

## Struggles at SABOR

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COVER STORY

# SKIES DARKENING AT GLOBALSCAPE



**A former dot-com-era startup that has mostly flourished over 20 years has encountered troubles on multiple fronts**

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DOWNTOWN DEAL



## Historic downtown hotel changes hands

Local partners bought the River Walk's first hotel with plans for a possible \$50 million renovation. RYAN SALCHERT, 6

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## COVER STORY

# RECENT EVENTS SHAPE GLOBALSCAPE'S UNCERTAIN FUTURE

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In late November, Daniel Burke emerged remorseful from the federal courthouse in San Antonio. Burke, a former Globalscape Inc. sales executive sporting salt-and-pepper hair and a dark gray suit, had just been sentenced to five years of probation after pleading guilty to wire fraud.

It could have been much worse. He faced up to 20 years in prison for fabricating a software license purchase, even generating bogus emails, in an effort to meet his fourth quarter 2016 sales goal. Still, it was an ignominious ending to a long career – he had been approaching retirement – for an act that added just \$347 to his commissions.

Burke's story is reflective a larger troubled tale being told at Globalscape (NYSE: GSB), a homegrown midmarket technology company that has had other challenges, including an investor lawsuit, a federal investigation, failed product launches, fluctuating stock prices and decreased profit. The company, which deals in secure data transfer for businesses, reported year-over-



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*Globalscape Inc.'s headquarters are on Lockhill Selma Road in Northwest San Antonio.*

year declines in annual net income in three of its last four fiscal years, even as its total revenue continued to rise. Its profit in 2017 dropped to \$1.37 million – its lowest mark since it reported a \$1.8 million loss in 2012.

Meanwhile, Globalscape's stock had fallen roughly 40 percent from \$5.44 in mid-July 2017 to \$3.23 in early August before the company announced its plan to buy about \$15 million of its stock through a so-called modified Dutch auction tender offer. It completed that process in late September, buying roughly \$16.8 million in stock at \$4.20 a share, and its stock price reach \$4.60 on Dec. 7.

## SALES ISSUES

Burke, who had been on the job for a few months, said he was under "intense pressure" from management to meet sales goals. But industry observers suggest he was selling products that time and technology may be passing by. Multiple technology stock

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## COVER STORY

## GLOBALSCAPE TIMELINE

Globalscape Inc. was a serendipitous dot-com era technology startup that has mostly flourished over the past 20 years selling a secure file transfer software tool that powers large data transfer highways for major retailers, financial institutions and the federal government.

- 1996** ○ Globalscape founded when ATSI bought rights to Cute FTP from Russian-born software programmer Alex Kunadze
- 1997** ○ First CEO was Sandra Poole-Christal, previous director of sales and marketing at ATSI
- 2000** ○ Tim Nicolaou hired as CEO
- 2002** ○ Began trading on the New York Stock Exchange, Tim Nicolaou terminated as CEO, Sandra Poole-Christal takes over again
- 2004** ○ Sandra Poole-Christal resigns as CEO, her father Charles Randy Poole becomes CEO
- 2006** ○ Globalscape no longer majority controlled by ATSI
- 2008** ○ James Morris hired as CEO
- 2012** ○ James Morris retires as CEO
- 2013** ○ Craig Robinson promoted to CEO role and dies unexpectedly the same year
- 2013** ○ James Bindseil promoted to CEO
- 2016** ○ James Bindseil resigns as CEO. Matt Goulet promoted to CEO
- JAN. 17** ○ Globalscape board members sell 15 percent of the company to Dallas investors
- MARCH 17** ○ RSM US LLP dismissed as Globalscape's accounting firm, BDO USA LLP hired
- MAY 17** ○ Globalscape's board discovered discrepancies in sales revenue reported to investors, begins internal investigation
- AUG. 17** ○ BDO USA dismissed by Globalscape, RSM re-hired, Investors file class action lawsuit
- NOV. 17** ○ RSM US drops Globalscape as a customer citing that it "could no longer rely on management's representations"
- MAR. 18** ○ Globalscape discloses to investors SEC begins investigation, its chief financial officer announces retirement
- JUNE 2018** ○ Daniel Burke, former vice president of global sales at Globalscape pleaded guilty to wire fraud
- AUG. 18** ○ Globalscape lays off 40 employees
- SEP. 18** ○ Globalscape declines unsolicited offer to sell the business
- NOV. 18** ○ Daniel Burke sentenced to five years of probation, Assistant US Attorney General notes that they don't expect another criminal charge against the company



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*Former Globalscape Inc. executive Daniel Burke, right, leaves the federal courthouse in San Antonio after being sentenced in connection with wire fraud, stemming from his role in fabricating purchases to meet sales goals.*

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analysts told the Business Journal that they no longer follow Globalscape, which has not had a conference call to answer investors' and analysts' questions after releasing quarterly or annual financial results since April 2017.

Since Globalscape was founded in 1996, it's been largely known for selling software and support services for secure data transfer to businesses based on its enhanced file transfer platform, or ETF. The company has become increasingly reliant on ETF as the percentage of revenue tied to it has risen from 75.7 percent in 2011 to 95.4 percent in 2017. And while ETF has been a steady revenue generator, the company has had fits and starts in launching other offerings.

Under CEO Matt Goulet, Globalscape's sixth chief executive since it was founded in 1996, the company in June 2017 introduced Kenetix, a cloud-based data integration product. The company described Kenetix as an integration-as-a-service tool for businesses to connect applications, microservices, application program interfaces, data and processes within and between organizations. But Globalscape later reported having problems with the third party from which it licensed the underlying technology and suspended marketing Kenetix "as we evaluate options and determine whether the licensor can effectively address the issues," according to its 2017 annual filing with the U.S. Securities and Exchange Commission.

Previous CEOs attempted to branch out with

products such as scConnect, a tool to share files securely on a mobile device, and WAFS, which stands for wide area file transfer. Going forward, it may be harder for the company to diversify, given that a round of 40 layoffs in August – initially described to investors as focused on sales and marketing roles – included a significant number of engineers working on research and development.

Nevertheless, Goulet remains positive about the company's outlook.

"With over two decades of experience in the managed file transfer space, Globalscape is uniquely positioned to develop product enhancements that strengthen customer relationships and win new business," Goulet said in a statement about its third quarter financial results. "We had some particularly large deals in the quarter and continue to expand our focus on enterprise customers."

And yet outside of such prepared statements, there hasn't been much light shed on the company's operations. Goulet has not been made available for an interview since he was promoted to CEO in May 2016.

That lack of transparency appears to have been noted. Several analysts contacted by the Business Journal who previously followed the company suspended coverage in recent years. And one investor sold more than 100,000 shares – about 80 percent of his stake in the company – in recent months. On the other hand, the \$16.8 million that Globalscape spent buying back stock through the September Dutch auction appears to have given the stock a boost.



## COVER STORY

## LEGAL TROUBLES

Burke's manipulation of sales figures has been a small part of the unsettled legal picture at Globalscape. After an internal investigation, the company told investors that it had misreported sales revenue in late 2016, with its accounts receivable having been overstated by more than \$400,000, records show.

Globalscape has gone through two accounting firms since March 2017. And James Albrecht, who was chief financial officer at that time, retired about one year later. Two other executives, Peter Merkulov, who was chief technology officer, and Gregory Hoffer, who was vice president of engineering, left within several months of each other this year.

The Securities and Exchange Commission's Fort Worth office subpoenaed Globalscape records in January in pursuit of its own investigation. The FBI had been working on the case as well, having been approached by some "serious stockholders" asking it to look for further criminal activity, Assistant U.S. Attorney Gregory Surovic said.

Meanwhile, lawyers representing clients in a class action lawsuit filed in 2017, which was settled for \$1.4 million a year later, suggested in court records that Globalscape executives purposefully misrepresented sales growth right before a big stock deal to enable longtime investors to benefit when board members sold about 15 percent of the company for \$12.4 million.

## STOCK TRANSACTIONS

Globalscape's outlook seemed to be improving in early 2017, when board members sold millions of dollars in stock to Dallas-area investors led by Robert Alpert and Clark Webb.

The new investors, who are now board members, are representatives of another publicly traded business known as P10 Industries, an alternative investment fund that they control focused on "patent monetization," according to its federal filings. Mark Hood, Globalscape's executive vice president of operations who joined the company in August, was previously a board member at P10 Industries before stepping down in 2017, records show.

With Globalscape in the hands of Alpert and Webb, who declined to be interviewed for this article, it's unclear what the technology business's goal is after shedding a significant chunk of its research and development team this year.

Meanwhile, Bradley Radoff, a Houston-based activist investor, acquired 1.7 million shares – a nearly 6 percent stake in Globalspace – this year. Radoff leads Frondren Management LP and BLR Partners LP. Previously, Radoff has pressured the board of Harte Hanks Inc., and he pushed for the sale of formerly publicly traded CST Brands Inc. to Alimentation Couche-Tard Inc. So far, he has not made any demands of Globalscape.

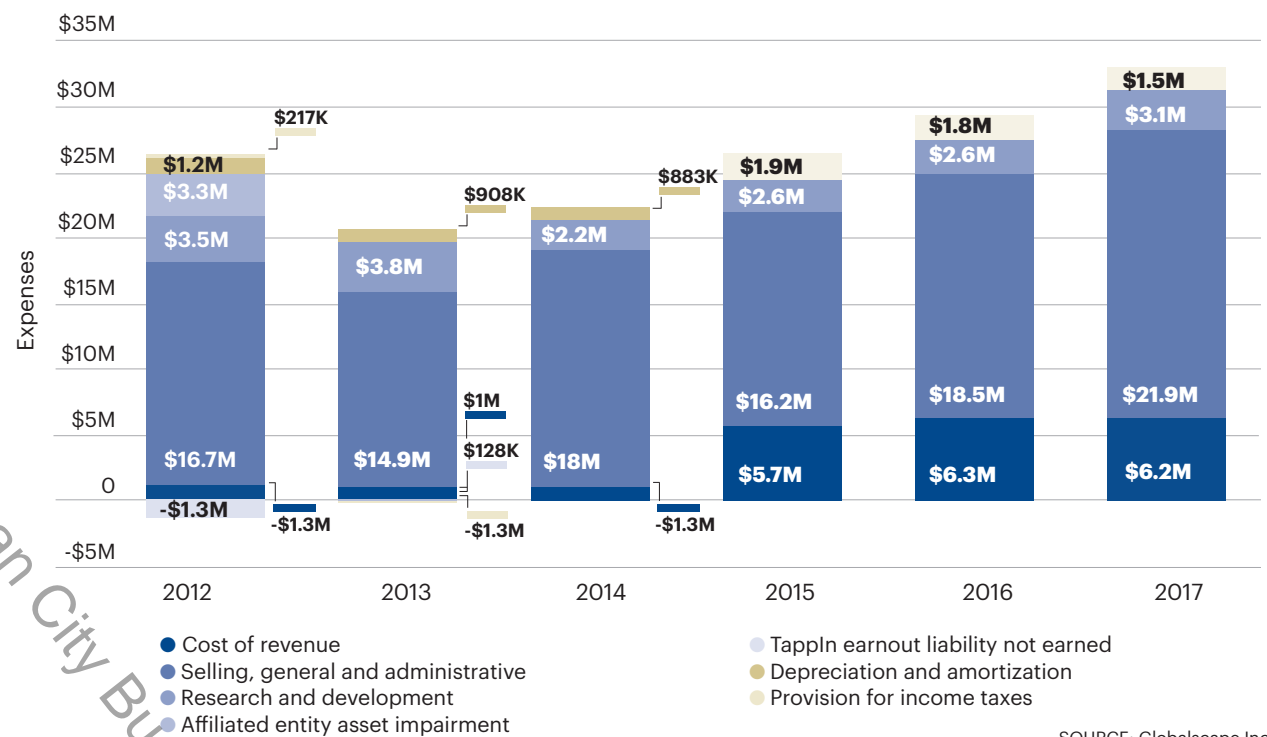
For now, Burke's experiences offers as much insight as any into the business's culture.

Burke said he had only been on the job for a few months and was feeling the pressure to meet expectations.

"This wasn't about greed," he told the federal judge on Nov. 29. "This case was about fear of being berated by management and losing my job."

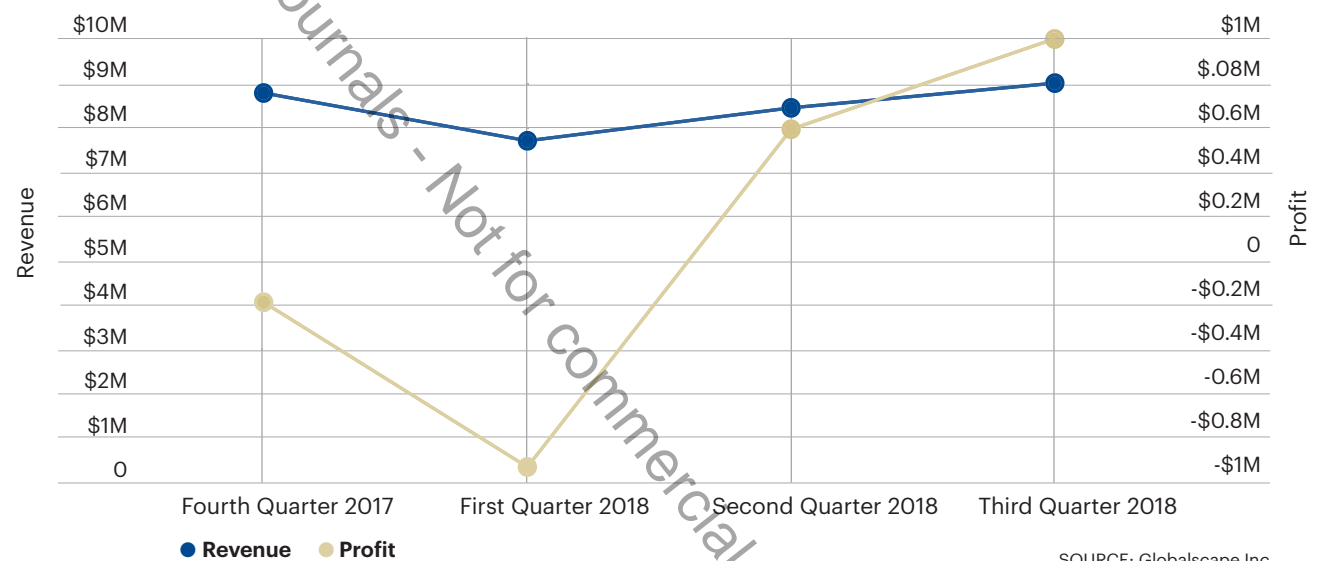
## GLOBALSCAPE INC. ANNUAL EXPENSES, 2012-17

Globalscape Inc.'s cost of revenue and expenses for selling, general and administrative activities have contributed the most to its increase in total expenses since 2012.



## GLOBALSCAPE INC. QUARTERLY REVENUE VS PROFIT, 4Q17-3Q18

Globalscape's revenue has been mostly flat during the last four quarters, while its net income has fluctuated between profits and losses.



## GLOBALSCAPE ANNUAL REVENUE VS PROFIT, 2011-17

While Globalscape Inc.'s annual revenue has risen steadily over the last several fiscal years, its profit has fluctuated from a \$1.8 million loss to a \$4.5 million gain. Profit has declined in the last two fiscal years to less than \$1.4 million.

