

FalconStor Software, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018	December 31, 2017
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,563,260	\$ 1,011,472
Accounts receivable, net	3,118,556	4,168,015
Prepaid expenses and other current assets	1,415,950	1,244,494
Contract assets, net	1,624,533	—
Total current assets	10,722,299	6,423,981
Property and equipment, net	557,799	636,112
Deferred tax assets, net	618,078	590,977
Software development costs, net	236,991	279,414
Other assets, net	966,867	992,760
Goodwill	4,150,339	4,150,339
Other intangible assets, net	134,628	141,631
Contract assets	\$ 1,786,369	\$ —
Total assets	\$ 19,173,370	\$ 13,215,214
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 1,271,429	\$ 1,092,864
Accrued expenses	2,622,150	4,376,235
Short-term loan, net of debt issuance costs and discounts	—	370,151
Deferred revenue, net	7,391,371	11,760,327
Total current liabilities	11,284,950	17,599,577
Other long-term liabilities	1,140,671	1,154,512
Notes payable, net	2,468,696	—
Warrant liability	4,143,000	—
Deferred tax liabilities, net	85,559	85,559
Deferred revenue, net	5,748,448	6,600,363
Total liabilities	24,871,324	25,440,011
Commitments and contingencies		
Series A redeemable convertible preferred stock	8,747,789	9,000,000
Total stockholders' deficit	(14,445,743)	(21,224,797)
Total liabilities and stockholders' deficit	\$ 19,173,370	\$ 13,215,214

FalconStor Software, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenue:		
Product revenue	\$ 1,933,944	\$ 1,921,052
Support and services revenue	3,060,005	4,118,063
Total revenue	<u>4,993,949</u>	<u>6,039,115</u>
Cost of revenue:		
Product	26,150	198,715
Support and service	728,888	1,253,916
Total cost of revenue	<u>755,038</u>	<u>1,452,631</u>
Gross profit	\$ 4,238,911	\$ 4,586,484
Operating expenses:		
Research and development costs	1,004,698	2,294,863
Selling and marketing	1,193,550	2,050,542
General and administrative	1,654,940	1,621,551
Restructuring costs (benefit)	(173,263)	(236,302)
Total operating expenses	<u>3,679,925</u>	<u>5,730,654</u>
Operating income (loss)	<u>558,986</u>	<u>(1,144,170)</u>
Interest and other income (loss), net	10,330	154,921
Income (Loss) before income taxes	569,316	(989,249)
Provision for income taxes	62,439	122,948
Net income (loss)	<u>\$ 506,877</u>	<u>\$ (1,112,197)</u>
Less: Accrual of Series A redeemable convertible preferred stock dividends	243,167	204,575
Less: Deemed dividend on Series A redeemable convertible preferred stock	2,269,042	—
Less: Accretion to redemption value of Series A redeemable convertible preferred stock	38,105	—
Net loss attributable to common stockholders	<u>\$ (2,043,437)</u>	<u>\$ (1,316,772)</u>
Basic net loss per share attributable to common stockholders	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>
Diluted net loss per share attributable to common stockholders	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>
Weighted average basic shares outstanding	44,564,094	44,088,352
Weighted average diluted shares outstanding	<u>44,564,094</u>	<u>44,088,352</u>