$ 9.10	$ 4.73	$ 3.88
Annual	$ 14.25	$ 4.39	$ 4.73	$ 3.23

On February 28, 2020, the last reported sales price of our common stock on the NYSE American Exchange was $8.77 per share**.**

Holders

As of February 29, 2020, we had approximately 1,800 stockholders of record of our common stock**.**

Dividends

We paid quarterly dividends of $.015 per share on March 23, 2018, June 22, 2018, and November 5, 2018 to stockholders of record as of the close of business on March 9, 2018, June 8, 2018, and October 22, 2018, respectively. We paid quarterly dividends of $.015 per share on March 25, 2019, August 20, 2019 and December 2, 2019 to stockholders of record as of the close of business on March 11, 2019, August 6, 2019 and November 18, 2019, respectively. We paid a special dividend of $.50 and $3.35 per share on May 28, 2019 and December 5, 2019 to stockholders of record as of the close of business on May 13, 2019 and November 29, 2019, respectively. The timing and amount of dividends to be paid, if any, in subsequent quarters will be determined on future dates by the Board of Directors.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides aggregate information regarding grants under all equity compensation plans of GlobalSCAPE through December 31, 2019.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Available for Future Issuance under Equity Compensation Plans (Excluding securities Reflected in Column (A)
	(A)	(B)	(C)
Equity compensation plans approved by security holders	1,563,784	$ 5.78	2,695,928

Purchases of Equity Securities by the Issuer

On November 18, 2019, the Company announced that its Board of Directors authorized the repurchase of up to $5,000,000 of the Company's outstanding common stock, which is in addition to the approximately $640,000 remaining under the Company's previous authorized repurchase program. Under the stock repurchase programs, the Company may repurchase shares through authorized Rule 10b5-1 plans (which permits the Company to repurchase shares when the Company might otherwise be precluded from doing so under insider trading laws), open market purchases, privately-negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws including Rule 10b-18 of the Exchange Act as amended.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements for the years ended December 31, 2019 and 2018, and related notes included elsewhere in this Annual Report.

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 and serve over 100 companies in the Fortune 500.

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.

Our MFT products are based upon our 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 critical 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 strategic alternatives 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 other alternatives.

For a more comprehensive discussion of the products we sell and the services we offer, see "*Software Products and Services"* above.

Key Business Metrics

Key Business Metrics

We review a number of key business metrics on an ongoing basis to help us monitor our performance and to identify material trends which may affect our business. The significant metrics we review are described below.

Revenue Growth

We 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 Consolidated Statement of Operations for the Years Ended December 31, 2019 and 2018"* 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 Share-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 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 share-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 generally accepted accounting principles ("GAAP"). It should not be considered as a substitute for net income presented on our 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 consolidated financial statements prepared in accordance with GAAP.

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net Income	$ 13,267	$ 3,654
Add (subtract) items to determine Adjusted EBITDA:		
Income tax expense	1,965	1,227
Interest (income) expense, net	265	(86)
Depreciation and amortization:		
Total depreciation and amortization	1,746	2,173
Share-based compensation expense	2,415	1,269
Adjusted EBITDA	$ 19,658	$ 8,237

See "*Comparison of the Consolidated Statement of Operations for the Years Ended December 31, 2019 and 2018*" for discussion of the variances between periods in the components comprising Adjusted EBITDA.

Liquidity and Capital Resources

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

	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 4,702	$ 9,173
Current assets	$ 15,066	$ 17,351
Current liabilities	(22,602)	(15,483)
Working capital	$ (7,536)	$ 1,868

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 clients 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 Years Ended December 31,	
	2019	**2018**
Operating activities	$ 17,339	$ 4,896
Investing activities	$ (1,138)	$ 14,356
Financing activities	$ (20,672)	$ (21,662)

Our cash provided by operating activities increased during 2019 compared to 2018 primarily due to the following factors set forth on our Consolidated Statements of Cash Flows:

- Net income after considering items not involving cash at the time they are recorded in the statement of operations and comprehensive income, as set forth on our Consolidated Statement of Cash Flows, increasing $17.5 million in 2019 as compared to increasing $7.0 million in 2018. See "*Comparison of the Statement of Operations for the Year Ended December 31, 2019 and 2018*" for a discussion of the changes in the components of these amounts.
- Deferred revenue increasing $2,018,000 in 2019 as compared to decreasing $813,000 in 2018 due primarily to increasing the resources dedicated to securing M&S renewals.
- Accrued expenses increasing $384,000 in 2019 as compared to decreasing $457,000 in 2018 due primarily to an increase in personnel related costs in 2019.
- Prepaid expenses and other decreasing $155,000 in 2019 as compared to increasing $216,000 in 2018 due primarily to the reduction in the receivable from our D&O insurance in 2019.
- Accounts payable decreasing $74,000 in 2019 as compared to decreasing $1,080,000 in 2018 due to normal variants in the timing of payments to our vendors.

Offset by:

- Federal income tax receivable increasing $1,907,000 in 2019 as compared to federal income tax payable increasing $970,000 in 2018 due primarily to increased estimated tax payments related to the increase in taxable income.

The amount of cash we used for investing activities during 2019 decreased as compared to 2018 due primarily to:

- The redemption of our certificates of deposit in 2018 for which no comparable event occurred in 2019.

Offset by:

- A decrease in capitalized software development costs due to fewer employed software engineers and technical personnel.

Financing activities used less cash during 2019 than during 2018 primarily due to the funding of our credit facility, a reduction in the purchase of treasury stock related to the Dutch tender offer in 2018 that was not repeated in 2019 and an increase in the proceeds received from the exercise of stock options, offset by the funding of our special dividends and payment of debt issuance costs.

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.

At December 31, 2019, the principal balance outstanding under the term note payable was $49.4 million and the balance of the revolving note payable was zero.

The aggregate maturities of our notes payable, as of December 31, 2019, are as follows: $5.0 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 3.25%. This ratio decreases to 3.0% at September 30, 2020, 2.75% at March 31, 2021 and 2.25% 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 December 31, 2019, this debt service coverage ratio was 2.58.

- We must maintain a Fixed Coverage Charge Ratio of 1.25%. This ratio is defined in the Loan Agreement as the ratio of (a) 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 December 31, 2019, this debt to tangible net worth ratio was 4.01.

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 December 31, 2019, 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 $18.3 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.

Recent Accounting Pronouncements

See Note 2 "Significant Accounting Policies" of our consolidated financial statements included in this Annual Report which includes a discussion of recent accounting pronouncements and the impact they may have on our consolidated financial statements.

Critical Accounting Policies

We follow accounting standards set by the Financial Accounting Standards Board. This board 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 consolidated 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.

For a description of our critical accounting policies, please refer to Note 2 "Significant Accounting Policies" of our consolidated financial statements included in this Annual Report.

Results of Operations

Comparison of the Consolidated Statements of Operations for the Years Ended December 31, 2019 and 2018

	2019	2018	$ Change
		($ in thousands)	
Total revenues	$ 40,343	$ 34,416	$ 5,927
Cost of revenues	6,130	6,236	(106)
Gross profit	34,213	28,180	6,033
Operating expenses			
Sales and marketing	8,331	10,009	(1,678)
General and administrative	7,495	6,382	1,113
Legal & Professional	1,520	4,623	(3,103)
Severance	15	488	(473)
Research and development	1,355	1,883	(528)
Total operating expenses	18,716	23,385	(4,669)
Income from operations	15,497	4,795	10,702
Other income (expense), net	(265)	86	(351)
Provision for income taxes	1,965	1,227	738
Net Income	$ 13,267	$ 3,654	$ 9,613

In the discussions below, we refer to the year ended December 31, 2019 as "2019" and the year ended December 31, 2018 as "2018". The percentage changes cited in our discussions below are the change between 2019 and 2018.

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

	Revenue for the Year Ended December 31,			
	2019		2018	
	Amount	Percent of Total	Amount	Percent of Total
Revenue By Type				
License	$ 11,243	27%	$ 10,512	30%
M&S	26,318	65%	21,587	63%
Professional Services (all EFT Platform)	2,782	7%	2,317	7%
Total Revenue	$ 40,343	100%	$ 34,416	100%
Revenue by Product Line				
License				
EFT Platform	$ 11,036	98%	$ 10,208	97%
Other	207	2%	304	3%
Total License Revenue	11,243	100%	10,512	100%
M&S				
EFT Platform	25,548	97%	20,707	96%
Other	770	3%	880	4%
	26,318	100%	21,587	100%
Professional Services (all EFT Platform)	2,782	100%	2,317	100%
Total Revenue				
EFT Platform	39,366	98%	33,232	97%
Other	977	2%	1,184	3%
	$ 40,343	100%	$ 34,416	100%

Our total revenue increased 17%. Revenue from our EFT platform products and services increased 18%. Revenue from our other products that consist of Mail Express, WAFS, and CuteFTP, decreased to less than 3% of our total revenue, which is a trend that is in line with our 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 increased 8%. This increase was anticipated as a result of a number of changing variables in sales strategy starting in August 2018 which includes expansion within the current client base.

M&S revenue from our EFT platform products increased 23% 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 increased 20% in 2019 as compared to 2018. This increase was primarily due to an increase in software license sales and an expansion of our library of service offerings as well as a focus on selling complete solutions.

Cost of Revenues. These expenses are associated with the production, delivery and support of our products and services. We believe it is most 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 consists primarily of:

- Amortization of capitalized software development costs we incur when producing our software products. This amortization begins when a product is ready for general release to the public 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 subscription solutions for our EFT platform 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 decreased 10% and as a percent of software license revenue was 24% in 2019 compared to 28% in 2018. These decreases were primarily due to a decrease in amortization of capitalized software development costs.

Cost of M&S revenue as a percent of M&S revenue was 9% in 2019 as compared to 10% in 2018. Cost of revenue for M&S in absolute dollars increased by 10%. 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 42% in 2019 as compared to 50% in 2018. The cost in absolute dollars was relatively flat. The variation in percent of revenue resulted from the varying scope and mix of the professional services we deliver that can change from period-to-period in response to the circumstances of the client environments in which we are working.

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 2019 compared to 29% of total revenue for 2018. In absolute dollars these expenses decreased 17%, due primarily to decreased marketing expenses related to a decrease in our spending for content syndication and reduced personnel expenses.

General and Administrative. These expenses increased 17% primarily due to a special bonus paid to employees in December 2019, an increase in share 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. The vesting acceleration of the stock options was pursuant to the terms of the applicable option agreements and the vesting acceleration of the restricted stock grant was approved by the Compensation Committee of the Board of Directors.

Legal and Professional. These expenses decreased 67% primarily due to decreases in professional fees and related expenses associated with the previously disclosed internal investigation, the restatement of certain of our financial statements and related litigation.

Severance. These expenses decreased $473,000 primarily due to fewer one-time severance payments and termination benefits paid in 2019.

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

	Year Ending December 31,	
	2019	**2018**
R&D expense	$ 1,355	$ 1,883
Capitalized software development costs	1,074	1,276
Total resources expensed for R&D	$ 2,430	$ 3,159

Our total R&D expenditures decreased 23% in 2019 as compared to 2018 primarily due to fewer employed software engineers and technical personnel.

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 8 of our financial statements.

Income Taxes. Our effective tax rate was 13% for 2019 and 25% for 2018.

In 2019 our effective rate was lower than the federal statutory rate of 21% primarily due to a tax benefit realized upon the exercise of certain share based awards and the deduction for foreign derived intangible income offset by certain expenses in our consolidated financial statements that are not deductible for federal income tax purposes and state income tax included in income tax expense in our consolidated financial statements.

In 2018 our effective rate was higher than the federal statutory rate primarily due to certain expenses in our consolidated financial statements that are not deductible for federal income tax purposes and state income tax included in income tax expense in our consolidated financial statements offset by the research and development tax credit and the deduction for foreign derived intangible income.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

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Item 8. Financial Statements and Supplementary Data

GlobalSCAPE, Inc.
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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
GlobalSCAPE, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of GlobalSCAPE, Inc. and its subsidiary (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income, stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework* (*2013*) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 16, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of Matter

As discussed in Note 7 to the consolidated financial statements, the Company is involved in litigation and regulatory matters. The Company intends to vigorously defend against these matters. However, at this time, the Company cannot predict the ultimate outcome and/or the scope of any potential loss. Accordingly, no provision for any liability that may result has been made in the consolidated financial statements. Should the Company ultimately be found liable, the resulting outcome could have a material adverse effect on its consolidated financial position, liquidity or the results of its operations. Our opinion is not modified with respect to these matters.

/s/ WEAVER AND TIDWELL LLP

We have served as the Company's auditor since 2017.

Austin, Texas
March 16, 2020

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

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 4,702	$ 9,173
Accounts receivable, net	7,239	6,657
Federal income tax receivable	1,759	-
Prepaid expenses and other	1,366	1,521
Total current assets	15,066	17,351
Capitalized software development costs, net	2,650	3,133
Goodwill	12,712	12,712
Deferred tax asset, net	493	395
Property and equipment, net	274	399
Right of use assets	2,905	-
Other assets	459	502
Total assets	$ 34,559	$ 34,492
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 746	$ 820
Accrued expenses	1,598	1,214
Income tax payable	-	148
Deferred revenue	15,683	13,301
Long term debt, current portion	4,575	-
Total current liabilities	22,602	15,483
Deferred revenue, non-current portion	2,572	2,936
Lease liability	2,900	-
Long term debt, non-current portion	42,745	-
Other long term liabilities	24	117
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, 23,890,890 and 22,441,860 shares issued at December 31, 2019 and December 31, 2018, respectively	24	22
Additional paid-in capital	32,156	25,584
Treasury stock, 5,379,500 and 5,310,942 shares, at cost, at December 31, 2019 and December 31, 2018, respectively	(23,087)	(22,712)
Retained earnings (deficit)	(45,377)	13,062
Total stockholders' equity (deficit)	(36,284)	15,956
Total liabilities and stockholders' equity (deficit)	$ 34,559	$ 34,492

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

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

	For the Year Ended December 31, 2019	2018
Operating revenues:		
Software licenses	$ 11,243	$ 10,512
Maintenance and support	26,318	21,587
Professional services	2,782	2,317
Total revenues	40,343	34,416
Costs of revenues		
Software licenses	2,682	2,978
Maintenance and support	2,292	2,093
Professional services	1,156	1,165
Total costs of revenues	6,130	6,236
Gross Profit	34,213	28,180
Operating expenses		
Sales and marketing	8,331	10,009
General and administrative	7,495	6,382
Legal and Professional	1,520	4,623
Severance	15	488
Research and development	1,355	1,883
Total operating expenses	18,716	23,385
Income from operations	15,497	4,795
Other income (expense):		
Interest expense	(405)	-
Interest income	140	86
Total other income (expense)	(265)	86
Income before income taxes	15,232	4,881
Provision for income taxes	1,965	1,227
Net income	$ 13,267	$ 3,654
Comprehensive income	$ 13,267	$ 3,654
Net income per common share - basic	$ 0.76	$ 0.18
Net income per common share - diluted	$ 0.72	$ 0.17
Weighted average shares outstanding:		
Basic	17,424	20,721
Diluted	18,525	21,017

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

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Deficit)	Total
Balance at December 31, 2017	22,196,712	$ 22	$ 23,793	$ (1,452)	$ 9,353	$ 31,716
Retained Earnings Adjustment due to 606					979	979
Purchase of Treasury Stock				(21,260)		(21,260)
Cancellation of Restricted Stock	(40,000)					
Shares issued upon exercise of stock options	205,148		522			522
Stock-based compensation expense						
Stock options			1,055			1,055
Restricted stock	80,000		214			214
Common stock cash dividends, $0.045 per share					(924)	(924)
Net income					3,654	3,654
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	1,329,030	2	4,602			4,604
Stock option cash settlement			(445)			(445)
Stock-based compensation expense						
Stock options			1,581			1,581
Restricted stock	120,000		834			834
Common stock cash dividends, $3.895 per share					(71,706)	(71,706)
Net income					13,267	13,267
Balance at December 31, 2019	23,890,890	$ 24	$ 32,156	$ (23,087)	$ (45,377)	$ (36,284)

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

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

	For the Year Ended December 31, 2019	2018
Operating Activities:		
Net income	$ 13,267	$ 3,654
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense (recovery)	63	(88)
Depreciation and amortization	1,746	2,173
Stock-based compensation	2,415	1,269
Amortization of debt issuance costs	70	-
Deferred taxes	(98)	(4)
Subtotal before changes in operating assets and liabilities	17,463	7,004
Changes in operating assets and liabilities:		
Accounts receivable	(645)	(644)
Prepaid expenses and other	155	(216)
Federal income taxes	(1,907)	970
Operating lease right-of-use asset	170	-
Other assets	43	191
Accounts payable	(74)	(1,080)
Accrued expenses	384	(457)
Deferred revenues	2,018	(813)
Operating lease liabilities	(175)	-
Other long-term liabilities	(93)	(59)
Net cash provided by operating activities	17,339	4,896
Investing Activities:		
Software development costs	(1,074)	(1,276)
Purchase of property and equipment	(64)	(162)
Redemption of certificates of deposit	-	15,794
Net cash provided by (used in) investing activities	(1,138)	14,356
Financing Activities:		
Proceeds from exercise of stock options	4,604	522
Stock option cash settlement	(445)	-
Credit facility funding	49,646	-
Payment of debt issuance costs	(1,771)	-
Notes payable principal payments	(625)	-
Purchase of treasury stock	(375)	(21,260)
Dividends paid	(71,706)	(924)
Net cash (used in) financing activities	(20,672)	(21,662)
Net increase (decrease) in cash	(4,471)	(2,410)
Cash at beginning of period	9,173	11,583
Cash at end of period	$ 4,702	$ 9,173
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 335	$ -
Income taxes	$ 3,203	$ 253
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 consolidated financial statements.

GlobalSCAPE, Inc.
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

1. Nature of Business

We provide 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.

Throughout these notes, unless otherwise noted, our references to 2019 and 2018 refer to the years ended December 31, 2019 and 2018, respectively.

2. Significant Accounting Policies

Basis of Presentation

We follow accounting standards set by the Financial Accounting Standards Board. This board 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.

Principles of Consolidation

The accompanying consolidated financial statements of GlobalSCAPE, Inc. and its wholly-owned subsidiary (collectively referred to as “GlobalSCAPE”, the “Company” or “we”) 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):

	Year Ended December 31, 2019	2018
Deferred revenue, beginning of period	$ 16,237	$ 17,050
Deferred revenue resulting from new contracts with clients	31,117	21,577
Deferred revenue at the beginning of the period that was amortized to revenue	(24,945)	(20,244)
Deferred revenue arising during the period that was amortized to revenue	(4,154)	(2,146)
Deferred revenue, end of period	$ 18,255	$ 16,237

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 Top 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.

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 consolidated balance sheet.

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):

	Year Ended December 31, 2019	2018
Deferred cost, beginning of period	$ 1,009	$ 1,240
Deferred cost resulting from new contracts with clients	812	674
Deferred cost amortized to expense	(878)	(905)
Deferred cost, end of period	$ 943	$ 1,009

We recorded $577,000 and $571,000 in prepaid and other current assets and $366,000 and $438,000 was recorded in noncurrent other assets in our consolidated balance sheet as of December 31, 2019 and 2018, respectively.

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 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 include 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 December 31, 2019, 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 non-recurring 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 carrying amount of our notes payable, including the current portion, as of December 31, 2019 was $49,375,000. This carrying value 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

Goodwill is not amortized. On at least an annual basis, we test goodwill for impairment at the reporting unit level using December 31 as the measurement date. We operate as a single reporting unit.

When testing goodwill, we first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of our reporting unit is less than its carrying amount, including goodwill. In performing this qualitative assessment, we assess events and circumstances relevant to us including, but not limited to:

- Macroeconomic conditions.
- Industry and market considerations.
- Cost factors and trends for labor and other expenses of operating our business.
- Our overall financial performance and outlook for the future.
- Trends in the quoted market value and trading of our common stock.

In considering these and other factors, we consider the extent to which any adverse events and circumstances identified could affect the comparison of our reporting unit's fair value with its carrying amount. We place more weight on events and circumstances that most affect our reporting unit's fair value or the carrying amount of our net assets. We consider positive and mitigating events and circumstances that may affect our determination of whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount. We evaluate, on the basis of the weight of the evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount.

If, after assessing the totality of these qualitative events and circumstances, we determine it is not more likely than not that the fair value of our reporting unit is less than its carrying amount, we conclude there is no impairment of goodwill and perform no further testing in accordance with GAAP. If we conclude otherwise, we proceed with performing the first step, and if necessary, the second step, of the two-step goodwill impairment test prescribed by GAAP.

As of December 31, 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 or changes in circumstances since that time indicating that the carrying amount of goodwill may exceed its fair market value and that interim testing needed to be performed.

Capitalized Software Development Costs

When we complete research and development for a software product and have in place a program plan and a detail program design or a working model of that software product, we capitalize production costs incurred for that software product from that point forward until it is ready for general release to the public. Thereafter, we amortize capitalized software production costs to expense using the straight-line method over the estimated useful life of that product, which is generally three years. We periodically assess the carrying value of capitalized software development costs 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 $163,000 and $807,000 in 2019 and 2018, respectively.

Share-Based Compensation

We measure the cost of share-based payment transactions at the grant date based on the calculated fair value of the award. We recognize this cost as an expense ratably over the recipient's requisite service period during which that award vests or becomes unrestricted.

For stock option awards, we estimate their fair value at the grant date using the Black-Scholes option-pricing model considering the following factors:

- We estimate expected volatility based on historical volatility of our common stock.
- We use primarily the simplified method to derive an expected term which represents an estimate of the time options are expected to remain outstanding. We use this method because our options are plain-vanilla options, and we believe our historical option exercise experience is not adequately indicative of our future expectations.
- We base the risk-free rate for periods within the contractual life of the option on the U.S. treasury yield curve in effect at the time of grant.
- We estimate a dividend yield based on our historical and expected future dividend payments.

For restricted stock awards, we use the quoted price of our common stock on the grant date as the fair value of the award.

Income Taxes

We account for income taxes using the asset and liability method. We record deferred tax assets and liabilities based on the difference between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes, as measured by the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are carried on the balance sheet with the presumption that they will be realizable in future periods in which we generate taxable income.

We assess the likelihood that deferred tax assets will be realized from future taxable income. Based on this assessment, we provide any necessary valuation allowance on our consolidated balance sheet with a corresponding increase in the tax provision on our statement of operations. Any valuation allowances we establish are determined based upon a number of assumptions, judgments, and estimates, including forecasted earnings, future taxable income, and the relative proportions of revenue and income before taxes in the various domestic jurisdictions in which we operate.

We account for uncertainty in income taxes using a two-step process to determine the amount of tax benefit to be recognized. First, we evaluate the tax position to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed "more-likely-than-not" to be sustained, we assess the tax position to determine the amount of benefit to recognize in the financial statements. The amount of the benefit we recognize is the largest amount that we believe has a greater than 50 percent likelihood of being realized upon ultimate settlement. Unrecognized tax benefits represent tax positions for which reserves have been established.

We record the effects of new tax legislation in the period in which it is signed into law.

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.

Changes in Accounting Methods, Reclassifications and Revisions

As part of our ongoing enhancement and refinement of our financial reporting to fairly present our results of operations and financial position, we may make changes from time-to-time in accounting methods and in the classification and presentation of our business activities in our consolidated financial statements. To ensure comparability between periods, we revise previous period consolidated financial statements presented to conform them to the method of presentation in our current period consolidated financial statements. If the changes increase or decrease previously reported amounts of revenue or expenses, we adjust retained earnings as of the beginning of the earliest period presented for the cumulative effect, if any, on that balance. If these changes affect our financial statements for previously reported interim periods not presented herein, we present revised consolidated financial statements for those periods when they are reported in the future.

Recent accounting pronouncements

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. A public business entity that is an SEC filer is required to adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We expect that the application of the provisions of this update will not have a material effect on our 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 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 2014-09, Revenue from Contracts with Customers (issued May 2014) - The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. We have implemented these new principles using the modified retrospective transition method and recorded an increase (tax effected) to retained earnings at January 1, 2018 of $979,000. We also recorded as an asset deferred expense of approximately $1.2 million. We are accounting for these costs we incur to obtain a contract as follows:

- If these costs are associated with products and services for which we recognize revenue at a 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 these 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 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 will recognize expense ratably each month over that term.
    - o For the portion of the cost that we determine benefits us over an overall customer 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 will recognize expense ratably monthly over the estimated life of the customer relationship.

3. Accounts Receivable, Net

We bill our clients and issue them an invoice when we have delivered our goods or services to them. In addition, when our 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 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 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.

We determine our accounts receivable, net, as follows ($ in thousands):

	December 31, 2019	December 31, 2018
Total invoices issued and unpaid	$ 8,245	$ 7,990
Less: Unpaid invoices relating to M&S contracts with a start date subsequent to the balance sheet date	(906)	(1,233)
Gross accounts receivable	7,339	6,757
Allowance for doubtful accounts	(100)	(100)
Accounts receivable, net	$ 7,239	$ 6,657

The activity in our allowance for doubtful accounts has been as follows ($ in thousands):

	Year Ended December 31, 2019	Year Ended December 31, 2018
Balance, beginning of period	$ 100	$ 278
ASC 606 Adjustment	-	(100)
Provision for doubtful accounts	63	(88)
Accounts written off	(63)	10
Balance, end of period	$ 100	$ 100

4. Property and Equipment, Net

Property and equipment, at cost, and the related accumulated depreciation consist of the following ($ in thousands):

	December 31, 2019	December 31, 2018
Furniture and fixtures	$ 828	$ 835
Software	669	669
Equipment	1,621	1,558
Leasehold improvements	559	559
	3,677	3,621
Less accumulated depreciation	(3,403)	(3,222)
Property and equipment, net	$ 274	$ 399

5. Capitalized Software Development Costs, Net

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

	December 31, 2019	December 31, 2018
Gross capitalized cost	$ 11,529	$ 10,454
Accumulated amortization	(8,879)	(7,321)
Net balance	$ 2,650	$ 3,133

	Year Ended December 31, 2019	Year Ended December 31, 2018
Amount capitalized	$ 1,074	$ 1,276
Amortization expense	$ (1,557)	$ (1,929)

	Released Products	Unreleased Products
Gross capitalized at December 31, 2019	$ 10,255	$ 1,274
Accumulated amortization	(8,879)	-
Net balance	$ 1,376	$ 1,274

Future amortization expense for the year ending December 31,	
2020	$ 1,064
2021	301
2022	11
Total	$ 1,376

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 3 regarding accounts receivable, when our 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 consolidated financial statements. Accordingly, we determine our deferred revenue as follows ($ in thousands):

	December 31	
	2019	2018
Total invoiced for M&S contracts for which revenue will be recognized in future periods	$ 19,161	$ 17,470
Less: Unpaid invoices at December 31 relating to M&S agreements with a start date subsequent to the balance sheet date	(906)	(1,233)
Total deferred revenue at December 31	$ 18,255	$ 16,237
Deferred revenue, current portion	$ 15,683	$ 13,301
Deferred revenue, non-current portion	2,572	2,936
Total deferred revenue	$ 18,255	$ 16,237

7. Commitments and Contingencies

Leases

We have an operating lease related to our office space. Minimum rental commitments under operating leases at December 31, 2019 are as follows ($ in thousands):

Year Ending December 31,	
2020	$ 420
2021	431
2022	442
2023	453
2024	464
Thereafter	2,133
Total	$ 4,343

Rent expense under operating leases was $386,000 and $347,000 in 2019 and 2018, respectively.

Supplemental other information related to leases as of and for the year ended December 31, 2019:

Operating lease cost	$ 386
Weighted-average remaining lease term (years)	9.3
Weighted-average discount rate (%)	5%
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 395

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

On October 12, 2018 and November 30, 2018, the Company received letters (the "Litigation Demand Letters") from two stockholders demanding that the Company take action to remedy alleged harm caused to the Company, including to remedy alleged breaches of fiduciary duties by certain current and/or former directors and executive officers of the Company. The stockholders alleged, inter alia, that certain current and former directors and executive officers violated their fiduciary duties beginning at least in July 2016 by engaging in an illegal scheme to misrepresent the Company's performance by falsely reporting accounts receivable, license revenue, total current assets and total assets, total stockholders' equity, and total liabilities for the year ended December 31, 2016, causing the Company to suffer damages by overstating financial results for the fourth quarter of 2016.

The allegations referenced in the Litigation Demand Letters are related to the claims asserted in the securities class action Anthony Giovagnoli v. GlobalSCAPE, Inc., et. al., Case No. 5:17-cy-00753, previously disclosed in the Company's Current Report on Form 8-K filed on November 15, 2017 (the "Prior Litigation").

On November 7, 2018, a special litigation committee ("Special Litigation Committee") consisting of Dr. Thomas Hicks and Frank Morgan, was formed by the Board to analyze and investigate claims asserted in the October 12, 2018, Litigation Demand Letter and, subsequently, the November 30, 2018 Litigation Demand Letter, and consider claims that could potentially be asserted in stockholder derivative litigation related to facts connected to the claims and allegations in the Prior Litigation and the Litigation Demand Letters (the "Potential Derivative Litigation"). The Board charged the Special Litigation Committee with, among other things, determining what actions are appropriate and in the best interests of the Company, and determining whether it is in the best interests of the Company to pursue, dismiss, or consensually resolve any claims that may be asserted in the Potential Derivative Litigation. The Board determined that each member of the Special Litigation Committee is disinterested and independent with respect to the Potential Derivative Litigation. Among other things, the Special Litigation Committee had the power to retain counsel and advisors, as appropriate, to assist it in the investigation, to gather and review relevant documents relating to the claims, to interview persons who may have knowledge of the relevant information, to prepare a report setting forth its conclusions and recommended course of action with respect to the Potential Derivative Litigation, and to take any actions, including, without limitation, directing the filing and prosecution of litigation on behalf of the Company, as the Special Litigation Committee in its sole discretion deems to be in the best interests of the Company in connection with the Potential Derivative Litigation. The Board resolved that the Special Litigation Committee's findings and determinations shall be final and not subject to review by the Board and in all respects shall be binding upon the Company.

Between November 2018 and March 2019, the Special Litigation Committee, with the assistance of outside legal counsel to the Special Litigation Committee, conducted an investigation of the Potential Derivative Litigation.

On March 28, 2019, the Special Litigation Committee reported that it had completed its investigation and delivered its recommendation to the Board that the Company should not pursue the Potential Derivative Litigation because, among other things, it would not be in the best interest of the Company to do so.

On April 18, 2019, outside counsel for the Special Litigation Committee informed the two stockholders that sent the Litigation Demand Letters of the Special Litigation Committee's recommendation and informed the stockholders that the Company would not pursue the Potential Derivative Litigation. The Company is not aware of any subsequent litigation commenced by these two stockholders or any other stockholders concerning claims related to the Potential Derivative Litigation.

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.

8. 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.

At December 31, 2019, the principal balance outstanding under the term note payable was $49.4 million and the balance of the revolving note payable was zero.

The aggregate maturities of our notes payable, as of December 31, 2019, are as follows: $5.0 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 3.25%. This ratio decreases to 3.0% at September 30, 2020, 2.75% at March 31, 2021 and 2.25% 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 December 31, 2019, this debt service coverage ratio was 2.58.

- We must maintain a Fixed Coverage Charge Ratio of 1.25%. 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 December 31, 2019, this debt to tangible net worth ratio was 4.01.

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 consolidated balance sheet as of December 31, 2019.

	December 31, 2019
Credit facility	$ 49,375
Unamortized debt issuance costs	(2,055)
Total long-term debt	47,320
Less current portion of long-term debt	4,575
Total long-term debt, non-current portion	$ 42,745
Interest rate	5.5%

9. Stock Options, Restricted Stock and Share-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 December 31, 2019, stock-based incentives for up to 80,000 and 2,695,928 shares remained available for issuance in the future under these plans, respectively.

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 the Board of Directors. Our share-based compensation expense was as follows ($ in thousands):

	Year Ended December 31, 2019	Year Ended December 31, 2018
Share-based compensation expense	$ 2,415	$ 1,269

Stock Options

During 2019 and 2018, 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 the Board of Directors.
- The exercise price of stock options is set on the grant date and may not be less than the fair market value per share of our stock at market close on that date.
- Stock options we issue generally become exercisable ratably over a three-year period 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	Weighted Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2017	2,585,210	$ 3.34	6.77	$ 1,015
2018				
Granted	1,052,737	$ 3.87		
Forfeitures	(896,479)	$ 3.58		
Exercised	(205,148)	$ 2.55		
Outstanding at December 31, 2018	2,536,320	$ 3.53	6.97	$ 2,464
2019				
Granted	716,500	$ 8.01		
Forfeitures	(360,006)	$ 2.95		
Exercised	(1,329,030)	$ 3.46		
Outstanding at December 31, 2019	1,563,784	$ 5.78	8.69	$ 6,372
Exercisable at December 31, 2019	348,979	$ 3.92	7.72	$ 2,062

Additional information about our stock options is as follows:

	2019	2018
Weighted average fair value of options granted during the year	$ 3.31	$ 1.57
Intrinsic value of options exercised during the year	$ 10,268,977	$ 266,010
Cash received from stock options exercised during the year	$ 4,604,137	$ 522,189
Number of options that vested during the year	903,390	555,574
Fair value of options that vested during the year	$ 1,435,882	$ 929,480
Unrecognized compensation expense related to non-vested options at end of year	$ 2,621,209	$ 1,874,762
Weighted average years over which non-vested option expense will be recognized	2.83	2.60

Plan	Shares outstanding
2010 Employee LT Equity Incentive Plan	50,638
2016 Employee LT Equity Incentive Plan	1,513,146
Total shares outstanding at December 31, 2019	1,563,784

As of December 31, 2019					
	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Underlying Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Underlying Shares	Weighted Average Exercise Price
$1.43 - $2.35	13,004	2.89	$ 1.75	13,004	$ 1.75
$2.39 - $3.59	227,614	8.14	$ 3.46	75,653	$ 3.31
$3.60 - $5.90	622,666	8.27	$ 4.13	260,322	$ 4.21
$6.83 - $10.40	684,500	9.34	$ 7.98	-	$ -
$10.70 - $13.29	16,000	9.75	$ 12.03	-	$ -
Total options	1,563,784			348,979	

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

	Year Ended December 31,	
	2019	2018
Expected volatility	47%	48%
Expected annual dividend yield	1.5%	1.5%
Risk free rate of return	2.22%	2.88%
Expected option term (years)	6.23	5.33

Restricted Stock Awards

Prior to the fourth quarter of 2019 we issued restricted stock only from the 2015 Directors Plan. During the fourth quarter of 2019, 124,079 shares of restricted stock were granted under the 2016 Employee Plan. Provisions and characteristics of these 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 the 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, which is generally continuing service for one year subsequent to the date 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, 2017	80,000	$ 4.24	
2018			
Shares granted with restrictions	100,000	$ 4.06	
Shares vested and restrictions removed	(80,000)	$ 4.24	$ 297,600
Restricted Shares Outstanding at December 31, 2018	100,000	$ 4.06	
2019			
Shares granted with restrictions	204,079	$ 9.27	
Shares vested and restrictions removed	(120,000)	$ 4.86	$ 1,283,600
Restricted Shares Outstanding at December 31, 2019	184,079	$ 9.32	

At December 31, 2019, we had $1,356,423 of unrecognized compensation expense related to non-vested stock awards. We expect to recognize that expense in the future over a weighted-average period of forty-one months.

10. Income Taxes

The components of our income tax expense (benefit) consist of the following (amounts in thousands):

	2019			2018		
	Current	Deferred	Total	Current	Deferred	Total
Federal	$ 1,685	$ 53	$ 1,738	$ 993	$ (21)	$ 972
State	378	(151)	227	238	17	255
Total	$ 2,063	$ (98)	$ 1,965	$ 1,231	$ (4)	$ 1,227

The difference between income tax expense and the amount computed by applying the federal statutory income tax rate of 21% for 2019 and 2018 to income before income taxes consists of the following (amounts in thousands):

	Year Ended December 31,	
	2019	2018
Income tax expense at federal statutory rate	$ 3,199	$ 1,025
Increase (decrease) in taxes resulting from:		
State taxes, net of federal benefit	128	218
Stock based compensation	(1,585)	182
R&D tax credit uncertain tax position (net)	(89)	(46)
Research and development credit	-	(72)
Executive compensation	461	-
Foreign derived intangible income	(184)	(105)
Other	35	25
Income tax expense per the statement of operations	$ 1,965	$ 1,227

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in our consolidated financial statements. The components of our deferred income tax assets and liabilities are as follows (amounts in thousands):

	As of December 31,	
	2019	2018
Deferred tax assets:		
Deferred revenue	$ 672	$ 809
Right-of-use operating lease asset	609	-
Share-based compensation	200	329
Compensation and benefits	123	49
Texas franchise tax R&D credit	150	194
Allowance for doubtful accounts	37	37
State deferred tax asset	45	45
Tangible assets	24	-
Accrued expenses not deducted for tax	8	6
Valuation allowance	-	(194)
Total deferred tax assets	1,868	1,275
Deferred tax liabilities:		
Right-of-use operating lease liability	610	-
Intangible assets	567	667
Deferred expenses	198	213
Total gross deferred tax liabilities	1,375	880
Net deferred tax assets	$ 493	$ 395

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 December 31, 2019, we have Texas Research and Development tax credit carryforwards of $150,000. These carryforwards expire in years 2034 through 2039.

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows (amounts in thousands):

	2019	2018
Balance, beginning of year	$ 113	$ 158
Increases for tax positions related to the current year	-	-
Increases for tax positions related to prior years	-	2
Decreases for tax positions due to expiring statutes	(89)	(47)
Balance, end of year	$ 24	$ 113

Our unrecognized tax benefit is related to research and development credits taken on our U.S. income tax returns for 2017 and the uncertainty related to the realization of a portion of those credits based on prior experience. We believe it reasonably possible that we will not recognize any of our unrecognized tax benefits at least through December 31, 2021. 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 December 31, 2019, no interest or penalties have been or are required to be accrued. Our open tax years are 2016 and forward for our federal income tax returns and 2015 and forward for most of our state income tax returns. We do not file, and are not required to file, any foreign income tax returns.

11. Earnings Per Share

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

	Year ended December 31, 2019	2018
Numerators		
Numerator for basic and diluted earnings per share:		
Net income	$ 13,267	$ 3,654
Denominators		
Denominators for basic and diluted earnings per share:		
Weighted average shares outstanding - basic	17,424	20,721
Dilutive potential common shares		
Stock options and awards	1,101	296
Denominator for diluted earnings per share	18,525	21,017
Net income per common share - basic	$ 0.76	$ 0.18
Net income per common share – diluted	$ 0.72	$ 0.17

Our weighted average shares outstanding has decreased due to the repurchase of our outstanding common stock through a modified Dutch auction tender offer (the “Tender Offer”) and the stock repurchase program announced on October 29, 2018.

12. Dividends

We paid dividends as follows:

	Year ended December 31, 2019	2018
Normal dividend per share of common stock	$ 0.045	$ 0.045
Special dividend per share of common stock	$ 3.850	$ 0.000

13. Stockholders' Equity

On August 20, 2018, the Company announced the launch of a tender offer to repurchase for cash up to $15 million in value of outstanding shares of our common stock (the "Tender Offer"). The Tender Offer expired on September 19, 2018 and resulted in the purchase of 4,011,013 shares for an aggregate cost of approximately $16.8 million. Included with the shares accepted for purchase were 439,585 shares that the Company elected to purchase pursuant to the right to increase the size of the Tender Offer by up to 2.0% of the Company's outstanding common stock. On October 29, 2018, the Board of Directors authorized a stock repurchase program in compliance with Rules 10b5-1(c)(1)(i)(B) and 10b-18 under the Exchange Act, which resulted in the purchased of an additional 896,348 shares at an approximate cost of $4.0 million.

14. Employee Benefit Plan

We provide our employees a 401(k) plan under which we make employer matching contributions in amounts determined by our Board of Directors. Our matching contributions were $141,000 and $132,000, for 2019 and 2018, respectively.

15. Segment and Geographic Disclosures

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 in the United States accounted for approximately 76% and 74% of our total revenues for 2019 and 2018, respectively. The remaining revenues were from clients and partners located in foreign countries, and each individual foreign country accounted for less than 10% of total revenues in each of those years. We attribute revenue to countries based on the country in which the client or partner is located. We have no property or equipment located outside the United States.

16. Concentration of Business Volume and Credit Risk

Our cash and cash equivalents are on deposit in banks and are collectively insured by the Federal Deposit Insurance Corporation for $750,000. Our balances in excess of that amount are not insured. We may withdraw our cash deposits upon demand. We maintain our cash with multiple financial institutions of reputable credit to minimize our risk of loss.

We generally provide credit to our clients under typical invoice payment terms (for example, net 30) that gives rise to trade accounts receivable from those clients. We do not require collateral from our clients. We perform ongoing evaluations of the credit risk related to offering these payment terms. We provide an allowance for uncollectible accounts based on our historical collections experience and the profile of our accounts receivable.

In order to leverage the resources of third parties, we make our products available for purchase by end users through third-party channel resellers even though those end users can also purchase those products directly from us. During 2019 and 2018, we earned approximately 16% and 14%, respectively, of our revenue from such sales through our largest, third-party, channel reseller.

In 2019 and 2018, approximately 24% and 26%, respectively, of our revenues resulted from sales to clients in foreign countries. We received substantially all of our revenues from foreign clients in U.S. dollars resulting in limited exchange rate risks. Our foreign sales are concentrated mostly in Canada, Western Europe and Latin America.

We use software developers outside the United States to perform a portion of the coding for the development and maintenance of our software products. If we were unable to continue using these developers because of political or economic instability, we may have difficulty finding comparably skilled developers or may have to pay considerably more for the same work, which could have a material adverse impact on our financial position and results of operations.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls are met. No evaluation of controls can provide absolute assurance that the system of controls has operated effectively in all cases. Our disclosure controls and procedures are designed to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

Our management, including our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures and concluded that our disclosure controls and procedures were effective as of December 31, 2019 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC's rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2019 using the criteria set forth in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission . Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by Weaver and Tidwell, L.L.P., an independent registered public accounting firm, as stated in their report included herein.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the annual period covered by this Annual Report and during the subsequent time period through the filing of this Annual Report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
GlobalSCAPE, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited GlobalSCAPE, Inc.'s and its subsidiaries (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework(2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2019 and the related notes (collectively, the consolidated financial statements) and our report dated March 16, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/WEAVER AND TIDWELL LLP

Austin, Texas

March 16, 2020

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to GlobalSCAPE's Proxy Statement for its 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2019.

GlobalSCAPE has adopted a Code of Ethics that applies to all its employees, including its President and Chief Executive Officer and its Chief Financial Officer. GlobalSCAPE will provide a copy of its Code of Ethics to any person without charge upon written request to:

Karen J. Young
Chief Financial Officer
GlobalSCAPE, Inc.
4500 Lockhill-Selma, Suite 150
San Antonio, Texas 78249

Item 11. Executive Compensation

The information required by this item is incorporated by reference to GlobalSCAPE's Proxy Statement for its 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2019.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to GlobalSCAPE's Proxy Statement for its 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2019.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to GlobalSCAPE's Proxy Statement for its 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2019.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference to GlobalSCAPE's Proxy Statement for its 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2019.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements and Schedules

The following financial statements of GlobalSCAPE are included in Item 8:

- Consolidated Balance Sheets — December 31, 2019 and 2018
- Consolidated Statements of Operations and Comprehensive Income — Years ended December 31, 2019 and 2018
- Consolidated Statements of Stockholders' Equity — Years ended December 31, 2019 and 2018
- Consolidated Statements of Cash Flows — Years ended December 31, 2019 and 2018
- Notes to Consolidated Financial Statements — December 31, 2019 and 2018

(2) Schedules not listed above have been omitted because they are not applicable or required, or the information required to be set forth therein is included in the Financial Statements or Notes thereto.

(3) Exhibits

Exhibit Number	Description
3.1	Amended Restated Certificate of Incorporation (Filed as Exhibit 3.1 to Form 8-K filed November 17, 2006).
3.2	Amended and Restated Bylaws of the Company effective as of October 30, 2008 (Filed as Exhibit 3.2 to Form 8-K filed November 5, 2008).
3.3	Amendment No. 1 to the Amended and Restated Bylaws of the Company effective as of August 6, 2019 (filed as Exhibit 3.1 to Form 10-Q filed August 9, 2019).
4.1	Specimen of Stock Certificate (Filed as Exhibit 4.1 to Form 10-K filed April 2, 2001).
4.2	Description of Registered Securities (Filed herewith).
*10.1	1998 Stock Option Plan as amended May 13, 1999 (Filed as Exhibit 4.2 to Form 10 filed May 12, 2000).
*10.2	2000 Stock Option Plan dated May 8, 2000 (Filed as Exhibit 4.3 to Form 10 filed May 12, 2000).
*10.3	Form of 1998 Stock Option Plan Rights Termination Letter Agreement of Directors to Agree Not to Claim Any Right of Adjustment dated February 4, 2000 (Filed as Exhibit 4.6 to Form 10 filed May 12, 2000).
*10.4	Form of 1998 Stock Option Plan Rights Termination Letter Agreement for Employees and Consultants to Cancel Options dated February 8, 2000 (Filed as Exhibit 4.7 to Form 10 filed May 12, 2000).
*10.5	Form of 1998 Stock Option Plan Rights Termination Letter of Officer to Agree Not to Claim Any Right of Adjustment dated February 8, 2000 (Filed as Exhibit 4.8 to Form 10 filed May 12, 2000).
*10.6	Form of 1998 Stock Option Plan Rights Termination Letter Agreement of Officer to Agree Not to Exercise Options dated February 8, 2000 (Filed as Exhibit 4.9 to Form 10 filed May 12, 2000).
*10.7	Form of 1998 Stock Option Plan Reinstatement and Adjustment Letter for Employees dated December 19, 2000 (Filed as Exhibit 10.17 to Annual Report on Form 10-K filed April 2, 2001).
*10.8	Form of Release and Indemnity Agreement between GlobalSCAPE, Inc. and Employees dated December 19, 2000 (Filed as Exhibit 10.18 to Form 10-K filed April 2, 2001).

*10.9	Form of Incentive Stock Option Agreement under GlobalSCAPE, Inc. 2000 Stock Option Plan (Filed as Exhibit 10.21 to Form 10-K filed April 1, 2002).
*10.10	Form of Non-Qualified Stock Option Agreement under the GlobalSCAPE, Inc. 2000 Stock Option Plan (Filed as Exhibit 10.2 to Form 10-Q filed November 13, 2006)
*10.11	GlobalSCAPE, Inc. 2006 Non-Employee Directors Long-Term Equity Incentive Plan (Filed as Exhibit 10.1 to Form 8-K filed June 7, 2007).
*10.12	Form of Non-Statutory Stock Option Agreement under GlobalSCAPE, Inc. 2006 Non-Employee Directors Long-Term Equity Incentive Plan (Filed as Exhibit 10.1 to Form 10-Q filed November 14, 2007).
*10.13	Form of Employment Agreement for Executive Officers at Vice President-level and above (Filed as Exhibit 10.1 to Form 8-K filed August 19, 2009).
*10.14	GlobalSCAPE, Inc. 2010 Employee Long Term Equity Incentive Plan dated June 3, 2010 (Filed as Appendix A to the Definitive Proxy Statement filed April 22, 2010).
*10.15	Form of Non-Qualified Stock Option Agreement under GlobalSCAPE, Inc. 2010 Employee Long-Term Equity Incentive Plan dated June 3, 2010 (Filed as Exhibit 10.1 to Form 8-K filed on February 10, 2015).
*10.16	Form of Employment Agreement dated as of April 1, 2015 by and between GlobalSCAPE and each of Matthew C. Goulet and James W. Albrecht, Jr. (Filed as Exhibit 10.1 to Form 8-K filed on April 1, 2015).
10.17	Form of Indemnification Agreement by and between GlobalSCAPE and each of its directors and named executive officers (Filed as Exhibit 10.1 to Form 8-K filed on May 18, 2015).
*10.18	GlobalSCAPE, Inc. 2015 Non-Employee Directors Long-Term Equity Incentive Plan (Filed as Appendix A to the Definitive Proxy Statement filed April 2, 2015).
*10.19	Form of Restricted Stock Award Agreement pursuant to the GlobalSCAPE, Inc. 2015 Non-Employee Directors Long-Term Equity Incentive Plan (Filed as Exhibit 10.2 to Form 8-K filed on May 18, 2015).
*10.20	Form of Incentive Stock Option Agreement GlobalSCAPE, Inc. 2010 Employee Long-Term Equity Incentive Plan dated June 3, 2010 (Filed as Exhibit 10.1 to Form 8-K filed on February 4, 2016).
10.21	Stock Purchase Agreement dated January 9, 2017 by and between Thomas H Brown, David L. Mann and 210 Capital LLC (filed as Exhibit 10.1 to Form 8-K filed January 9, 2017).
*10.22	Employment Agreement between the Company and Peter S. Merkulov, dated as of October 18, 2017 (filed as Exhibit (d)(2) to Schedule TO-I filed August 22, 2018).
*10.23	Amended and Restated Employment Agreement between the Company and Michael P. Canavan, dated as of April 5, 2019 (filed as Exhibit 10.1 to Form 8-K filed April 5, 2019).
*10.24	Amended and Restated Employment Agreement between the Company and David C. Mello, dated as of April 4, 2019 (filed as Exhibit 10.2 to Form 8-K filed April 4, 2019).
10.25	Severance Agreement and Release of Claims, effective as of August 28, 2018, by and between the Company and Peter Merkulov (filed as Exhibit 10.1 to Form 8-K filed September 4, 2018).
*10.26	GlobalSCAPE, Inc. 2016 Employee Long-Term Equity Incentive Plan (filed as Annex A to Schedule 14A, filed March 31, 2017).
*10.27	Amendment to 2016 Employee Long-Term Equity Incentive Plan (filed as Exhibit 10.1 to Form 8-K filed October 31, 2018).

*10.28	Amended and Restated Employment Agreement between the Company and Karen J. Young, dated as of April 4, 2019 (filed as Exhibit 10.1 to Form 8-K filed April 4, 2019).
*10.29	Employment Agreement between the Company and Robert Alpert, dated as of May 14, 2019 (filed as Exhibit 10.1 to Form 8-K filed May 14, 2019).
*10.30	Credit Agreement, dated November 18, 2019, by and among the Company, the other loan parties party thereto and JPMorgan Chase Bank, N.A. (filed as Exhibit 10.1 to Form 8-K filed November 18, 2019).
*10.31	Amendment and Waiver No. 1 to Credit Agreement, dated January 3, 2020 by and among the Company, the other loan parties party there-to and JPMorgan Chase Bank, N.A. (Filed herewith).
14.1	Code of Ethics (Filed as Exhibit 14.1 to Form 10-K filed March 27, 2008).
21.1	Subsidiaries of GlobalSCAPE, Inc. (Filed as Exhibit 21.1 to Form 10-K filed March 29, 2012).
23.1	Consent of Weaver and Tidwell, L.L.P. (Filed herewith).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
32.1	Certification of Chief Executive and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
101	Interactive Data File.

* Management Compensatory Plan or Agreement

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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, in San Antonio, Texas on March 16, 2020.

GlobalSCAPE, Inc.

By: /s/ Robert H. Alpert
Robert H. Alpert
Chief Executive Officer

Power of Attorney

Each person whose individual signature appears below hereby authorizes and appoints Robert Alpert and Karen Young, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this annual report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on March 16, 2020.

Signature	Title
/s/ Robert H. Alpert Robert H. Alpert	Chief Executive Officer and Director, Chairman (Principal Executive Officer)
/s/ Karen J. Young Karen J. Young	Chief Financial Officer (Principal Finance and Accounting Officer)
/s/ David L. Mann David L. Mann	Director
/s/ Dr. Thomas E. Hicks Dr. Thomas E. Hicks	Director
/s/ C. Clark Webb C. Clark Webb	Director

Exhibit 4.2

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

GlobalSCAPE, Inc. (the "Company") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): its common stock, par value $0.001 per share ("Common Stock"). The following is a summary of the material terms of the Common Stock. This summary is qualified in its entirety by reference to the Company's Amended and Restated Certificate of Incorporation (the "Charter"), and Amended and Restated Bylaws, as amended (the "Bylaws"), which are incorporated herein by reference as Exhibits 3.1, 3.2 and 3.3 to the Company's Annual Report on Form 10-K of which this Exhibit 4.2 is a part. We encourage you to read the Charter, the Bylaws and applicable provisions of the Delaware General Corporation Law (the "DGCL") for additional information.

Description of Common Stock

Authorized Capital Stock

Under our Charter, the total number of shares of all classes of stock that we have authority to issue is 50,000,000, consisting of 40,000,000 shares of our Common Stock and 10,000,000 shares of preferred stock, par value $0.001 per share. As of February 28, 2020, there were 18,709,064 shares of Common Stock outstanding.

Common Stock

Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of Common Stock are entitled to receive such dividends, if any, as may from time to time be declared by our Board of Directors out of funds legally available therefor. Under the terms of our credit facility, we may declare and pay dividends with respect to our Common Stock payable in additional shares of Common Stock or, subject to certain limitations under our credit facility, in cash. Under our Charter, holders of Common Stock are entitled to one vote per share, and are entitled to vote upon such matters and in such manner as may be provided by law. Holders of Common Stock have no preemptive, conversion, redemption or sinking fund rights. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to liquidation, holders of Common Stock, upon the liquidation, dissolution or winding up of the Company, are entitled to share equally and ratably in the assets of the Company. The outstanding shares of Common Stock are fully paid and non-assessable. The rights, preferences and privileges of holders of Common Stock are subject to any series of preferred stock that the Company may authorize and issue in the future.

Stock Exchange Listing

The Common Stock is listed on the NYSE American under the trading symbol "GSB".

Transfer Agent and Registrar

The transfer agent and registrar for the Common Stock is American Stock Transfer & Trust Company.

EXHIBIT 10.31

AMENDMENT AND WAIVER NO. 1 TO CREDIT AGREEMENT

This AMENDMENT AND WAIVER NO. 1 TO CREDIT AGREEMENT, dated as of January 3, 2020 (this "Amendment"), is by and among GLOBALSCAPE, INC., a Delaware corporation (the "Borrower"), the Lenders party hereto, and JPMORGAN CHASE BANK, N.A., as administrative agent for the Lenders (in such capacity, the "Administrative Agent"). Capitalized terms which are used in this Amendment without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement.

RECITALS:

WHEREAS, the Borrower, the Lenders party thereto from time to time, and the Administrative Agent have entered into that certain Credit Agreement, dated as of November 18, 2019 (as amended or modified from time to time, the "Credit Agreement");

WHEREAS, the Borrower acknowledges and agrees that certain Defaults and/or Events of Default under clause (d) of Article VII of the Credit Agreement, as applicable, have occurred in connection with the Closing Date Dividend (the "Subject Defaults");

WHEREAS, the Borrower has requested that the Administrative Agent and the Required Lenders amend the Credit Agreement in certain respects and waive the Subject Defaults; and

WHEREAS, the Administrative Agent and the Required Lenders are willing to amend the Credit Agreement in certain respects and waive the Subject Defaults on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, and subject to the terms and conditions hereof, the parties hereto agree as follows:

SECTION 1. Amendments. Subject to the satisfaction of the conditions precedent set forth in Section 3 hereof, the definition of "Fixed Charges" as set forth in Section 1.01 of the Credit Agreement is hereby amended and restated as follows:

""Fixed Charges" means, for any period, without duplication, cash Interest Expense, *plus* scheduled principal payments on Indebtedness actually made, *plus* expense for taxes paid in cash, *plus* Restricted Payments paid in cash (other than (x) the Closing Date Dividend and (y) the dividend paid by the Borrower on May 28, 2019), all calculated for the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP."

SECTION 2. Waiver. Subject to the satisfaction of the conditions precedent set forth in Section 3 hereof, the Required Lenders waive the Subject Defaults.

SECTION 3. Conditions. This Amendment shall become effective as of the date hereof (the "First Amendment Effective Date") upon receipt by the Administrative Agent of duly executed counterparts to this Amendment from the Borrower and the Required Lenders.

SECTION 4. Representations and Warranties.

4.1 Authorization; Enforceability. This Amendment has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

4.2 No Default; Representations and Warranties in Loan Documents. The Borrower hereby represents and warrants that, after giving effect to this Amendment (a) no Default or Event of Default has occurred and is continuing and (b) each representation and warranty contained in the Credit Agreement and in each Loan Document is true and correct in all material respects as of the date hereof, except to the extent that such representation or warranty expressly relates to an earlier date, in which case, such representation and warranty is true and correct in all material respects as of such earlier date, and that any representation or warranty which is subject to any materiality qualifier shall be required to be true and correct in all respects.

SECTION 5. Ratification and Release.

5.1 Ratification. The Borrower hereby (a) ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, and each grant of security interests and liens in favor of the Administrative Agent or the Lenders, as the case may be, under each Loan Document, (b) agrees and acknowledges that the liens in favor of the Administrative Agent and the Lenders under each Loan Document constitute valid, binding, enforceable and perfected first priority liens and security interests in the Collateral and are not subject to avoidance, disallowance or subordination pursuant to any applicable law, (c) agrees and acknowledges the Obligations constitute legal, valid and binding obligations of such Loan Parties and that (i) no offsets, defenses or counterclaims to the Obligations or any other causes of action with respect to the Obligations or the Loan Documents exist and (ii) no portion of the Obligations is subject to avoidance, disallowance, reduction or subordination pursuant to any applicable law, (d) agrees that such ratification and reaffirmation is not a condition to the continued effectiveness of the Loan Documents, and (e) agrees that neither such ratification and reaffirmation, nor the Administrative Agent's nor any Lender's solicitation of such ratification and reaffirmation, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or reaffirmation from each party to the Credit Agreement or other Loan Documents with respect to any subsequent modifications, consent or waiver with respect to the Credit Agreement or other Loan Documents. The Borrower acknowledges and agrees that any of the Loan Documents to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. The Credit Agreement and each other Loan Document is in all respects hereby ratified and confirmed. This Amendment shall constitute a "Loan Document" for purposes of the Credit Agreement.

5.2 Release; Covenant Not to Sue; Acknowledgement.

(a) Each Loan Party and its Affiliates hereby absolutely and unconditionally releases and forever discharges the Administrative Agent, each Lender and Issuing Bank, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents, representatives and employees of any of the foregoing (each a "Released Party"), from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which any Loan Party has had, now has, has made claim to have or in the future may have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown. It is the intention of each Loan Party and each of its Affiliates in providing this release that the same shall be effective as a bar to each and every claim, demand and cause of action specified. Each Loan Party and its Affiliates acknowledges that it may hereafter discover facts different from or in addition to those now known or believed to be true with respect to such claims, demands, or causes of action and agree that this instrument shall be and remain effective in all respects notwithstanding any such differences or additional facts. Each Loan Party and its Affiliates understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(b) Each Loan Party and its Affiliates, on behalf of itself and its respective successors, assigns, and other legal representatives, hereby absolutely, unconditionally and irrevocably, covenants and agrees with and in favor of each Released Party above that it will not sue (at law, in equity, in any regulatory proceeding or otherwise) any Released Party on the basis of any claim released, remised and discharged by any Loan Party pursuant to the above release. If any Loan Party, any of its Affiliates or any of their respective successors, assigns or other legal representatives violates the foregoing covenant, each Loan Party and its Affiliates, for itself and its respective successors, assigns and legal representatives, agrees to pay, in addition to such other damages as any Released Party may sustain as a result of such violation, all reasonable attorneys' fees and costs incurred by such Released Party as a result of such violation.

(c) Each Loan Party hereby represents and warrants that, to its knowledge, there are no liabilities, claims, suits, debts, liens, losses, causes of action, demands, rights, damages or costs, or expenses of any kind, character or nature whatsoever, known or unknown, fixed or contingent, which any Loan Party may have or claim to have against any Released Party arising with respect to the Obligations, the Credit Agreement or any other Loan Documents.

SECTION 6. Miscellaneous.

6.1 Effect.

(a) Upon the effectiveness of this Amendment, each reference in each Loan Document to "this Agreement," "hereunder," "hereof" or words of like import shall mean and be a reference to such Loan Document as modified hereby and each reference in the other Loan Documents to the Credit Agreement, "thereunder," "thereof," or words of like import shall mean and be a reference to the Credit Agreement and as modified hereby. This Amendment constitutes a Loan Document and any breach of any representation or warranty made herein or covenant or agreement contained herein will constitute an Event of Default under the Credit Agreement (subject to any applicable grace periods, materiality qualifications or other qualifications set forth in the Credit Agreement).

(b) Except as specifically set forth in this Amendment, the execution, delivery and effectiveness of this Amendment shall not (i) limit, impair, constitute an amendment, forbearance or waiver by, or otherwise affect any right, power or remedy of, Agent or any Lender under the Credit Agreement or any other Loan Document or waive, affect or diminish any right of Agent to demand strict compliance and performance therewith, (ii) constitute a waiver of, or forbearance with respect to, any Default or Event of Default, whether known or unknown or (iii) alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or in any of the other Loan Documents, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

6.2 Severability. Any provision of this Amendment or any other Loan Document held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

6.3 Counterparts. This Amendment may be executed in one or more counterparts, each of which shall constitute an original, but all of which taken together shall be one and the same instrument. This Amendment may also be executed by facsimile or electronic transmission and each facsimile or electronic transmission signature hereto shall be deemed for all purposes to be an original signatory page.

6.4 Governing Law. This Amendment shall be governed by and construed in accordance with the internal laws of the State of New York, but giving effect to federal laws applicable to national banks.

6.5 Headings. Article and Section headings used herein are for convenience of reference only, are not part of this Amendment and shall not affect the construction of, or be taken into consideration in interpreting, this Amendment.

6.6 Reimbursement of Agent's Expenses. Without limiting any of the Administrative Agent's rights, or any of Borrower's or other Loan Party's obligations, under Section 9.03 of the Credit Agreement, the Loan Parties agree to reimburse the Administrative Agent for all reasonable and documented out of pocket expenses incurred by the Administrative Agent and its Affiliates in connection with entering into this Amendment and the other Loan Documents entered into in connection herewith.

6.7 Entire Agreement. This Amendment contains the final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof and shall constitute the entire agreement among the parties hereto with respect to the subject matter hereof superseding all prior oral or written understandings or agreements.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (No. 333-61180, No. 333-61160, No. 333-145771, No. 333-168871, No. 333-204163, and No. 333-226758) on Form S-8 and the Registration Statement (No. 333-228449) on Form S-3 of GlobalSCAPE, Inc., of our reports dated March 16, 2020, relating to our audits of the consolidated financial statements and the effectiveness of internal control over financial reporting, which appear in this Annual Report on Form 10-K of GlobalSCAPE, Inc. for the year ended December 31, 2019.

/s/ WEAVER AND TIDWELL LLP
Austin, Texas
March 16, 2020

EXHIBIT 31.1

CERTIFICATIONS

I, Robert H. Alpert, certify that:

1. I have reviewed this annual report on Form 10-K of GlobalSCAPE, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 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 our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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 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 year 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: March 16, 2020

/s/Robert H. Alpert
Robert H. Alpert
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Karen J. Young, certify that:

1. I have reviewed this annual report on Form 10-K of GlobalSCAPE, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 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 our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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 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 year 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: March 16, 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 Annual Report of GlobalSCAPE, Inc. on Form 10-K for the period ending December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert H. Alpert, 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.

March 16, 2020

/s/ Robert H. Alpert
Robert H. Alpert
Chief Executive Officer

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