

GlobalSCAPE
Moderator: Mendy Marsh
November 10, 2009
3:30 pm CT

Operator Good afternoon. My name is Eliza and I will be your conference operator today. At this time I would like to welcome everyone to the GlobalSCAPE third quarter earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. If you would like to ask a questions during this time simply press star then the number 1 on your telephone keypad. If you would like to withdraw your question press the pound key. Thank you. Ms. Marsh you may begin your conference.

Mendy Thank you, Eliza.

Good afternoon. Thank you for joining our earnings call today. This is Mendy Marsh, Chief Financial Officer for GlobalSCAPE. Joining me on the call this afternoon are Jim Morris, GlobalSCAPE's President and CEO and Craig Robinson, GlobalSCAPE's COO.

Before we begin I would like to remind everyone that today's call- including the question and answer session, may include forward-looking statements regarding expected revenue, earnings per share, future plans, opportunities, and expectations of the company.

These estimates and plans, and other forward-looking statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied on the call. These risks are detailed in the Company's Form 10-K released on March 31, 2009 and in other statements made by the Company. The statements included in this conference call were based upon information known to GlobalSCAPE as of the date of this call and GlobalSCAPE assumes no obligation to update the information contained in this call.

With those Safe Harbor statements presented, I'll continue with summarizing our financial results for the third quarter, ended September 30th.

As covered in our press release today, our revenue for Q3 increased to approximately 4.3 million dollars as compared with 3.7 million in the same quarter of 2008, representing an increase of 15 percent.

Our Maintenance and Support (or M&S) revenues, increased by 36 percent To approximately 1.7 million, compared with 1.2 million in the third quarter of 2008.

Our continued increase in M&S revenues reflects strong customer satisfaction with our solutions and increased renewals of M&S contracts compared to prior quarters. These deferred M&S revenues provide us with a healthy stream of recurring income.

Net income for Q3 was approximately 576 thousand dollars or 3 cents per diluted share. This compares with net income of approximately 227 thousand dollars, or 1 cent per diluted share, in the third quarter of 2008.

We are pleased to note that our net income for Q3 exceeds, by over 150 percent, our net income for the same period in 2008. Our net income of \$1.3 million for the nine months ended September 30 is a 90 percent increase compared with the same 9 month period in 2008.

We continue to closely manage costs, keeping operating expenses within 1 percent of the prior year.

We therefore continued to add to our very strong cash position and ended Q3 with a strong balance sheet.

Our cash on hand along with short term investments was 10.1 million at the end of the third quarter, a 60 percent increase from the beginning of the year, and we have no long-term debt.

In closing, our revenue, earnings, and cash, position us to continue making sound business investments in 2009 in accordance with our business strategy.

At this point, I'd like to turn the call over to Jim Morris. After Jim's comments, we will then open up the lines for questions and answers. Jim?

Jim

Thank you, Mendy, and good afternoon everyone. I'm pleased to have this opportunity to speak with you.

Mendy has summarized our very strong financial performance during this third quarter.

As mentioned in our press release this afternoon, we have continued to execute our strategy of growth through partnerships, certifications, product improvements, and continued introduction of new products.

Through our partnerships, including the one with nuBridges announced in July, we have expanded our market reach from managed file transfer, or MFT, into security of data at rest. We are encouraged with the potential of this new partnership and are receiving many customer invitations to explore their data at rest requirements mapped to the nuBridges product line.

In addition, as previously announced in September, we also have formally registered as a small business with the government organizations throughout the Department of Defense and directly with large system integrator companies (such as Northrop Grumman, SAIC, EDS, Accenture, and ManTech) in the federal market.

These registrations will allow us increased opportunities to participate in federal government programs oriented toward increasing small business revenue share in government contracts, in fact we have already leveraged this small business registration with recent contract awards from the Veterans Administration and the United States Navy.

We are often asked about our plans for the future. As a publicly traded company, we are mindful of the need to communicate clearly, without giving our competitors the advance notice we believe they seek through these earnings calls and other public releases.

With this in mind, let me now put our recent significant accomplishments into context and outline our vision for the future.

First, our certifications, validations, and awards reflect our corporate strength on multiple fronts.

We build solutions that work. As we noted in our press release today, our service call volumes are declining and we maintain an extremely high level of customer satisfaction – in excess of 98 percent.

The government has certified our solutions as being secure, trusted, interoperable, and scalable.

We have numerous, independent industry certifications and validations that give our commercial customers and prospects additional confidence in our solutions.

And, we have assembled a tremendous leadership team, and our people are highly motivated and excited to be part of the GlobalSCAPE team.

Second, we have multiple partnerships, contract vehicles, and small business registrations that increase our long-term ability to grow our business.

The number and variety of our partnerships is at an all-time high.

We have multiple partner and channel sales initiatives underway internally.

While the sales cycle typically can span multiple months or quarters, our deeper market reach through these partnerships gives us great confidence in our future growth prospects.

Third, our financial strength allows us to continue investing in research and development, and in our people and engineering processes.

Today's press release mentioned that we have an internal product roadmap extending into 2011.

Without getting into specific details, I will mention a few things about our roadmap.

First, we intend to continue delivering upgrades and enhancements to our Enhanced File Transfer Server and Wide Area Files Services (or WAFS) solutions.

Enhanced File Transfer Server represents over 70 percent of our revenue and has multiple add-on modules that allow customers and prospects to implement capabilities driven by their unique business needs.

We intend to continue development of this solution set as necessary to meet increased customer demand in this area.

Our current WAFS solution is our most stable product ever. Improvements to this solution have been a major driver in our reduced service call volume. We intend to continue delivery of performance enhancements to this product line and will showcase its improved capabilities at AutoDesk University in Las Vegas in early December.

Sales of our consumer product line, specifically CuteFTP, have continued to decline in recent years.

We will consider new, improved consumer products as part of our product roadmap to ensure that we continue to leverage our considerable consumer customer base and market reach.

We have over 1 million consumer licenses sold, and significantly more than that issued in the form of trials and maintenance upgrades.

This represents an enormous install base worldwide, name recognition and considerable market for future development.

Finally, our roadmap considers potential adjacent markets for us to enter. The phases and gates presented in our roadmap development process allow us to consider potential new markets and investments on an ongoing basis – and we are doing so.

From our current position of strength, our vision for the future includes growing both our revenue and earnings, as we have done so in the recent past.

We have a very strong base from which to build toward our vision.

Gartner Group recognized GlobalSCAPE, for the second year in as a leader in the managed file transfer market.

This continued recognition is an independent proof point of the success of our transformation from less than a \$5 million dollars in revenue company in 2004 to an enterprise leader with approximately \$16 million in annual revenue today with more than 85 percent of that revenue derived from our non-consumer solutions.

We are proactively considering strategic opportunities for organic and non-organic growth in our current and prospective markets.

We also evaluate all potentially viable opportunities as they are presented to us, and address them as appropriate in the context of our long term vision, strategy, and roadmap.

In September, we met with institutional investors and analysts in New York and New Jersey. We highlighted our accomplishments and began positioning our vision. The feedback was positive. The consistent feedback we received was to keep executing and growing our business, which we have, quarter over quarter, year over year.

We also participated in our second America's Growth Capital conference last month in Boston and conducted multiple briefings.

Again, the feedback was positive, and we already have scheduled a third set of meetings for institutional investors and analysts in December in San Francisco.

There is a lot of interest in GlobalSCAPE, and these are exciting times. We appreciate the trust and support of our shareholders, and we are very pleased to have had this opportunity to give you our perspective on our market strength and to outline our vision for the future.

In addition, I want to thank the GlobalSCAPE team for their hard work to make these results possible.

Our strategy is sound and proven itself in our performance year to date, and most recently in our tremendous third quarter performance.

We believe continuing to execute our strategy will serve our shareholders well in the coming quarters.

Finally, tomorrow is Veterans Day. GlobalSCAPE wishes to thank our men and women in uniform that have and continue to serve our nation. That concludes our prepared remarks. Eliza at this time, please open the call for questions.

Q &A Session

Mendy

Thank you Eliza and thank all of you for joining our earnings call today. We intend to publish the transcript of this earnings call, along with the recorded version, on our Investor Relations page for 30 days from today. We look forward to continuing our dialog in future calls.