

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF TEXAS
SAN ANTONIO DIVISION

ANTHONY GIOVAGNOLI, Individually
and On Behalf of All Others Similarly
Situated,

Plaintiff,

v.

GLOBALSCAPE, INC., MATTHEW C.
GOULET, and JAMES W. ALBRECHT,
JR.,

Defendants.

Case No. 5:17-cv-00753

JURY TRIAL DEMANDED

CLASS ACTION

COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS

Plaintiff Anthony Giovagnoli (“Plaintiff”), by and through his attorneys, alleges upon personal knowledge as to himself, and upon information and belief as to all other matters, based upon the investigation conducted by and through his attorneys, which included, among other things, a review of documents filed by Defendants (as defined below) with the United States Securities and Exchange Commission (the “SEC”), conference call transcripts, news reports, press releases issued by Defendants, and other publicly available documents, as follows:

NATURE AND SUMMARY OF THE ACTION

1. This is a federal securities class action on behalf of all investors who purchased or otherwise acquired Defendant GlobalSCAPE, Inc. (“Global” or the “Company”) common stock between January 26, 2017 through August 7, 2017 inclusive (the “Class Period”). This action is brought on behalf of the Class for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”), 15 U.S.C. §§ 78j(b) and 78t(a) and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5.

2. Global develops and sell computer software that provides secure information exchange, file transfer and file sharing capabilities for enterprises and consumers. Its primary business is the sale and support of managed file transfer software ("MFT") for enterprises.

3. On August 7, 2017, after trading had closed, Global disclosed that its audit committee "has been conducting an investigation into certain transactions in the fourth quarter of 2016 involving improper arrangements with customers that circumvented the Company's internal controls and their potential effect on previously reported revenue." The Company further disclosed that it "intends to effect a restatement of its previously issued financial statements through filing an amended Annual Report on Form 10-K for the year ended December 31, 2016 and an amended Quarterly Report on Form 10-Q for the quarter ended March 31, 2017."

4. On this news, Global's share price fell 17.66% to close at \$3.87 on August 8, 2017, causing millions in losses to investors.

5. Throughout the Class Period, Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that (i) Global overstated the reported amounts of accounts receivable as of December 31, 2016, and license revenue for the three months and year ended December 31, 2016, by approximately \$403,000 and \$396,000, respectively, resulting in the overstatement of the Company's revenues for those periods by the same amounts; (ii) the Company's total current assets and total assets were overstated by \$292,000; (iii) the Company's total stockholder equity and total liabilities and stockholders' equity were overstated by \$217,000 and \$292,000, respectively; (iv) the Company lacked adequate internal controls over financial reporting; and

(v) that as a result of the foregoing, Global's publicly disseminated financial statements were materially false and misleading.

JURISDICTION AND VENUE

6. The federal law claims asserted herein arise under §§ 10(b) and 20(a) of the Exchange Act, 15 U.S.C. § 78j(b) and 78t(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5.

7. This Court has subject matter jurisdiction over this action pursuant to 28 U.S.C. §1331 and § 27 of the Exchange Act, 15 U.S.C. § 78aa.

8. This Court has jurisdiction over each Defendant named herein because each Defendant is an individual or corporation who has sufficient minimum contacts with this District so as to render the exercise of jurisdiction by the District Court permissible under traditional notions of fair play and substantial justice.

9. Venue is proper in this District pursuant to § 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1931(b), as the Company has its principal executive offices located in this District and conducts substantial business here. Additionally, many of the acts and practices complained of herein occurred in substantial part in this District, and witnesses and individual defendants are located in here.

10. In connection with the acts, omissions, conduct and other wrongs in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce including but not limited to the United States mail, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

11. Plaintiff Anthony Giovagnoli was a shareholder of Global during the Class Period. As set forth in the accompanying certification, incorporated by reference herein, Plaintiff

acquired and held shares of the Company at artificially inflated prices during the Class Period and has been damaged by the revelation of the Company's material misrepresentations and material omissions.

12. Defendant GlobalSCAPE, Inc. is a Delaware corporation with its principal place executive offices located at 4500 Lockhill Selma Road, Suite 150, San Antonio, Texas 78249. Global primary business is the sale and support of managed file transfer software ("MFT") for enterprises. These software and services include the sale of perpetual software licenses, providing products under software-as-a-service, or SaaS, subscriptions, providing maintenance and support services, or M&S, and offering professional services for product customization and integration. The Company trades on the NYSE MKT exchange under the ticker symbol "GSB."

13. Defendant James W. Albrecht, Jr. ("Albrecht") has served at all relevant times as Global's Chief Financial Officer, Executive Vice President, and Treasurer.

14. Defendant Matthew C. Goulet ("Goulet") has served at all relevant times as Global's Chief Executive Officer.

15. Collectively, Albrecht and Goulet are referred to throughout this complaint as the "Individual Defendants."

16. The Individual Defendants, because of their positions at the Company, possessed the power and authority to control the content and form of the Company's annual reports, quarterly reports, press releases, investor presentations, and other materials provided to the SEC, securities analysts, money and portfolio managers and investors, *i.e.*, the market. The Individual Defendants authorized the publication of the documents, presentations, and materials alleged herein to be misleading prior to its issuance and had the ability and opportunity to prevent the issuance of these false statements or to cause them to be corrected. Because of their positions

within the Company and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were false and misleading. The Individual Defendants are liable for the false statements pleaded herein.

SUBSTANTIVE ALLEGATIONS

A. *Materially False And Misleading Statements Made During the Class Period*

17. The Class Period begins on January 26, 2017. On that day, Global issued a press release and filed the same on Form 8-K with the SEC, entitled “GlobalSCAPE, Inc. Announces Financial Results for the Fourth Quarter and Fiscal 2016,” summarizing the financial and operating results for the period ended December 31, 2016. In pertinent part, the Company’s January 26, 2017 press release provided:

Fourth Quarter 2016 Financial Summary:

- Revenue for the fourth quarter of 2016 was \$9 million, an increase of 7 percent when compared with the fourth quarter of 2015. This is the highest revenue quarter in Globalscape’s history.
- For the fourth quarter of 2016, the Company’s net income was \$1.3 million, an 8 percent increase when compared to net income for the fourth quarter of 2015.
- Basic earnings per share was \$0.06 for the fourth quarter of 2016.

Fiscal 2016 Financial Summary:

- Revenue for fiscal 2016 was \$33.3 million, an 8 percent increase when compared to the same time period in 2015.
- Adjusted EBITDA for fiscal 2016 was \$7.1 million compared with \$7.2 million for the same period in 2015. Adjusted EBITDA is not a measure of financial performance under GAAP. It should not be considered as a substitute for net income presented on our condensed consolidated statement of operations and comprehensive income or for cash flow from operating activities presented on our condensed consolidated statement of cash flows.
- The Company had cash, cash equivalents and short-term investments of \$24 million on December 31, 2016.

- Other than liabilities for normal trade payables and taxes, the Company has no debt.

Fiscal 2016 Business Highlights:

Corporate: Globalscape had several corporate milestones in 2016, including:

- The appointment of Matt Goulet as President and CEO;
- The promotions of Dan Burke to Vice President of Worldwide Sales and Adam Snider to Vice President of Operations;
- The appointment of Gary S. Mullen to Vice President of Marketing;
- The Company celebrated its 20th anniversary on April 17, 2016.

18. On March 27, 2017, Global filed on Form 10-K with the SEC, its full year and quarterly financial results for the period ended December 31, 2016, providing the Company's consolidated financial results for that period summarized in the Company's January 26 press release reporting, among other things, its accounts receivable, revenues, assets, and stockholder equity:

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

	December 31,	
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,895	\$ 15,885
Short term investments	2,754	3,254
Accounts receivable, net	6,964	5,875
Federal income tax receivable	169	545
Prepaid expenses	521	511
Total current assets	19,303	26,070
Property and equipment, net	456	498
Long term investments	12,779	-
Capitalized software development costs	3,743	3,982
Goodwill	12,712	12,712
Deferred tax asset	942	940
Other assets	245	60
Total assets	\$ 50,180	\$ 44,262

Liabilities and Stockholders' Equity

Current liabilities:			
Accounts payable	\$	876	\$ 839
Accrued expenses		1,836	1,893
Deferred revenue		13,655	12,460
Total current liabilities		16,367	15,192
Deferred revenue, non-current portion		3,790	3,808
Other long term liabilities		147	134
Commitments and contingencies			
Stockholders' equity:			
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, 21,920,912 and 21,303,467 shares issued at December 31, 2016 and December 31, 2015, respectively		22	21
Additional paid-in capital		21,650	19,583
Treasury stock, 403,581 shares, at cost, at December 31, 2016 and December 31, 2015		(1,452)	(1,452)
Retained earnings		9,656	6,976
Total stockholders' equity		29,876	25,128
Total liabilities and stockholders' equity	\$	50,180	\$ 44,262

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,	
	2016	2015
Operating revenues:		
Software licenses	\$ 11,984	\$ 12,023
Maintenance and support	18,668	16,489
Professional services	2,684	2,223

Total revenues		33,336		30,735
Costs of revenues				
Software licenses		3,110		2,428
Maintenance and support		1,541		1,466
Professional services		1,671		1,394
Total costs of revenues		6,322		5,288
Gross Profit		27,014		25,447
Operating expenses				
Sales and marketing		11,682		10,406
General and administrative		6,975		6,168
Research and development		2,539		2,562
Total operating expenses		21,196		19,136
Income from operations		5,818		6,311
Other income (expense):				
Interest expense				(4)
Interest income		159		82
Total other income (expense)		159		78
Income before income taxes		5,977		6,389
Provision for income taxes		2,026		1,861
Net income	\$	3,951	\$	4,528
Comprehensive income	\$	3,951	\$	4,528
Net income per common share - basic	\$	0.19	\$	0.22
Net income per common share - diluted	\$	0.18	\$	0.21
Weighted average shares outstanding:				
Basic		21,126		20,824
Diluted		21,677		21,366

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

For the Year Ended December 31,

2016

2015

Operating Activities:

Net income	\$	3,951	\$	4,528
Adjustments to reconcile net income to net cash provided by operating activities:				
Bad debt expense		72		62
Depreciation and amortization		2,045		1,553
Stock-based compensation		973		647
Deferred taxes		(2)		(248)
Excess tax deficiency from exercise of share based compensation		24		(58)
Subtotal before changes in operating assets and liabilities		7,063		6,484
Changes in operating assets and liabilities:				
Accounts receivable		(1,161)		1
Prepaid expenses		(10)		(23)
Federal income taxes		352		(233)
Accrued interest receivable		(163)		(69)
Other assets		(185)		40
Accounts payable		37		(272)
Accrued expenses		(58)		303
Deferred revenues		1,178		708
Other long-term liabilities		13		82
Net cash provided by (used in) operating activities		7,066		7,021
Investing Activities:				
Software development costs		(1,538)		(1,967)
Purchase of property and equipment		(226)		(152)
Purchase of certificates of deposit		(12,116)		-
Net cash provided by (used in) investing activities		(13,880)		(2,119)
Financing Activities:				
Proceeds from exercise of stock options		1,119		508
Tax deficiency (benefit) from stock-based compensation		(24)		58
Dividends paid		(1,271)		(941)
Net cash provided by (used in) financing activities		(176)		(375)
Net increase (decrease) in cash		(6,990)		4,527
Cash at beginning of period		15,885		11,358
Cash at end of period	\$	8,895	\$	15,885
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$	-	\$	-
Income taxes	\$	1,638	\$	2,146

19. The Company's March 27, 2017 Form 10-K also assured investors of the effectiveness of the Company's internal control over financial reporting:

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 Securities Exchange Act of 1934, as amended, 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 President and 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.

As of the end of the period covered by this report, our President and Chief Executive Officer and Chief Financial Officer evaluated, with the participation of management, the effectiveness of our disclosure controls and procedures. Based on the evaluation, our President and Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our President and Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2016, based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to audit by our independent registered public accounting firm pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law on July 21, 2010, that permits us to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the year ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

20. The Company's March 27, 2017 Form 10-K was signed by Defendants Albrecht and Goulet and contained certifications pursuant to the Sarbanes-Oxley Act of 2002 ("SOX"), signed by Albrecht and Goulet, who each certified:

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.

21. On May 12, 2017, Global filed with the SEC its quarterly report on Form 10-Q for the three month period ended March 31, 2017, providing, among other things, the Company's consolidated financial results for that period. On May 26, 2017, the Company filed on Form 10-Q/A an amended quarterly statement for the same period to correct a "typographical error caus[ing] the individual line item amounts in non-current assets as of December 31, 2016, to be improperly matched with their respective descriptions," and reporting the Company's purportedly corrected consolidated financial results for that period, including among other things, its accounts receivable, revenues, assets, and stockholder equity:

GlobalSCAPE, Inc.
Condensed Consolidated Balance Sheets

(in thousands except share amounts)

	2017 <i>(Unaudited)</i>	2016 <i>(Audited)</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,400	\$ 8,895
Short term certificates of deposit	2,759	2,754
Accounts receivable, net	5,499	6,964
Federal income tax receivable	-	169
Prepaid and other expenses	492	521
Total current assets	19,150	19,303
Long term certificates of deposit	12,837	12,779
Capitalized software development costs, net	3,731	3,743
Goodwill	12,712	12,712
Deferred tax asset, net	1,190	942
Property and equipment, net	577	456
Other assets	64	245
Total assets	\$ 50,261	\$ 50,180
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 657	\$ 876
Accrued expenses	1,928	1,836
Income tax payable	474	-
Deferred revenue	12,704	13,655
Total current liabilities	15,763	16,367
Deferred revenue, non-current portion	3,618	3,790
Other long term liabilities	163	147
Commitments and contingencies		
Stockholders' equity:		
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, 21,970,412 and 21,920,912 shares issued at March 31, 2017, and December 31, 2016, respectively	22	22
Additional paid-in capital	22,064	21,650
Treasury stock, 403,581 shares, at cost, at	(1,452)	(1,452)

March 31, 2017 and December 31, 2016				
Retained earnings		10,083		9,656
Total stockholders' equity		30,717		29,876
Total liabilities and stockholders' equity	\$	50,261	\$	<u>50,180</u>

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

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

	Three months ended March 31,	
	2017	2016
Operating Revenues:		
Software licenses	\$ 2,464	\$ 2,299
Maintenance and support	5,121	4,446
Professional services	733	642
Total Revenues	8,318	7,387
Cost of revenues		
Software licenses	736	630
Maintenance and support	412	394
Professional services	377	422
Total cost of revenues	1,525	1,446
Gross profit	6,793	5,941
Operating expenses		
Sales and marketing	3,330	3,048
General and administrative	1,721	1,733
Research and development	739	627
Total operating expenses	5,790	5,408
Income from operations	1,003	533
Other income	70	33
Income before income taxes	1,073	566
Income tax expense	322	174
Net income	\$ 751	\$ 392
Comprehensive income	\$ 751	\$ 392
Net income per common share -		
Basic	\$ 0.03	\$ 0.02
Diluted	\$ 0.03	\$ 0.02

Weighted average shares outstanding:

Basic		21,544		21,033
Diluted		22,023		21,652
Cash dividends declared per share	\$	0.015	\$	0.015

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

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

For the Three Months Ended March 31,
2017 **2016**

Operating Activities:				
Net income	\$	751	\$	392
Items not involving cash at the time they are recorded in the statement of operations:				
Provision for sales returns and doubtful accounts receivable		11		43
Depreciation and amortization		541		501
Share-based compensation		324		222
Deferred taxes		(248)		(19)
Excess tax benefit from share-based compensation		-		(3)
Subtotal before changes in operating assets and liabilities		1,379		1,136
Changes in operating assets and liabilities:				
Accounts receivable		1,454		916
Prepaid expenses		29		34
Deferred revenue		(1,123)		(416)
Accounts payable		(219)		(350)
Accrued expenses		92		(272)
Other assets		181		22
Accrued interest receivable		(63)		(16)
Other long-term liabilities		16		3
Income tax receivable and payable		643		150
Net cash provided by operating activities		2,389		1,207
Investing Activities:				
Software development costs capitalized		(462)		(488)
Purchase of property and equipment		(188)		(90)
Net cash (used in) investing activities		(650)		(578)
Financing Activities:				
Proceeds from exercise of stock options		90		122
Excess tax benefit from share-based compensation		-		3
Dividends paid		(324)		(315)

Net cash (used in) financing activities		(234)		(190)
Net increase in cash		1,505		439
Cash at beginning of period		8,895		15,885
Cash at end of period	\$	10,400	\$	16,324
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$	-	\$	-
Income taxes	\$	15	\$	22

22. Global's May 26, 2017 Form 10-Q/A also assured investors of the effectiveness of Global's internal control over financial reporting:

Item 4. Controls and Procedures

As of the end of the period covered by this report, our President and Chief Executive Officer and our Chief Financial Officer carried out an evaluation of the effectiveness of GlobalSCAPE's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) and concluded that the disclosure controls and procedures were effective.

There were no changes in our internal controls over financial reporting during the three months ended March 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

23. Global's May 12, 2017 Form 10-Q, and its May 26, 2017 Form 10-Q/A, were signed by Defendants Albrecht and Goulet and contained SOX certifications, signed by Albrecht and Goulet, substantially similar to the certifications described in ¶20, supra.

B. The Truth Emerges – Disclosures At The End Of The Class Period

24. On August 7, 2017, after the markets had closed, the Company issued a press release and filed the same on Form 8-K with the SEC, entitled "GlobalSCAPE, Inc. Announces Internal Investigation and Financial Restatement," providing, in pertinent part:

GlobalSCAPE, Inc. (NYSE MKT: GSB), a worldwide leader in the secure movement and integration of data, today announced that the Audit

Committee of the Board of Directors, comprised entirely of independent directors, has been conducting an investigation into certain transactions in the fourth quarter of 2016 involving improper arrangements with customers that circumvented the Company's internal controls and their potential effect on previously reported revenue. The Audit Committee is being advised by outside counsel and assisted by forensic accounting advisors.

Based on the results of the investigation to date, the improper arrangements with customers that circumvented the Company's internal controls have the effect of overstating the reported amounts of accounts receivable as of December 31, 2016, and license revenue for the three months and year ended December 31, 2016, by approximately \$403,000 and \$396,000, respectively. GlobalSCAPE's revenue for fiscal 2016 as previously reported and before the effects of this matter was \$33.3 million. The effects of the improper arrangements with customers that circumvented the Company's internal controls on the Company's consolidated financial statements for the year ended and as of December 31, 2016 and the three months ended and as of March 31, 2017 are presented in the tables immediately following this press release.

As a result of these developments, the Company has taken and is taking steps to remediate the issues that were raised in the investigation.

The Company also announced that it intends to effect a restatement of its previously issued financial statements through filing an amended Annual Report on Form 10-K for the year ended December 31, 2016 and an amended Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. The Company is working diligently and as expeditiously as possible to prepare and file these amended reports.

As further disclosed in a contemporaneous 8-K filed with the Securities and Exchange Commission, the Company announced the retention of Weaver and Tidwell as its independent registered public accounting firm to audit the Company's financial statements.

GlobalSCAPE, Inc.
Consolidated Balance Sheet
December 31, 2016
(in thousands except per share amounts)

This schedule illustrates the current and preliminary estimate by GlobalSCAPE, Inc. of adjustments relating to errors discovered to date with respect to arrangements with customers that have been the subject of the investigation being conducted by the Audit Committee as described in the attached press release.

Download Similar TablesLink

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>Restated (Unaudited)</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 8,895	-	\$ 8,895
Short term investments	2,754	-	2,754
Accounts receivable, net	6,964	(403)	6,561
Federal income tax receivable	169	111	280
Prepaid and other expenses	521	-	521
Total current assets	19,303	(292)	19,011
Long term investments	12,779	-	12,779
Property and equipment, net	456	-	456
Capitalized software development costs, net	3,743	-	3,743
Goodwill	12,712	-	12,712
Deferred tax asset, net	942	-	942
Other assets	245	-	245
Total assets	\$ 50,180	\$ (292)	\$ 49,888
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	\$ 876	\$ (42)	\$ 834
Accrued expenses	1,836	(33)	1,803
Deferred revenue	13,655	-	13,655
Income taxes payable	-	-	-
Total current liabilities	16,367	(75)	16,292
Deferred revenue, non-current portion	3,790	-	3,790
Other long term liabilities	147	-	147
Stockholders' Equity:			
Preferred stock, par value \$0.001 per share, 10,000,000 shares authorized, no shares issued or outstanding	-	-	-

Common stock, par value \$0.001 per share, 40,000,000 shares authorized, 21,920,912 shares issued	22	-	22
Additional paid-in capital	21,650	-	21,650
Treasury stock, 403,581 shares, at cost	(1,452)	-	(1,452)
Retained earnings	9,656	(217)	9,439
Total stockholders' equity	\$ 29,876	\$ (217)	\$ 29,659
Total liabilities and stockholders' equity	\$ 50,180	\$ (292)	\$ 49,888

GlobalSCAPE, Inc.

Consolidated Statement of Operations and Comprehensive Income

For the Year Ended December 31, 2016

(in thousands, except per share amounts)

This schedule illustrates the current and preliminary estimate by GlobalSCAPE, Inc. of adjustments relating to errors discovered to date with respect to arrangements with customers that have been the subject of the investigation being conducted by the Audit Committee as described in the attached press release.

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>Restated (Unaudited)</u>
Operating revenues:			
Software licenses	\$ 11,984	\$ (396)	\$ 11,588
Maintenance and support	18,668	-	18,668
Professional services	2,684	-	2,684
Total revenues	33,336	(396)	32,940
Costs of revenues			
Software licenses	3,110	(42)	3,068
Maintenance and support	1,541	-	1,541

Professional services		1,671		-		1,671
Total costs of revenues		6,322		(42)		6,280
Gross profit		27,014		(354)		26,660
Operating expenses						
Sales and marketing		11,682		(26)		11,656
General and administrative		6,975		-		6,975
Research and development		2,539		-		2,539
Total operating expenses		21,196		(26)		21,170
Income from operations		5,818		(328)		5,490
Other income		159		-		159
Income before income taxes		5,977		(328)		5,649
Income tax expense		2,026		(111)		1,915
Net income	\$	3,951	\$	(217)	\$	3,734
Comprehensive income	\$	3,951	\$	(217)	\$	3,734
Net income per common share:						
Basic	\$	0.19	\$	(0.01)	\$	0.18
Diluted	\$	0.18	\$	(0.01)	\$	0.17
Weighted average shares outstanding:						
Basic		21,126		21,126		21,126
Diluted		21,677		21,677		21,677
Cash dividends declared per share	\$	0.06	\$	-	\$	0.06

GlobalSCAPE, Inc.
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2016

(in thousands)

This schedule illustrates the current and preliminary estimate by GlobalSCAPE, Inc. of adjustments relating to errors discovered to date with respect to arrangements with customers that have been the subject of the investigation being conducted by the Audit Committee as described in the attached press release.

	<u>Previously Reported</u>		<u>Adjustment</u>	
Operating Activities:				
Net income	\$ 3,951		(217)	\$ 3,734
Adjustments to reconcile net income to net cash provided by operating activities:				
Bad debt expense	72		-	72
Depreciation and amortization	2,045		-	2,045
Stock-based compensation	973		-	973
Deferred taxes	(2)		-	(2)
Excess tax deficiency from exercise of share based compensation	24		-	24
Subtotal before changes in operating assets and liabilities	7,063		(217)	6,846
Changes in operating assets and liabilities:				
Accounts receivable	(1,161)		403	(758)
Prepaid expenses	(10)		-	(10)
Federal income taxes	352		(111)	241
Accrued interest receivable	(163)		-	(163)
Other assets	(185)		-	(185)
Accounts payable	37		(42)	(5)
Accrued expenses	(58)		(33)	(91)
Deferred revenues	1,178		-	1,178
Other long-term liabilities	13		-	13
Net cash provided by (used in) operating activities	7,066		-	7,066
Investing Activities:				
Software development costs	(1,538)		-	(1,538)
Purchase of property and equipment	(226)		-	(226)

Purchase of certificates of deposit	(12,116)	-	(12,116)
Net cash provided by (used in) investing activities	(13,880)	-	(13,880)
Financing Activities:			
Proceeds from exercise of stock options	1,119	-	1,119
Tax deficiency (benefit) from stock-based compensation	(24)	-	(24)
Dividends paid	(1,271)	-	(1,271)
Net cash provided by (used in) financing activities	(176)	-	(176)
Net increase (decrease) in cash	(6,990)	-	(6,990)
Cash at beginning of period	15,885	-	15,885
Cash at end of period	\$ 8,895	\$ -	\$ 8,895
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ -	\$ -	\$ -
Income taxes	\$ 1,638	\$ -	\$ 1,638

25. The contemporaneously-filed 8-K further disclosed that the Company had dismissed its independent registered public accounting firm, BDO USA, LLP and had hired Weaver and Tidwell, L.L.P. as its replacement.

CLASS ACTION ALLEGATIONS

26. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of a class of all persons and entities who purchased or otherwise acquired Global securities between January 26, 2017 through August 7, 2017, inclusive. Excluded from the Class are Defendants, directors and officers of the Company, as well as their families and affiliates.

27. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Global securities were actively traded on the NASDAQ stock exchange. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. As of April 30, 2017, the Company had 21,571,831 shares of common stock outstanding. Record owners and other members of the Class may be identified from records maintained by Global or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

28. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

- a. Whether the Exchange Act was violated by Defendants;
- b. Whether Defendants omitted and/or misrepresented material facts;
- c. Whether Defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;
- d. Whether Defendants knew or recklessly disregarded that their statements were false and misleading;
- e. Whether the price of the Company's stock was artificially inflated; and
- f. The extent of damage sustained by Class members and the appropriate measure of damages.

29. Plaintiff's claims are typical of those of the Class because Plaintiff and the Class sustained damages from Defendants' wrongful conduct alleged herein.

30. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests that conflict with those of the Class.

31. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation makes it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

LOSS CAUSATION

32. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

33. During the Class Period, Plaintiff and the Class purchased Global securities at artificially inflated prices and were damaged thereby.

34. On August 7, 2017, after trading had closed, Global disclosed that its audit committee "has been conducting an investigation into certain transactions in the fourth quarter of 2016 involving improper arrangements with customers that circumvented the Company's internal controls and their potential effect on previously reported revenue." The Company further disclosed that it "intends to effect a restatement of its previously issued financial statements through filing an amended Annual Report on Form 10-K for the year ended December 31, 2016 and an amended Quarterly Report on Form 10-Q for the quarter ended March 31, 2017."

35. On this news, Global's share price fell 17.66% to close at \$3.87 on August 8, 2017.

36. This decline is directly attributable to the Company's August 7, 2017 announcement disclosing an ongoing internal accounting investigation and the Company's intention to restate its full year 2016 and first quarter 2017 financial results.

FRAUD ON THE MARKET

37. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine that, among other things:

- a. Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- b. The omissions and misrepresentations were material;
- c. The Company's common stock traded in efficient markets;
- d. The misrepresentations alleged herein would tend to induce a reasonable investor to misjudge the value of the Company's common stock; and
- e. Plaintiff and other members of the class purchased the Company's common stock between the time Defendants misrepresented or failed to disclose material facts and the time that the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

38. At all relevant times, the markets for the Company's stock were efficient for the following reasons, among others: (i) the Company filed periodic public reports with the SEC; and (ii) the Company regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the major news wire services and through other wide-ranging public disclosures such as communications with the financial press, securities analysts, and other similar reporting services.

Plaintiff and the Class relied on the price of the Company's common stock, which reflected all information in the market, including the misstatements by Defendants.

NO SAFE HARBOR

39. The statutory safe harbor provided for forward-looking statements under certain conditions do not apply to any of the allegedly false statements pleaded in this Complaint. The specific statements pleaded herein were not identified as forward-looking statements when made.

40. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements.

CAUSES OF ACTION

COUNT I

Violation of § 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder (Against All Defendants)

41. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

42. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

43. Defendants violated § 10(b) of the Exchange Act and Rule 10b-5 in that they (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon those who purchased or otherwise acquired the Company's securities during the Class Period.

44. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for the Company's common stock. Plaintiff and the Class would not have purchased the Company's common stock at the price paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

COUNT II

Violation of § 20(a) of the Exchange Act (Against The Individual Defendants)

45. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

46. The Individual Defendants acted as controlling persons of the Company within the meaning of § 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions at the Company, the Individual Defendants had the power and authority to cause or prevent the Company from engaging in the wrongful conduct complained of herein. The Individual Defendants were provided with or had unlimited access to the Company's reports, press releases, public filings and other statements alleged by Plaintiffs to be false or misleading both prior to and immediately after their publication, and had the ability to prevent the issuance of those materials or to cause them to be corrected so as not to be misleading.

47. In particular, each of these Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

48. As set forth above, Global and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and/or omissions as alleged in this Complaint. By virtue of

their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

A. determining that this action is a proper class action pursuant to Rule 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure on behalf of the Class as defined herein, and a certification of Plaintiff as class representative pursuant to Rule 23 of the Federal Rules of Civil Procedure and appointment of Plaintiff's counsel as Lead Counsel;

B. awarding compensatory and punitive damages in favor of Plaintiff and the other class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including pre-judgment and post-judgment interest thereon.

C. awarding Plaintiff and other members of the Class their costs and expenses in this litigation, including reasonable attorneys' fees and experts' fees and other costs and disbursements; and

D. awarding Plaintiff and the other Class members such other relief as this Court may deem just and proper.

DEMAND FOR JURY TRIAL

Plaintiff hereby demands a trial by jury in this action of all issues so triable.

Dated: August 9, 2017

KENDALL LAW GROUP, PLLC

By: /s/ Joe Kendall

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Counsel for Plaintiff

**PLAINTIFF'S CERTIFICATION OF SECURITIES
FRAUD CLASS ACTION COMPLAINT**

I, **Anthony Giovagnoli**, hereby certify that the following is true and correct to the best of my knowledge, information and belief:

1. I have reviewed, and authorize the filing on my behalf of, the draft complaint against GlobalSCAPE, Inc.
2. I did not purchase the securities which are the subject of the complaint at the direction of counsel, or in order to participate in any private action arising under the federal securities laws.
3. My transactions in the Company's securities during the Class Period are as follows:

Date	Transaction	No. of shares	Price per share
07/17/2017	Buy	19	\$5.52
01/10/2017	Buy	3	\$4.20
01/06/2017	Buy	3	\$4.25
12/09/2016	Buy	1	\$4.05

4. I am willing to serve as a representative party on behalf of the class in this action, including providing testimony at deposition and trial, if necessary.
5. During the three-year period preceding the date of my signing this Certification, I have never sought to be appointed nor have I ever been appointed as lead plaintiff or class representative in any class action arising under the securities laws of the United States.
6. I will not accept any payment for serving as a representative party on behalf of the Class beyond my pro rata share of any possible recovery, except for an award, as ordered or approved by the court, for reasonable costs and expenses (including lost wages) directly relating to my representation of the Class.

Signed under the penalties of perjury on **08/08/2017**.

Signature:



CIVIL COVER SHEET

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON NEXT PAGE OF THIS FORM.)

I. (a) PLAINTIFFS

Anthony Giovagnoli, Individually and On Behalf of All Others Similarly Situated

(b) County of Residence of First Listed Plaintiff

(EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorneys (Firm Name, Address, and Telephone Number)

See attachment

DEFENDANTS

See attachment

County of Residence of First Listed Defendant

(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

Attorneys (If Known)

II. BASIS OF JURISDICTION (Place an "X" in One Box Only)

- 1 U.S. Government Plaintiff, 2 U.S. Government Defendant, 3 Federal Question (U.S. Government Not a Party), 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (Place an "X" in One Box for Plaintiff and One Box for Defendant)

- Citizen of This State, Citizen of Another State, Citizen or Subject of a Foreign Country, PTF DEF, Incorporated or Principal Place of Business In This State, Incorporated and Principal Place of Business In Another State, Foreign Nation

IV. NATURE OF SUIT (Place an "X" in One Box Only)

Click here for: Nature of Suit Code Descriptions.

Table with 5 columns: CONTRACT, REAL PROPERTY, TORTS, CIVIL RIGHTS, PRISONER PETITIONS, FORFEITURE/PENALTY, LABOR, IMMIGRATION, BANKRUPTCY, SOCIAL SECURITY, FEDERAL TAX SUITS, OTHER STATUTES. Contains various legal categories and codes.

V. ORIGIN (Place an "X" in One Box Only)

- 1 Original Proceeding, 2 Removed from State Court, 3 Remanded from Appellate Court, 4 Reinstated or Reopened, 5 Transferred from Another District, 6 Multidistrict Litigation - Transfer, 8 Multidistrict Litigation - Direct File

VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing (Do not cite jurisdictional statutes unless diversity): Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Securities and Exchange Commission Rules. Brief description of cause: Violations of the Securities Exchange Act of 1934 and Securities and Exchange Commission Rules

VII. REQUESTED IN COMPLAINT:

CHECK IF THIS IS A CLASS ACTION UNDER RULE 23, F.R.Cv.P. DEMAND \$ CHECK YES only if demanded in complaint: JURY DEMAND: Yes No

VIII. RELATED CASE(S) IF ANY

(See instructions): JUDGE DOCKET NUMBER

DATE SIGNATURE OF ATTORNEY OF RECORD

FOR OFFICE USE ONLY

RECEIPT # AMOUNT APPLYING IFP JUDGE MAG. JUDGE

ATTACHMENT TO CIVIL COVER SHEET

I. (a) DEFENDANTS

GlobalSCAPE, Inc.
Matthew C. Goulet
James W. Albrecht, Jr.

I. (c) Plaintiff's Attorneys

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ClassAction.org

This complaint is part of ClassAction.org's searchable class action lawsuit database and can be found in this post: [Investor Sues After GlobalSCAPE Forced to Restate 2016 Financial Results](#)
