FalconStor Software, Inc. and Subsidiaries CONDENSED CONSOLIDATED BALANCE SHEETS

Marketable securities 10,582,030 10,900,77 Accounts receivable, net 5,051,870 8,898,66 Prepaid expenses and other current assets 1,644,379 1,596,9 Inventory 156,871 352,4 Deferred tax assets, net 300,343 316,51 Total current assets 23,218,872 32,939,21 Property and equipment, net 1,821,309 2,147,11 Deferred tax assets, net 7,503 7,50 Software development costs, net 1,128,553 1,508,5 Other assets, net 1,154,717 1,373,90 Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,00 Total assets 3,174,137 8,23,22,80 Liabilities 3,174,137 8,23,22,80 Liabilities 3,174,137 6,93,18 Accounts payable \$1,387,493 \$1,266,54 Accrued expenses 7,418,471 6,939,18 Deferred tax liabilities, net 23,307 23,30 Deferred tax liabilities, net 23,307<		September 30, 2015	December 31, 2014
Current assets: Cash and cash equivalents \$ 5,483,379 \$ 10,873,88 Marketable securities 10,582,030 10,900,73 Accounts receivable, net 5,051,870 8,898,61 Prepaid expenses and other current assets 1,644,379 1,596,91 Inventory 156,871 352,48 Deferred tax assets, net 300,343 316,55 Total current assets 23,218,872 32,939,21 Property and equipment, net 1,821,390 2,147,11 Deferred tax assets, net 7,503 7,50 Software development costs, net 1,158,253 1,508,5 Other assets, net 1,154,717 1,373,90 Goodwill 4,150,339 4,150,339 Other intangible assets, net 260,004 196,00 Total assets \$ 31,741,378 \$ 42,322,80 Liabilities \$ 31,741,378 \$ 42,322,80 Liabilities \$ 1,387,493 \$ 1,266,50 Accounts payable \$ 1,387,493 \$ 1,266,50 Accounts payable \$ 1,387,493 \$ 23,307		(unaudited)	
Cash and cash equivalents \$ 5,483,79 \$ 10,878,88 Marketable securities 10,582,030 10,900,77 Accounts receivable, net \$ 5,051,870 8,898,66 Prepaid expenses and other current assets 1,644,379 1,596,9 Inventory 156,871 352,4 Deferred tax assets, net 300,343 316,51 Total current assets 23,218,872 23,293,21 Property and equipment, net 1,821,390 2,147,11 Deferred tax assets, net 7,503 7,50 Software development costs, net 1,128,553 1,508,5 Other assets, net 1,154,717 1,373,9 Goodwill 4,150,339 4,150,339 Other intangible assets, net 260,004 196,00 Total assets 3,3741,378 \$ 42,322,85 Liabilities 3,1741,378 \$ 42,322,85 Liabilities and Stockholders' Deficit 200,004 196,00 Current liabilities 7,418,471 6,939,11 Accrued expenses 7,418,471 6,939,11 Deferred tax liabi	Assets		
Marketable securities 10,582,030 10,900,77 Accounts receivable, net 5,051,870 8,898,66 Prepaid expenses and other current assets 1,644,379 1,596,9 Inventory 156,871 352,4 Deferred tax assets, net 300,343 316,51 Total current assets 23,218,872 32,939,21 Property and equipment, net 1,821,390 2,147,11 Deferred tax assets, net 7,503 7,50 Software development costs, net 1,154,717 1,373,90 Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,00 Total assets 31,741,378 \$42,322,80 Liabilities 2 31,741,378 \$42,322,80 Liabilities 31,387,493 \$1,266,54 \$42,322,80 Current liabilities 7,418,471 6,939,18 \$42,322,80 Deferred expenses 7,418,471 6,939,18 \$42,322,80 \$42,331,751 31,000,00 \$42,651,48 \$42,331,751 31,000,00 \$42,651,48 \$42,331,751 <td>Current assets:</td> <td></td> <td></td>	Current assets:		
Accounts receivable, net 5,051,870 8,898,66 Prepaid expenses and other current assets 1,644,379 1,596,9 Inventory 156,871 352,48 Deferred tax assets, net 300,343 316,51 Total current assets 23,218,872 32,939,21 Property and equipment, net 1,821,390 2,147,11 Deferred tax assets, net 7,503 7,50 Software development costs, net 1,128,553 1,588,5 Other assets, net 1,154,717 1,373,9 Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,00 Total assets \$31,741,378 \$42,322,80 Liabilities and Stockholders' Deficit Current liabilities Accorused expenses 7,418,471 6,939,19 Accorused expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Total current liabilities 717,200 630,4	Cash and cash equivalents	\$ 5,483,379	\$ 10,873,891
Prepaid expenses and other current assets 1,644,379 1,596,90 Inventory 156,871 352,44 Deferred tax assets, net 300,343 316,50 Total current assets 23,218,872 32,939,20 Property and equipment, net 1,821,390 2,147,11 Deferred tax assets, net 7,503 7,5 Software development costs, net 1,128,553 1,508,5 Other assets, net 1,154,717 1,373,90 Goodwill 4,150,339 4,150,339 4,150,339 Other intangible assets, net 260,004 196,00 Total assets \$31,741,378 \$42,322,80 Liabilities \$31,741,378 \$42,322,80 Liabilities \$31,741,378 \$42,322,80 Accounts payable \$1,387,493 \$1,266,50 Accured expenses 7,418,471 6,939,10 Accured expenses 7,418,471 6,939,10 Deferred tax liabilities, net 23,307 23,300 Other long-term liabilities 717,200 630,4 Deferred tax liabilities	Marketable securities	10,582,030	10,900,722
Inventory 156,871 352,44 Deferred tax assets, net 300,343 316,53 Total current assets 23,218,872 32,939,23 Property and equipment, net 1,821,390 2,147,13 Deferred tax assets, net 7,503 7,5 Software development costs, net 1,128,553 1,508,5 Other assets, net 1,154,717 1,373,90 Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,00 Total assets \$ 31,741,378 \$ 42,322,80 Liabilities 2 31,741,378 \$ 42,322,80 Liabilities and Stockholders' Deficit 2 31,741,378 \$ 42,322,80 Current liabilities \$ 1,387,493 \$ 1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,300,0 Total current liabilities 717,200 630,4 Deferred tax liabilities, net 252,298 226,4 Deferred tax liabilities, net 252,298 226,4 Deferred tax liabilities	Accounts receivable, net	5,051,870	8,898,680
Deferred tax assets, net 30,343 316,543 Total current assets 23,218,872 32,939,243 Property and equipment, net 1,821,390 2,147,143 Deferred tax assets, net 7,503 7,50 Software development costs, net 1,128,553 1,508,5 Other assets, net 1,154,717 1,373,90 Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,00 Total assets 31,741,378 \$42,322,80 Exhibities and Stockholders' Deficit Current liabilities Accrued expenses 7,418,471 6,939,19 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,00 Other long-term liabilities 717,200 630,4 Deferred tax liabilities, net 252,298 226,4 Deferred tax liabilities, net 252,298 226,4 Deferred tax liabilities, net 34,561,397 45,563,12	Prepaid expenses and other current assets	1,644,379	1,596,916
Total current assets 23,218,872 32,939,20 Property and equipment, net 1,821,390 2,147,11 Deferred tax assets, net 7,503 7,5 Software development costs, net 1,128,553 1,508,5 Other assets, net 1,154,717 1,373,9 Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,0 Total assets \$31,741,378 \$42,322,85 Liabilities and Stockholders' Deficit Current liabilities Accounts payable \$1,387,493 \$1,266,50 Accrued expenses 7,418,471 6,939,15 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Other long-term liabilities 24,331,751 31,609,0 Other long-term liabilities, net 252,298 226,4 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies 7,661,884 7,230,94 Series A r	Inventory	156,871	352,493
Property and equipment, net 1,821,390 2,147,14 Deferred tax assets, net 7,503 7,5 Software development costs, net 1,128,553 1,508,5 Other assets, net 1,154,717 1,373,9 Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,0 Total assets 31,741,378 \$42,322,8 Liabilities and Stockholders' Deficit Current liabilities. 1,387,493 \$1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Total current liabilities 24,331,751 31,609,00 Other long-term liabilities 717,200 630,4 Deferred revenue, net 252,298 226,4 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,10 Commitments and contingencies 5 7,661,884 7,230,9 Series A redeemable convertible preferre	Deferred tax assets, net	300,343	316,586
Deferred tax assets, net 7,503 7,505 Software development costs, net 1,128,553 1,508,55 Other assets, net 1,154,717 1,373,90 Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,00 Total assets \$ 31,741,378 \$ 42,322,80 Liabilities and Stockholders' Deficit Current liabilities Accounts payable \$ 1,387,493 \$ 1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Other long-term liabilities 717,200 630,4 Deferred tax liabilities, net 252,298 226,4 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies 5 7,661,884 7,230,90 Series A redeemable convertible preferred stock 7,661,884 7,230,90 Total stockholders' deficit (10,481	Total current assets	23,218,872	32,939,288
Software development costs, net 1,128,553 1,508,5 Other assets, net 1,154,717 1,373,94 Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,00 Total assets 31,741,378 42,322,80 Liabilities and Stockholders' Deficit Current liabilities Accounts payable \$1,387,493 \$1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Other long-term liabilities 717,200 630,4 Deferred tax liabilities, net 252,298 226,4 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies 5 7,661,884 7,230,90 Series A redeemable convertible preferred stock 7,661,884 7,230,90 Total stockholders' deficit (10,481,903) (10,471,25)	Property and equipment, net	1,821,390	2,147,188
Other assets, net 1,154,717 1,373,90 Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,00 Total assets \$ 31,741,378 \$ 42,322,80 Liabilities and Stockholders' Deficit Current liabilities: Accounts payable \$ 1,387,493 \$ 1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Other long-term liabilities 24,331,751 31,609,0 Other long-term liabilities, net 252,298 226,4 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,1 Commitments and contingencies 7,661,884 7,230,9 Series A redeemable convertible preferred stock 7,661,884 7,230,9 Total stockholders' deficit (10,481,903) (10,471,20)	Deferred tax assets, net	7,503	7,503
Goodwill 4,150,339 4,150,33 Other intangible assets, net 260,004 196,00 Total assets \$31,741,378 \$42,322,80 Liabilities and Stockholders' Deficit Current liabilities: Accounts payable \$1,387,493 \$1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Total current liabilities 24,331,751 31,609,0 Other long-term liabilities, net 252,298 226,4 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies 5 7,661,884 7,230,94 Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Software development costs, net	1,128,553	1,508,517
Other intangible assets, net 260,004 196,00 Total assets \$ 31,741,378 \$ 42,322,80 Liabilities and Stockholders' Deficit Current liabilities: Accounts payable \$ 1,387,493 \$ 1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Total current liabilities 717,200 630,44 Deferred tax liabilities, net 252,298 226,44 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Other assets, net	1,154,717	1,373,964
Total assets \$ 31,741,378 \$ 42,322,83 Liabilities and Stockholders' Deficit Current liabilities: Accounts payable \$ 1,387,493 \$ 1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,38 Deferred revenue, net 15,502,480 23,380,0 Other long-term liabilities 24,331,751 31,609,00 Other long-term liabilities, net 252,298 226,44 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies 5 7,661,884 7,230,94 Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Goodwill	4,150,339	4,150,339
Liabilities and Stockholders' Deficit Current liabilities: Accounts payable \$ 1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Total current liabilities 24,331,751 31,609,00 Other long-term liabilities 717,200 630,44 Deferred revenue, net 252,298 226,44 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Other intangible assets, net	260,004	196,037
Current liabilities: Accounts payable \$ 1,387,493 \$ 1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Other long-term liabilities 24,331,751 31,609,00 Other long-term liabilities, net 252,298 226,44 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,10 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,20)	Total assets	\$ 31,741,378	\$ 42,322,836
Accounts payable \$ 1,387,493 \$ 1,266,50 Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Total current liabilities 24,331,751 31,609,00 Other long-term liabilities 717,200 630,44 Deferred tax liabilities, net 252,298 226,44 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Liabilities and Stockholders' Deficit		
Accrued expenses 7,418,471 6,939,19 Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Total current liabilities 24,331,751 31,609,00 Other long-term liabilities 717,200 630,44 Deferred tax liabilities, net 252,298 226,44 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Current liabilities:		
Deferred tax liabilities, net 23,307 23,30 Deferred revenue, net 15,502,480 23,380,0 Total current liabilities 24,331,751 31,609,02 Other long-term liabilities 717,200 630,44 Deferred tax liabilities, net 252,298 226,44 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Accounts payable	\$ 1,387,493	\$ 1,266,504
Deferred revenue, net 15,502,480 23,380,0 Total current liabilities 24,331,751 31,609,02 Other long-term liabilities 717,200 630,4 Deferred tax liabilities, net 252,298 226,4 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Accrued expenses	7,418,471	6,939,198
Total current liabilities 24,331,751 31,609,02 Other long-term liabilities 717,200 630,44 Deferred tax liabilities, net 252,298 226,44 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Deferred tax liabilities, net	23,307	23,307
Other long-term liabilities 717,200 630,44 Deferred tax liabilities, net 252,298 226,44 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Deferred revenue, net	15,502,480	23,380,012
Deferred tax liabilities, net 252,298 226,44 Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Total current liabilities	24,331,751	31,609,021
Deferred revenue, net 9,260,148 13,097,2 Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Other long-term liabilities	717,200	630,444
Total liabilities 34,561,397 45,563,12 Commitments and contingencies Series A redeemable convertible preferred stock 7,661,884 7,230,94 Total stockholders' deficit (10,481,903) (10,471,22)	Deferred tax liabilities, net	252,298	226,443
Commitments and contingencies Series A redeemable convertible preferred stock Total stockholders' deficit 7,661,884 7,230,94 (10,481,903) (10,471,22)	Deferred revenue, net	9,260,148	13,097,215
Series A redeemable convertible preferred stock Total stockholders' deficit 7,661,884 7,230,94 (10,481,903) (10,471,22)	Total liabilities	34,561,397	45,563,123
Total stockholders' deficit (10,481,903) (10,471,22	Commitments and contingencies		
	Series A redeemable convertible preferred stock	7,661,884	7,230,941
Total liabilities and stockholders' deficit \$ 31,741,378 \$ 42,322,83	Total stockholders' deficit	(10,481,903)	(10,471,228)
	Total liabilities and stockholders' deficit	\$ 31,741,378	\$ 42,322,836

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

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2015		2014		2015		2014
Revenue:							
Product revenue	\$ 3,756,579	\$	3,940,479	\$	21,377,450	\$	13,156,024
Support and services revenue	5,926,647		7,234,961		17,798,241		21,323,582
Total revenue	9,683,226		11,175,440		39,175,691		34,479,606
Cost of revenue:							
Product	510,861		834,628		1,619,142		2,107,974
Support and service	1,915,090		1,757,716		5,875,837		5,866,408
Total cost of revenue	2,425,951		2,592,344		7,494,979		7,974,382
Gross profit	\$ 7,257,275	\$	8,583,096	\$	31,680,712	\$	26,505,224
Operating expenses:							
Research and development costs	3,454,128		2,995,150		9,727,727		9,487,169
Selling and marketing	4,128,814		5,776,558		13,805,689		18,016,971
General and administrative	2,132,665		2,140,460		7,209,499		6,896,250
Investigation, litigation, and settlement related (benefits) costs	_		(22,502)		8,842		(5,186,711)
Restructuring costs	15,024		259,078		172,995		1,045,564
Total operating expenses	9,730,631		11,148,744		30,924,752		30,259,243
Operating (loss) income	(2,473,356)		(2,565,648)		755,960		(3,754,019)
Interest and other income (loss), net	25,697		(504,124)		(339,968)		(484,998)
(Loss) income before income taxes	(2,447,659)		(3,069,772)		415,992		(4,239,017)
Provision for income taxes	134,280		162,627		403,736		464,233
Net (loss) income	\$ (2,581,939)	\$	(3,232,399)	\$	12,256	\$	(4,703,250)
Less: Accrual of Series A redeemable convertible preferred stock dividends	190,786		186,904		568,476		560,712
Less: Accretion to redemption value of Series A redeemable convertible preferred stock	149,969		125,915		430,943		361,822
Net loss attributable to common stockholders	\$ (2,922,694)	\$	(3,545,218)	\$	(987,163)	\$	(5,625,784)
Basic net loss per share attributable to common stockholders	\$ (0.07)	\$	(0.08)	\$	(0.02)	\$	(0.12)
Diluted net loss per share attributable to common stockholders	\$ (0.07)	\$	(0.08)	\$	(0.02)	\$	(0.12)
Weighted average basic shares outstanding	41,113,431		45,158,184		41,004,976		47,025,887
Weighted average diluted shares outstanding	41,113,431		45,158,184		41,004,976		47,025,887

FalconStor Software, Inc. and Subsidiaries Reconciliation of GAAP to Non-GAAP Financial Measures (Unaudited)

Non-GAAP net (loss) income \$ (2,194,742) \$ (2,624,765) \$ 1,367,040 \$ (7,638,624) GAAP gross margin 75 % 77 % 81% 77 Non-cash stock option expense (1) 0 % 0 % 0% 0 GAAP gross margin - Product 86 % 79 % 92% 84 Non-cash stock option expense (1) 0 % 0 % 0% 0 0 Non-GAAP gross margin - Product 86 % 79 % 92% 84 GAAP gross margin - Support and Service 68 % 76 % 67% 72 Non-cash stock option expense (1) 0 % 0 % 0% 0 0 Non-GAAP gross margin - Support and Service 68 % 76 % 67% 72 Non-cash stock option expense (1) 0 % 0 % 0% 0 GAAP operating margin (26%) (23%) 2% (11 Non-cash stock option expense (1) 4% 3% 3% 3 3 3 3 3 3 3 3 3 3<			Three Months Ended September 30,			Nine Months Ended September 30,		
Non-cash stock option expense (1) 372,173 371,058 1,172,947 1,205,773 Legal related (benefits) costs (3) - (22,502) 8,842 (5,186,711 Restructuring costs (4) 15,024 259,078 172,995 1,045,566 Non-GAAP (loss) income from operations \$(2,086,159) \$(1,958,014) \$(2,110,744 \$(6,689,392 GAAP net loss attributable to common stockholders \$(2,022,694) \$(3,545,218) \$(987,163) \$(5,625,778 Non-cash stock option expense, net of income taxes (2) 372,173 371,058 1,172,947 1,205,773 Restructuring costs (3) - (22,502) 8,842 (5,186,711 Restructuring costs (4) 15,024 259,078 172,995 1,045,566 Effects of Series A redeemable convertible preferred stock (5) 340,755 312,819 999,419 922,534 Non-GAAP net (loss) income \$(2,194,742) \$(2,624,765) \$(3,670,40) \$(7,638,624 Non-GAAP gross margin 75 % 77 % 811% 77 Non-Cash stock option expense (1) 0 % 0 % 0 % 0 % Non-GAAP gross margin - Product 86 % 79 % 929% 88 Non-GAAP gross margin - Product 86 % 79 % 929% 88 Non-GAAP gross margin - Product 86 % 79 % 929% 88 GAAP gross margin - Product 86 % 79 % 929% 88 GAAP gross margin - Product 86 % 79 % 929% 88 GAAP gross margin - Product 86 % 79 % 929% 88 GAAP gross margin - Support and Service 68 % 76 % 67% 77 Non-GAAP gross margin - Support and Service 68 % 76 % 67% 77 GAAP gross margin - Support and Service 68 % 76 % 67% 77 GAAP gross margin - Support and Service 68 % 76 % 67% 77 GAAP gross margin - Support and Service 68 % 76 % 67% 77 GAAP gross margin - Support and Service 68 % 76 % 67% 77 GAAP gross margin - Support and Service 68 % 76 % 67% 77 GAAP gross margin - Support and Service 68 % 76 % 67% 77 GAAP gross margin - Support and Service 68 % 76 % 67% 67% 77 GAAP gross margin - Support and Service 68 % 76 % 6		2015	2014		2015		2014	
Legal related (benefits) costs (3)	GAAP (loss) income from operations	\$ (2,473,356)	\$ (2,565,648)	\$	755,960	\$ (3,	754,019)	
Restructuring costs (4)	Non-cash stock option expense (1)	372,173	371,058		1,172,947	1,	205,773	
Non-GAAP (loss) income from operations S (2,086,159) S (1,958,014) S 2,110,744 S (6,689,393,300)	Legal related (benefits) costs (3)	_	(22,502)		8,842	(5,	186,711)	
GAAP net loss attributable to common stockholders \$ (2,922,694) \$ (3,545,218) \$ (987,163) \$ (5,625,788) Non-cash stock option expense, net of income taxes (2) 372,173 371,058 1,172,947 1,205,773 Legal related (benefits) costs (3) — (22,502) 8,842 (5,186,711) Restructuring costs (4) 15,024 259,078 172,995 1,045,566 Effects of Series A redeemable convertible preferred stock (5) 340,755 312,819 999,419 922,532 Non-GAAP net (loss) income \$ (2,194,742) \$ (2,624,765) \$ 1,367,040 \$ (7,638,624) GAAP gross margin 75 % 77 % 81% 77 Non-cash stock option expense (1) 0 % 0 % 0% 0 Non-GAAP gross margin - Product 86 % 79 % 92% 88 Non-GAAP gross margin - Product 86 % 79 % 92% 88 GAAP gross margin - Product 86 % 76 % 67% 72 GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP gross margin	Restructuring costs (4)	15,024	259,078		172,995	1,	045,564	
Non-cash stock option expense, net of income taxes (2) 372,173 371,058 1,172,947 1,205,772 Legal related (benefits) costs (3) — (22,502) 8,842 (5,186,711 Restructuring costs (4) 15,024 259,078 172,995 1,045,564 Effects of Series A redeemable convertible preferred stock (5) 340,755 312,819 999,419 922,532 Non-GAAP net (loss) income \$ (2,194,742) \$ (2,624,765) \$ 1,367,040 \$ (7,638,624) GAAP gross margin 75 % 77 % 81% 77 Non-cash stock option expense (1) 0 % 0 % 0 % 0 GAAP gross margin - Product 86 % 79 % 92% 88 Non-cash stock option expense (1) 0 % 0 % 0 0 Non-GAAP gross margin - Product 86 % 79 % 92% 88 Non-GAAP gross margin - Support and Service 68 % 76 % 67% 72 Son-GAAP gross margin - Support and Service 68 % 76 % 67% 72 GAAP pograting margin (26%	Non-GAAP (loss) income from operations	\$ (2,086,159)	\$ (1,958,014)	\$	2,110,744	\$ (6,	689,393)	
Non-cash stock option expense, net of income taxes (2) 372,173 371,058 1,172,947 1,205,772 Legal related (benefits) costs (3) — (22,502) 8,842 (5,186,711 Restructuring costs (4) 15,024 259,078 172,995 1,045,566 Effects of Series A redeemable convertible preferred stock (5) 340,755 312,819 999,419 922,532 Non-GAAP net (loss) income \$ (2,194,742) \$ (2,624,765) \$ 1,367,040 \$ (7,638,624) GAAP gross margin 75 77 81% 77 Non-cash stock option expense (1) 0% 0% 0% 0 GAAP gross margin - Product 86 % 79 % 92% 88 Non-cash stock option expense (1) 0% 0% 0% 0 Non-GAAP gross margin - Product 86 % 79 % 92% 88 Non-GAAP gross margin - Product 86 % 79 % 92% 88 Non-GAAP gross margin - Support and Service 68 % 76 % 67% 72 GAAP poreating margin (200 (2	GAAP net loss attributable to common stockholders	\$ (2,922,694)	\$ (3,545,218)	\$	(987,163)	\$ (5,	625,784)	
Legal related (benefits) costs (3)	Non-cash stock option expense, net of income taxes (2)	372,173	371,058		1,172,947			
Restructuring costs (4) 15,024 259,078 172,995 1,045,564 Effects of Series A redeemable convertible preferred stock (5) 340,755 312,819 999,419 922,534 Non-GAAP net (loss) income \$ (2,194,742) \$ (2,624,765) \$ 1,367,040 \$ (7,638,624) GAAP gross margin 75 % 77 % 81% 77 Non-cash stock option expense (1) 0 % 0 % 0 % 0 Non-cash stock option expense (1) 0 % 0 % 0 % 0 Non-GAAP gross margin - Product 86 % 79 % 92% 84 Non-GAAP gross margin - Product 86 % 79 % 92% 84 Non-GAAP gross margin - Product 86 % 79 % 92% 84 GAAP gross margin - Product 86 % 76 % 67% 72 Mon-GAAP gross margin - Product 68 % 76 % 67% 72 Mon-GAAP gross margin - Support and Service 68 % 76 % 67% 72 Non-GAAP gross margin - Support and Service 68 % 76 % 67%<		_	(22,502)					
Non-GAAP net (loss) income \$ (2,194,742) \$ (2,624,765) \$ 1,367,040 \$ (7,638,624) GAAP gross margin 75 % 77 % 81% 77 Non-cash stock option expense (1) 0 % 0 % 0% 0% GAAP gross margin 75 % 77 % 81% 77 GAAP gross margin - Product 86 % 79 % 92% 84 Non-cash stock option expense (1) 0 % 0 % 0% 0 0 0 Non-gAAP gross margin - Product 86 % 79 % 92% 84 GAAP gross margin - Support and Service 68 % 76 % 67% 72 Non-cash stock option expense (1) 0 % 0 % 0% 0 0 0 GAAP gross margin - Support and Service 68 % 76 % 67% 73 73 73 73 73 73 73 74 74 74 74 74 74 74 74 74 74 74 74 74 74 74 74 <td>Restructuring costs (4)</td> <td>15,024</td> <td>259,078</td> <td></td> <td>172,995</td> <td>1,</td> <td>045,564</td>	Restructuring costs (4)	15,024	259,078		172,995	1,	045,564	
Non-GAAP net (loss) income \$ (2,194,742) \$ (2,624,765) \$ 1,367,040 \$ (7,638,624) GAAP gross margin 75 % 77 % 81% 77 Non-cash stock option expense (1) 0 % 0 % 0% 0% GAAP gross margin - Product 86 % 79 % 92% 84 Non-cash stock option expense (1) 0 % 0 % 0% 0 Non-GAAP gross margin - Product 86 % 79 % 92% 84 Non-GAAP gross margin - Support and Service 68 % 76 % 67% 72 Non-GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP operating margin (26%) (23%) 2% (11 </td <td>Effects of Series A redeemable convertible preferred stock (5)</td> <td>340,755</td> <td>312,819</td> <td></td> <td>999,419</td> <td></td> <td>922,534</td>	Effects of Series A redeemable convertible preferred stock (5)	340,755	312,819		999,419		922,534	
Non-cash stock option expense (1) 0 % 0 % 0 % 0 % Non-GAAP gross margin 75 % 77 % 81% 77 GAAP gross margin - Product 86 % 79 % 92% 84 Non-cash stock option expense (1) 0 % 0 % 0 % 0 Non-cash stock option expense (1) 0 % 0 % 0 % 0 Non-cash stock option expense (1) 0 % 0 % 0 % 0 Non-GAAP gross margin - Support and Service 68 % 76 % 67% 72 GAAP operating margin (26%) (23%) 2% (11 Non-cash stock option expense (1) 4% 3% 3% 3 Legal related (benefits) costs (3) 0% 0% 0% (15 Restructuring costs (4) 0% 2% 0% (15 Non-GAAP operating margin (22%) (18%) 5% (15 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2)	•	\$ (2,194,742)	\$ (2,624,765)	\$				
Non-cash stock option expense (1) 0 % 0 % 0 % 0 % Non-GAAP gross margin 75 % 77 % 81% 77 GAAP gross margin - Product 86 % 79 % 92% 84 Non-cash stock option expense (1) 0 % 0 % 0 % 0								
Non-GAAP gross margin	GAAP gross margin	75 %	77 %		81%		77 %	
GAAP gross margin - Product 86 % 79 % 92% 88 Non-cash stock option expense (1) 0 % 0 % 0 % 0	Non-cash stock option expense (1)	0 %	0 %		0%	0		
Non-cash stock option expense (1) 0 % 0 % 0 % 0 % Non-GAAP gross margin - Product 86 % 79 % 92% 82 GAAP gross margin - Support and Service 68 % 76 % 67% 72 Non-cash stock option expense (1) 0 % 0 % 0 % 0 Non-GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP operating margin (26%) (23%) 2% (11 Non-cash stock option expense (1) 4% 3% 3% 3 Legal related (benefits) costs (3) 0% 0% 0% 0 Restructuring costs (4) 0% 2% 0% 3 Mon-GAAP operating margin (22%) (18%) 5% (15 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 0.01	Non-GAAP gross margin	75 %	77 %		81%		77 %	
Non-cash stock option expense (1) 0 % 0 % 0 % 0 % Non-GAAP gross margin - Product 86 % 79 % 92% 82 GAAP gross margin - Support and Service 68 % 76 % 67% 72 Non-cash stock option expense (1) 0 % 0 % 0 % 0 Non-GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP operating margin (26%) (23%) 2% (11 Non-cash stock option expense (1) 4% 3% 3% 3 Legal related (benefits) costs (3) 0% 0% 0% 0 Restructuring costs (4) 0% 2% 0% 3 Non-GAAP operating margin (22%) (18%) 5% (15 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 0.01								
Non-GAAP gross margin - Product 86 % 79 % 92% 82 GAAP gross margin - Support and Service 68 % 76 % 67% 72 Non-cash stock option expense (1) 0 % 0 % 0 % 0 Non-GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP operating margin (26%) (23%) 2% (11 Non-cash stock option expense (1) 4% 3% 3% 3 Legal related (benefits) costs (3) 0% 0% 0% 0% 15 Restructuring costs (4) 0% 2% 0% 3 Non-GAAP operating margin (22%) (18%) 5% (15 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 0.00 Restructuring costs (4) 0.00 0.01 0.00 0.02							84 %	
GAAP gross margin - Support and Service 68 % 76 % 67% 72 Non-cash stock option expense (1) 0 % 0 % 0 % 0 % 0 % 0 % 0 % 0 % 0 % 0							0 %	
Non-cash stock option expense (1) 0 % 0 % 0 % 0 % Non-GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP operating margin (26%) (23%) 2% (11 Non-cash stock option expense (1) 4% 3% 3% 3 Legal related (benefits) costs (3) 0% 0% 0% 0% (15 Restructuring costs (4) 0% 2% 0% 3 Non-GAAP operating margin (22%) (18%) 5% (19 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 0.00 Restructuring costs (4) 0.00 0.01 0.00 0.02 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02	Non-GAAP gross margin - Product	86 %	79 %		92%	_	84 %	
Non-GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP operating margin (26%) (23%) 2% (11 Non-cash stock option expense (1) 4% 3% 3% 3 Legal related (benefits) costs (3) 0% 0% 0% 0% 15 Restructuring costs (4) 0% 2% 0% 3 Non-GAAP operating margin (22%) (18%) 5% (19 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12 Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 0.01 Restructuring costs (4) 0.00 0.01 0.00 0.02 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02	GAAP gross margin - Support and Service	68 %	76 %		67%		72 %	
Non-GAAP gross margin - Support and Service 68 % 76 % 67% 73 GAAP operating margin (26%) (23%) 2% (11 Non-cash stock option expense (1) 4% 3% 3% 3 Legal related (benefits) costs (3) 0% 0% 0% 0% 15 Restructuring costs (4) 0% 2% 0% 3 Non-GAAP operating margin (22%) (18%) 5% (19 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12 Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 0.01 Restructuring costs (4) 0.00 0.01 0.00 0.02 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02	Non-cash stock option expense (1)	0 %	0 %		0%		0 %	
Non-cash stock option expense (1) 4% 3% 3% 3 Legal related (benefits) costs (3) 0% 0% 0% 0% 0% 15 Restructuring costs (4) 0% 2% 0% 3 Non-GAAP operating margin (22%) (18%) 5% (19 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 0.01 Restructuring costs (4) 0.00 0.01 0.00 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02	• • • • • • • • • • • • • • • • • • • •	68 %	76 %		67%		73 %	
Non-cash stock option expense (1) 4% 3% 3% 3 Legal related (benefits) costs (3) 0% 0% 0% 0% 0% 15 Restructuring costs (4) 0% 2% 0% 3 Non-GAAP operating margin (22%) (18%) 5% (19 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 0.01 Restructuring costs (4) 0.00 0.01 0.00 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02	GAAP operating margin	(26%)	(23%)		29/		(11%)	
Legal related (benefits) costs (3) 0% 0% 0% 0% 0% 15 Restructuring costs (4) 0% 2% 0% 3 Non-GAAP operating margin (22%) (18%) 5% (19 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.01 0.00 0.01 Restructuring costs (4) 0.00 0.01 0.00 0.02 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02			. ,				3%	
Restructuring costs (4) 0% 2% 0% 3 Non-GAAP operating margin (22%) (18%) 5% (19 GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 (0.11 Restructuring costs (4) 0.00 0.01 0.00 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02	* * * * * * * * * * * * * * * * * * * *						(15%)	
Non-GAAP operating margin (22%) (18%) 5% (18%) GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 0.01 Restructuring costs (4) 0.00 0.01 0.00 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02							3%	
GAAP Basic EPS \$ (0.07) \$ (0.08) \$ (0.02) \$ (0.12) Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 (0.11) Restructuring costs (4) 0.00 0.01 0.00 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02							(19%)	
Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 (0.11 Restructuring costs (4) 0.00 0.01 0.00 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02	Non-OAAI operating margin	(22/0)	(10/0)	-	370		(1970)	
Non-cash stock option expense, net of income taxes (2) 0.01 0.01 0.03 0.03 Legal related (benefits) costs (3) 0.00 0.00 0.00 0.00 (0.11 Restructuring costs (4) 0.00 0.01 0.00 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02	GAAP Basic EPS	\$ (0.07)	\$ (0.08)	\$	(0.02)	\$	(0.12)	
Legal related (benefits) costs (3) 0.00 0.00 0.00 (0.11 Restructuring costs (4) 0.00 0.01 0.00 0.02 Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02	Non-cash stock option expense, net of income taxes (2)				` ′		0.03	
Restructuring costs (4) Effects of Series A redeemable convertible preferred stock (5) 0.00 0.01 0.00 0.01 0.02 0.02	* * * * * * * * * * * * * * * * * * * *	0.00					(0.11)	
Effects of Series A redeemable convertible preferred stock (5) 0.01 0.01 0.02 0.02	_ , , , , ,	0.00					0.02	
							0.02	
	Non-GAAP Basic EPS	\$ (0.05)	\$ (0.06)	\$	0.03	\$	(0.16)	

GAAP Diluted EPS	\$	(0.07)	\$	(0.08)	\$	(0.02)	\$	(0.12)
Non-cash stock option expense, net of income taxes (2)		0.01		0.01		0.03		0.03
Legal related (benefits) costs (3)		0.00		0.00		0.00		(0.11)
Restructuring costs (4)		0.00		0.01		0.00		0.02
Effects of Series A redeemable convertible preferred stock (5)		0.01		0.01		0.02		0.02
Non-GAAP Diluted EPS	\$	(0.05)	\$	(0.06)	\$	0.03	\$	(0.16)
Weighted average basic shares outstanding (GAAP and as adjusted)	41,	41,113,431		,158,184	41	,004,976	47,025,887	
Weighted average diluted shares outstanding (GAAP)	41,	41,113,431		,158,184	41	,004,976	47,025,887	
Weighted average diluted shares outstanding (as adjusted)	41,	41,113,431		,158,184	42	2,637,654	47,025,887	

Footnotes:

(1) Represents non-cash, stock-based compensation charges as follows:

	Three Months Ended September 30,					nths Ended mber 30,																																																			
	2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015		2015			2014	2015		2014
Cost of revenues - Product	\$	_	\$	_	\$ _	\$	_																																																		
Cost of revenues - Support and Service		26,653		20,563	80,357		74,900																																																		
Research and development costs		57,478		47,085	228,993		222,492																																																		
Selling and marketing		73,575		67,214	225,155		280,188																																																		
General and administrative		214,467		236,196	638,442		628,193																																																		
Total non-cash stock based compensation expense	\$	372,173	\$	371,058	\$ 1,172,947	\$	1,205,773																																																		

- (2) Represents the effects of non-cash stock-based compensation expense recognized in accordance with the FASB Accounting Standards Codification, Topic 718, net of related income tax effects. For the three and nine months ended September 30, 2015 and 2014, the tax expense for both GAAP and Non-GAAP basis approximate the same amount.
- (3) Legal related costs represent expenses/gains in connection with the Company's investigations, litigation and settlement related costs for each respective period presented.
- (4) Represents restructuring costs which were incurred during each respective period presented.
- (5) Represents the effects of the accretion to redemption value of the Series A redeemable convertible preferred stock and accrual of Series A redeemable convertible preferred stock dividends.