

GlobalSCAPE

Moderator: Mendy Marsh
August 12, 2010
3:30 p.m. CT

Operator: Good afternoon. My name is Jason and I will be your conference operator today. At this time I would like to welcome everyone to the second quarter earnings conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks there will be a question and answer session.

If you would like to ask a question during this time simply press star then the number one on your telephone keypad. Participants will be limited to two questions each time you come into queue. If you would like to withdraw your question press the pound key.

Thank you. I will now turn the call over to Ms. Mendy Marsh, Chief Financial Officer. Ma'am, you may begin.

Mendy Marsh: Thank you, Jason. 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 is Jim Morris, GlobalSCAPE's President & CEO.

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 release on March 30, 2010, 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 quarter ended June 30th.

As covered in our press release today, our revenue for Q2 increased to approximately \$4.5 million as compared with \$4.7 million in the same quarter of 2009, representing a decrease of six percent. Compared to revenue for the first quarter of 2010 of 4.4 million, our Q2 revenue increased one percent.

Maintenance and support revenues increased to approximately 1.9 million in the second quarter of 2010, a 23 percent increase when compared to the second quarter 2009 (NNS) revenues of 1.5 million. Maintenance and support represented 42 percent of our Q2 total revenue. This continued increase in maintenance and support is notable because these sales provide a baseline of revenue that is regularly recurring with little work so our sales team can concentrate on bringing in new customers and larger deals.

Net income for Q2 was approximately \$134,000 or one cent per diluted share. This compares with net income of approximately \$943,000 or five cents per diluted share in 2009. Both revenues and net income in the second quarter of 2009 were positively impacted by a single large order from the U.S. Army of which approximately one million was recognized in revenue.

Operating expenses increased 13 percent from the second quarter of 2009, and 11 percent from the first quarter of 2010. The majority of the increase is in royalties which are based on sales, with the remaining increase in SG&A and R&D costs. We have hired additional employees and made certain investments that are helping drive revenue growth in this year and into 2011.

We anticipate that SG&A expenses will continue to increase in terms of dollars through the remainder of 2010. However, they will decline as a percentage of revenues. Our cash on hand along with short-term investments was 9.1 million at the end of second quarter, a 15 percent increase from the end of 2009.

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 Morris: Thank you, Mendy. And good afternoon everyone. As Mendy mentioned, our Q2 earnings, revenue, and cash continued to track with our previous statements and expectations. On our last two earnings calls I stated that Q2 revenue would be in the same range as our Q4 2009, and Q1 2010 results, or 4.2 million to 4.4 million. We have exceeded this expectation by delivering \$4.5 million in Q2 revenue.

I am very pleased with our revenue for the quarter. The April 2009 Army order contributed over \$1 million to our Q2 2009 revenue. Year-to-date, even including the Army order of last year, we are running in front of our 2009 revenue at mid-year. We have almost \$8.9 million in revenue at the end of Q2, compared with just under \$8 million at the same point last year.

The net result is we're up almost \$2 million in core revenue through the end of Q2, including being up almost \$1 million in Q2 alone. As previously stated, including at our annual shareholders meeting in June, we continue to focus on financial discipline as we make strategic investments to grow the business this year and in future years.

Our investments include attracting and hiring proven executives, like Bill Buie and Mark Perry. Plus other investments in personnel, product improvement, partnerships, and business development and sales activities necessary to take GlobalSCAPE to the next level. We are managing the bottom line, as shown in our positive earnings, but earnings per share is very much secondary this year to business development and future revenue growth. And, comparisons to last year must consider the single Army order in Q2 of '09.

We are managing to positive earnings per share, i.e. not planning on any losses. But you must realize that we are sustaining our investments, which are bearing fruit in the form of increased sales, industry recognition, and shareholder value. Our cash position also reflects our strong financial discipline. Cash and short-term investments grew to \$9.5 million at the end of

Q2, an increase of four percent from the prior quarter, and grew 15 percent year-to-date.

Our proven and sustained ability to generate cash provides a source of funds for potential acquisitions, strategic investments, such as the one we made last year in CoreTrace, and other growth initiatives which can be funded within operating expenses. Overall our continued growth in cash is a clear indicator of running a good business.

We have excellent financials. And to be very clear, this contrasts with many of our competitor's financial health. For the remainder of the call I will discuss key developments during the second quarter, addressing partnerships, industry visibility and recognition, building our executive team, and enterprise sales. I will conclude with my perspective for the remainder of 2010.

In the area of key developments partnerships, Rackspace hosting, we announced our partnership in June, and our first offering went to market in July. We entered into a partner agreement with Rackspace, a world leader in hosting and cloud computing with over 100,000-plus customers.

Through the Rackspace infrastructure, we will deliver cloud-based managed file transfer solutions for the secure exchange of business-to-business data including large files and sensitive information. Our initial offering, GlobalSCAPE's managed information exchange with an X or MIX provides a managed hosted offering of our established enhanced file transfer server product line.

This will allow customers to outsource all or part of their complex and demanding information exchange needs. It reduces cost, improves operational effectiveness, tracks and audits transactions, and provides a greater level of security. As announced this week we hired Mark Perry to lead our new managed solutions business, and Mark is well known to us, and is a highly regarded industry information technology and security executive.

We have a pipeline of business for the MIX offering, and expect to see our first revenue in the next 45 days. And we have significant pipeline growth

heading into 2011. We continue to examine other partnership opportunities. Product sales, resellers, and distributor relationships. We have entered, and will continue to enter adjacent spaces and markets, and expand and deepen our ability to serve customers worldwide to include the global 2000.

These partnerships are important. It extends our market footprint with partners that have existing customer relationships that are interesting to us. It lowers our overall cost of sales and entry into these markets and territories. And potentially provides one-plus-one-equals three synergistic growth for both us and our partners.

We continue to increase our industry visibility. In June we were added to the Russell Microcap Index. This means automatic inclusion in the appropriate growth and value style indexes. Russell indexes are widely used by investment managers and institutional investors for index funds, and as benchmarks for both passive and active investment strategies.

Inclusion in the Russell Index could benefit our shareholders by increasing the visibility and awareness of GlobalSCAPE with institutional investors, and the broader investment community. We continue to provide analyst briefings, and continue to conduct and exchange information with technology analysts such as Gardner, Aberdeen, Forrester, and others. This is where we introduce GlobalSCAPE and describe our market position and our momentum.

Other key developments forthcoming are investor conferences. We will be presenting at three investor conferences before the end of the year. The Rodman & Renshaw in New York next month, America's Growth Capital in Boston in October, and LD Micro in Los Angeles in December.

This is a great opportunity to get in front of institutional and high net worth investors. Previous conferences have led to increased interest in GlobalSCAPE as shown by new investors buying into our stock.

Our outlook: we intend to continue our analyst and investor outreach to include a pending non-deal road show this fall to as many as seven cities coast-to-coast. The GlobalSCAPE story is compelling. People in institutions are increasingly paying attention.

In the area of industry recognition in April, we were selected as one of the best places to work by the "San Antonio Business Journal". This award honors companies with the best workplaces in the greater San Antonio area. In June, we were chosen as a 2010 best places to work in information technology, an honoree by IDG's Computer World.

Each year, Computer World selects the top 100 environments for technology professionals. The organizations selected are those that challenge their IT staffs with exciting projects, offer them access to, and training with, today's hottest technology and provide great benefits and compensation.

These industry awards demonstrate GlobalSCAPE's continuing commitment to establish and maintain a great work environment that allows us to attract and retain the best and brightest people which are our most important asset.

We are excited to have Bill Buie join our executive team during Q2. Bill is a former Fujitsu, Symantec, and IBM executive with 30 years experience as an established sales and marketing professional. Bill has a very strong and proven track record of increasing sales, both direct and through the channel.

Earlier this week we also announced that Mark Perry has joined our executive team. We'll have more to say about Mark and the managed solutions business in our next earnings call. It's important to note: most new initiatives take time to develop and to be put into operation. We are making substantial progress and our sales and reseller capabilities contribute to my very positive perspective for the remainder of the year.

In the area of enterprise sales. Enterprise sales continue to represent greater than 90 percent of our product and maintenance and support revenue. Our average deal size is increasing as more enterprises are buying our products. Customers continue to renew their maintenance and support contracts, approximately a 90 percent renewal rate. And, we sold our enterprise solutions into approximately 50 countries in quarter two alone.

Global sales provide a basis for additional partnerships and channel development which we are doing. And we will continue to work on growing

our channel sales programs as a priority this year and in future quarters. Expectations for the remainder of 2010. Grow revenue in the second half of the year while being profitable. We have a strong roadmap that has delivered new and improved solutions.

In Q1 we announced our multi-platform DMZ Gateway replacing the previous Windows-only version. In Q2 we announced additional details of a partnership with Rackspace and a MIX offering that takes us into the cloud. Just yesterday we announced our next generation Mail Express solution 3.0, which allows Microsoft e-mail users to send and receive large files on demand, removing a widely recognized e-mail infrastructure constraint on attachment size.

Users can simply and transparently send sensitive and large files now up to 25 gigs without resorting to unapproved and potentially non-secure methods such as USB drives and social media. We are working on additional partnerships which will be announced soon. With our current momentum, we believe Q3 revenue could show additional growth over Q2 with revenue growth accelerating in Q4 with our new products and partners.

From an annual revenue perspective, I believe we will set a new high water mark for revenue this year.

Profitability, as I mentioned earlier in the call, we continue to manage our expenditures closely. But we will continue to make sound investments for our future. Some say it takes money to make money.

We intend to continue delivering positive earnings per share, but do recognize clearly that top line revenue growth is much more important to GlobalSCAPE at this point in time than delivering earnings per share at past historical and pre-investment levels. We have plenty of cash, and are generating more on a sustained basis. We are in a very strong position to internally finance our growth initiatives within our operating expenses.

We continue our thought leadership. We are leveraging our managed file transfer technology. We have gone to cloud computing, and information security and cyber security are our core competencies. Reaching more senior

level executive audiences, chief information officers, chief financial officers, and chief information security officers for both commercial and government clients to be able to tell our story and gain traction in the market.

Continue to focus on financial and industry analyst's relationships, which are essential to obtaining recognition for GlobalSCAPE and getting recommendations from them to help expand our business.

Our increased revenue, exciting new solutions, and key partnerships will provide the basis for increased coverage. As I mentioned on the last call, current analyst feedback from bankers is we are doing all the right things to position the company for growth, and for increased analyst attention.

As our financial performance continues to grow, it should attract a broader universe of qualified investors. In conclusion, as always I thank all of you for your continued support. If you have not done so already, please visit our web site and sign up for investor communications mailing list. I also encourage you to visit our web site often, and read our blog post for our latest perspectives.

This concludes our prepared remarks. Mendy?

Mendy Marsh: All right. Thank you, Jason. 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.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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