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Market Data

Price:	\$5.85
Shares (M):	18.33
Market Cap (M):	\$107
Net Debt (M):	(\$4)
Enterprise Value (EV) (M):	\$103
Estimated Long-Term EPS Growth Rate:	40%
12M Forward P/E to Long-Term EPS Gr. Rate:	0.60x
12M Forward P/E:	23.4
52-Week Price Range:	\$9.75-\$2.13
Short Interest (M - Shares):	0.1
Institutional Ownership:	8%
Daily Volume:	129602

Valuation (\$/Share)

Intrinsic Enterprise Value Estimate	\$8.88
Intrinsic Equity Value Estimate	\$9.13
Net Cash	\$0.25

Year End (Dec)	2006A	2007E	2008E
Rev (\$mil)	\$10.9	\$17.8	\$22.3
EV/Sales	9.4	5.8	4.6
EPS	\$0.17	\$0.27	\$0.31
Price/EPS	34.4	21.7	18.9

EPS	2006A	2007E	2007 P	2008E
Q1	\$0.04	\$0.04	\$0.04	\$0.05
Q2	\$0.04	\$0.13	\$0.13	\$0.07
Q3	\$0.04	\$0.06	\$0.07	\$0.09
Q4	\$0.04	\$0.04	\$0.07	\$0.10
FY	\$0.17	\$0.27	\$0.31	\$0.31



INFORMATION SECURITY

GlobalSCAPE, Inc. (GSB – \$5.85)

GSB: 3Q Miss Attributed to Lumpy Government Revenue

America's Take: GSB reported its 3Q07 results last night after the close. Quarterly revenues of \$3.9M were lower than our prior estimates, representing a y/y increase of 50%, and down 39% sequentially. 3Q pro-forma EPS of \$0.06 was a penny below our estimate. Additionally, three other non-government deals have been pushed out due to customer uncertainty stemming from the current macro economic environment. However, as we stated in our initiation report, we believe GSB has the ability to outperform expectations based on the market opportunity for its broad product portfolio.

Key Investment Highlights:

- 3Q07 Revenue of \$3.9M Lower Than our Revenue Estimate of \$5M:** The revenue decline was attributed to delays in payment from the Company's Army contract win and three larger non-government deals that were pushed out into 2008. On the upside, management relayed confidence going into 4Q07 and 1Q08 with prospects such as a growing sales funnel, opportunities for all products with government partner Synteras, and expanding partnerships in 2008 serving to brighten their outlook.
- Segment Sales (before the deferral adjustment):** EFT and SecureFTP contributed 62% of total revenue. CuteFTP Pro and Home edition comprised 19% of total revenue. WAFS and CDP were 17.5% of revenue. EFT was \$1.6M, up 57% y/y, and up 5.7% sequentially. SecureFTP was \$801K, up 13% y/y, and down 76.9% sequentially. On the client side, CuteFTP Pro was \$493K, down 75% y/y, and down 26% sequentially. CuteFTP Home was \$247K, up 4% y/y, and down 12% sequentially.
- New Target Markets Track Security Mandates:** In 2008, GSB plans to develop and release new products in the AS2 and PCI DSS target markets. The Company has product enhancements planned for existing product lines.
- Management Adjusted Full Year 2007 Guidance:** Full year revenue guidance is in the range of \$17.5M-\$18M, down from previous guidance of \$20M. We forecast 4Q07 revenue at \$3.9M with pro forma EPS at \$0.04 to be in line with guidance and lumpy government revenue. FY07 forecasts come in at \$17.8M in revenues and \$0.27 in pro forma EPS. We note that revenue contributions from the Army contract as well as additional license wins could positively influence these results dramatically.
- Intrinsic Valuation Discussion:** Our valuation was arrived at via the discounted cash flows method. Our model yields an intrinsic equity value for GSB of \$163.5M, or \$9.13 per diluted share, 56% above the stock's current price.

See disclosures and certification information on page 5 of this report



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Highlights: Expansion

- **3Q07 Revenues of \$3.9M were lower than our prior estimates**, representing a y/y increase of 50%, and down 39% sequentially. 3Q pro-forma EPS of \$0.06 was a penny below our estimate. In each of the past 12 quarters, GSB has consistently grown 50% year-over-year. Looking through the P&L, Non-GAAP gross margin was up 400 basis points y/y but declined by 100 basis points sequentially. Non-GAAP SG&A expenses (at 57% of revenue) came in lower than we anticipated due to an overestimate of the Company's plan to add additional sales staff. SG&A was 37% of revenue in the previous quarter; this abnormally low percentage (typically around 50%) can be attributed to a large inflow of revenue from the Company's government contract win that acted to lower SG&A as a percentage of revenue. Non-GAAP and GAAP EPS on a fully diluted basis were \$0.06 and \$0.04, respectively, a penny below our Non-GAAP and GAAP estimates.

Segment Sales (before the deferral adjustment): EFT and SecureFTP contributed 62% of total revenue. CuteFTP Pro and Home were 19% of total revenue. WAFS and CDP were 17.5% of revenue. The table below provides both the actual and percentage changes. Note, the WAFS/CDP products were not included, as the Avall acquisition wasn't finalized until September 2006. CuteFTP sales are expected to decline as the Company focuses sales resources on the more complex enterprise products.

Product Revenue Mix								
Revenue Mix*	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	3Q y/y Growth
Enhanced File Transfer	\$894,104	\$944,072	\$1,010,912	\$1,316,860	\$1,244,114	\$1,501,613	\$1,587,228	57.0%
q/q Growth		5.6%	7.1%	30.3%	(5.5%)	20.7%	5.7%	
SecureFTP Server	595,541	592,235	707,736	626,482	741,889	3,467,655	801,858	13.3%
q/q Growth		(0.6%)	19.5%	(11.5%)	18.4%	367.4%	(76.9%)	
CuteFTP Professional	590,680	565,694	531,647	556,344	562,877	666,591	493,535	(7.2%)
q/q Growth		(4.2%)	(6.0%)	4.6%	1.2%	18.4%	(26.0%)	
CuteFTP Home	265,723	246,169	237,862	274,039	315,372	282,508	247,799	4.2%
q/q Growth		(7.4%)	(3.4%)	15.2%	15.1%	(10.4%)	(12.3%)	
Avall					795,000	737,000	681,637	
q/q Growth						(7.3%)	(7.5%)	

* Amounts reflect sales before deferred revenue adjustments

Source: Company reports

- **Maintenance and Support revenues \$981K up 42% y/y.** The increased maintenance and support revenues track revenue growth from EFT, SecureFTP, WAFS and CDP products which require high levels of support. 3Q revenue was generated by GSB traditional industry verticals, including government, healthcare, manufacturing and financial.
- **New Target Markets Track Security Mandates - Applicability Statement 2 (AS2)** is used to transmit data securely and reliably over the Internet, security is achieved by using digital certificates and encryption. The addition of this target market creates new opportunities within the retail market, with companies such as Wal-Mart requiring their trading partners to use this protocol. **Payment Card Industry Data Security Standard PCI-** Companies processing, storing, or transmitting credit card numbers must be PCI DSS compliant or they risk losing the ability to process credit card payments. Merchants and service providers must validate compliance with an audit by a PCI DSS Qualified Security Assessor (QSA). In 2008 GSB plans to release new products that will support AS2 and PCI DSS target markets and enhance flagship products.
- **Management Adjusted Full Year 2007 Guidance** - Full Year revenue guidance is in the range of \$17.5M-\$18M, down from previous guidance of \$20M. Our model shows 4Q07 revenue at \$3.9M and \$0.04 pro forma EPS; for FY07 we forecast revenues at \$17.8M and Pro Forma EPS at \$0.27. We note that revenue contributions from the Army contract and as well as additional license wins could positively influence these results dramatically.
- **AGC Model Adjustment to Revenue and EPS Estimates** -We changed some assumptions in our model to reflect the decline in anticipated revenue resulting from delays with the Army contract and three large deals which have been pushed out to 2008. We are lowering our revenue to \$3.9M (down from \$5M) for 4Q07 and to \$17.8M (\$20.2M) for 2007. Our diluted non-GAAP EPS is \$0.04 (down from \$0.05) and \$0.27 (\$0.31) for 2007.
- **Intrinsic Valuation-** Our valuation was arrived at via the discounted cash flow method. Our model yields an intrinsic equity value for GSB of \$163M, or \$9.13 per share, 56% above the stock's current price.

GlobalSCAPE Inc.
Income Statement (Fiscal Year)AMERICA'S
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	2006				2007E				2008E				2005	2006	2007E	2008E	2009E
	Mar	Jun	Sept	Dec	Mar	Jun	Sept	Dec E	Mar E	Jun E	Sept E	Dec E					
Total Revenue	\$2,414,923	\$2,445,327	\$2,603,236	\$3,510,195	\$3,623,147	\$6,418,025	\$3,900,300	\$3,902,250	\$4,339,302	\$5,098,680	\$5,939,962	\$6,949,756	\$6,678,615	\$10,973,681	\$17,843,722	\$22,327,700	\$29,026,010
Cost of goods sold	141,411	85,507	145,646	95,951	58,942	60,230	85,711	78,045	95,465	112,171	130,679	152,895	279,964	468,515	282,928	491,209	870,780
Gross profit	2,273,512	2,359,820	2,457,590	3,414,244	3,564,205	6,357,795	3,814,589	3,824,205	4,243,838	4,986,509	5,809,283	6,796,861	6,398,651	10,505,166	17,560,794	21,836,491	28,155,230
Operating Expenses:																	
SG & A	1,162,921	1,274,250	1,234,555	1,969,877	2,075,146	2,374,577	2,206,800	2,208,674	2,299,830	2,447,366	2,672,983	3,127,390	3,986,047	5,641,603	8,865,197	10,547,570	13,061,705
Research and development	229,330	267,474	302,363	431,233	437,544	551,211	443,433	444,857	477,323	560,855	653,396	764,473	869,155	1,230,400	1,877,045	2,456,047	3,047,731
Total operating expenses	1,392,251	1,541,724	1,536,918	2,401,110	2,512,690	2,925,788	2,650,233	2,653,530	2,777,153	3,008,221	3,326,379	3,891,863	4,881,123	6,872,003	10,742,241	13,003,617	16,109,436
Operating income (loss)	881,261	818,096	920,672	1,013,134	1,051,515	3,432,007	1,164,356	1,170,675	1,466,684	1,978,288	2,482,904	2,904,998	1,517,528	3,633,163	6,818,553	8,832,874	12,045,794
Interest & other income	14,352	22,902	21,412	(126,389)	(64,526)	9,743	41,540	45,694	50,263	80,924	81,733	82,551	11,307	(67,723)	32,451	295,471	298,426
Net income (loss) before income taxes	895,613	840,998	942,084	887,364	988,613	3,441,750	1,205,896	1,216,369	1,516,948	2,059,212	2,564,638	2,987,549	1,528,835	3,566,059	6,852,628	9,128,346	12,344,220
Provision for income taxes	262,806	223,612	268,168	126,908	260,814	1,079,173	140,900	419,647	523,347	710,428	884,800	1,030,704	9,981	881,494	1,900,534	3,149,279	4,258,756
Net Income (Non-GAAP)	632,807	617,386	673,916	760,456	727,799	2,362,577	1,064,996	796,722	993,601	1,348,784	1,679,838	1,956,844	1,518,854	2,684,565	4,952,094	5,979,066	8,085,464
Diluted EPS (non-GAAP)	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.13	\$0.06	\$0.04	\$0.05	\$0.07	\$0.09	\$0.10	\$0.10	\$0.17	\$0.27	\$0.31	\$0.41
Diluted EPS (GAAP)	\$0.03	\$0.03	\$0.03	\$0.02	\$0.03	\$0.12	\$0.04	\$0.02	\$0.03	\$0.05	\$0.07	\$0.08	\$0.09	\$0.12	\$0.20	\$0.23	\$0.33
Shares outstanding - diluted	15,971,013	15,081,666	15,891,298	17,251,219	17,950,681	18,061,782	18,333,292	18,562,458	18,840,895	19,123,508	19,410,361	19,701,516	15,442,524	16,160,839	18,182,053	19,341,315	19,631,435
Annual Revenue Growth	70%	34%	51%	105%	50%	162%	50%	11%	20%	(21%)	52%	78%	35%	64%	63%	25%	30%
Quarterly Revenue Growth	41%	1%	6%	35%	3%	77%	-39%	0%	11%	18%	17%	17%					
Margin Analysis																	
Total Gross Margin	94%	97%	94%	97%	98%	99%	98%	98%	98%	98%	98%	98%	96%	96%	98%	98%	97%
SG&A	48%	52%	47%	56%	56%	37%	57%	57%	53%	48%	45%	45%	60%	51%	50%	47%	45%
Research and development	9%	11%	12%	12%	13%	9%	11%	11%	11%	11%	11%	11%	13%	11%	11%	11%	11%
Depreciation and Amortization	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Operating Margin	36%	33%	35%	29%	29%	53%	30%	30%	34%	39%	42%	42%	23%	33%	38%	40%	42%
Net Margin	26%	25%	26%	22%	20%	37%	27%	20%	23%	26%	28%	28%	23%	24%	28%	27%	28%

Source: Company Reports & AGC Estimates

GlobalScape, Inc.



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	Fiscal Year											Terminal Operating Model
	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	20014E	2015E	2016E	2016E
Net Income	\$1,962,532	\$3,725,569	\$4,471,524	\$6,485,312	\$7,675,637	\$9,093,725	\$10,117,982	\$10,388,443	\$11,135,281	\$11,806,911	\$12,516,252	\$13,079,483
EBITDA	3,680,348	6,795,343	8,832,874	12,045,794	14,013,468	16,255,622	17,881,185	18,343,675	19,536,014	20,610,495	21,744,072	22,722,556
Capex	(154,043)	(155,043)	(146,000)	(148,190)	(150,413)	(152,669)	(154,959)	(157,283)	(159,643)	(162,037)	(164,468)	(171,869)
Net Interest Income (Expense)	(67,723)	32,451	142,914	438,278	767,766	1,149,858	1,580,277	2,036,776	2,513,940	3,019,418	3,552,473	3,712,334
Cash Taxes	(891,515)	(1,713,157)	(2,282,086)	(3,086,055)	(3,578,348)	(4,139,262)	(4,546,028)	(4,662,025)	(4,960,485)	(5,229,480)	(5,513,250)	(5,761,346)
Free Cash Flow	2,567,067	6,055,386	6,547,702	9,249,827	11,052,472	13,113,549	14,760,475	15,561,143	16,929,827	18,238,395	19,618,828	20,501,675
Y/Y Free Cash flow Growth		136%	8%	41%	19%	19%	13%	5%	9%	8%	8%	4%
Present Value of FCF		5,970,024	5,771,170	7,288,687	7,786,026	8,258,808	8,310,711	7,832,854	7,618,541	7,337,475	7,056,247	6,592,206
Discount Rate		11.86%	11.86%	11.86%	11.86%	11.86%	11.86%	11.86%	11.86%	11.86%	11.86%	11.86%
Discount Year		0.13	1.13	2.13	3.13	4.13	5.13	6.13	7.13	8.13	9.13	10.13

Valuation:

NPV CF Fiscal Years 2007E-2016E	73,230,543
Terminal Value	89,616,720
LT Growth rate	4.5%
America's intrinsic enterprise value estimate	162,847,262
Net Cash at June, 2007	4,573,998
America's intrinsic equity value estimate	167,421,260
Per share	\$ 9.13
Current market capitalization	107,249,758
Per share	\$ 5.85
% difference	56%
Diluted Shares	18,333,292

Discount Rate Inputs

Cost of Debt	9.50%
% Debt	0.00%
Weight X Cost	0.00%
Cost of Equity	
10-Year U.S. Treasury	4.16%
Equity market premium	5.00%
Company-specific prem/disc.	5.00%
Effective premium	10.00%
Beta	0.77
Cost of Equity	11.86%
% Equity	100.00%
Weight X Cost	11.86%
Cost of equity	11.86%

Source: Company Reports & AGC Estimates

Sensitivity Analysis**Perpetual growth starting 2016E**

	2.50%	3.50%	4.50%	5.50%	6.50%
9.86%	\$10.48	\$11.40	\$12.67	\$14.52	\$17.47
10.36%	\$9.76	\$10.53	\$11.55	\$13.00	\$15.20
10.86%	\$9.13	\$9.77	\$10.62	\$11.77	\$13.46
11.36%	\$8.58	\$9.12	\$9.82	\$10.76	\$12.08
11.86%	\$8.09	\$8.55	\$9.13	\$9.90	\$10.96
12.36%	\$7.65	\$8.04	\$8.53	\$9.17	\$10.03
12.86%	\$7.25	\$7.59	\$8.01	\$8.55	\$9.25
13.36%	\$6.89	\$7.19	\$7.55	\$8.00	\$8.58
13.86%	\$6.57	\$6.83	\$7.14	\$7.52	\$8.01
14.36%	\$6.27	\$6.50	\$6.77	\$7.10	\$7.51

Cost of equity

Important Disclosures

Company	Related Disclosure
GlobalSCAPE, Inc.	7, 6, 5, 4, 8a, 8b

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