## FalconStor Software, Inc. and Subsidiaries CONDENSED CONSOLIDATED BALANCE SHEETS

(t Assets Current assets: Cash and cash equivalents Cash and cash equivalents Accounts receivable, net Prepaid expenses and other current assets Contract assets, net Total current assets Property and equipment, net Deferred tax assets, net	unaudited) 4,563,260 3,118,556 1,415,950 1,624,533 10,722,299 557,799 618,078 236,991 966,867 4,150,339	\$	1,011,472 4,168,015 1,244,494 
Current assets: Cash and cash equivalents Cash and cash equivalents Counts receivable, net Prepaid expenses and other current assets Contract assets, net Total current assets Property and equipment, net	3,118,556 1,415,950 1,624,533 10,722,299 557,799 618,078 236,991 966,867 4,150,339	\$	4,168,015 1,244,494 
Cash and cash equivalents\$Accounts receivable, netPrepaid expenses and other current assetsContract assets, net	3,118,556 1,415,950 1,624,533 10,722,299 557,799 618,078 236,991 966,867 4,150,339	\$	4,168,015 1,244,494 
Accounts receivable, net Prepaid expenses and other current assets Contract assets, net Total current assets Property and equipment, net	3,118,556 1,415,950 1,624,533 10,722,299 557,799 618,078 236,991 966,867 4,150,339	\$	4,168,015 1,244,494 
Prepaid expenses and other current assets Contract assets, net Total current assets Property and equipment, net	1,415,950 1,624,533 10,722,299 557,799 618,078 236,991 966,867 4,150,339	-	1,244,494 — 6,423,981 636,112 590,977 279,414 992,760
Contract assets, net Total current assets Property and equipment, net	1,624,533 10,722,299 557,799 618,078 236,991 966,867 4,150,339		
Total current assets Property and equipment, net	10,722,299 557,799 618,078 236,991 966,867 4,150,339		636,112 590,977 279,414 992,760
Property and equipment, net	557,799 618,078 236,991 966,867 4,150,339		636,112 590,977 279,414 992,760
	618,078 236,991 966,867 4,150,339		590,977 279,414 992,760
Deferred toy assets net	236,991 966,867 4,150,339		279,414 992,760
Deterred tax assets, net	966,867 4,150,339		992,760
Software development costs, net	4,150,339		
Other assets, net			
Goodwill			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)

Total operating expenses3,679,9255,730,654Operating income (loss)558,986(1,144,170)Interest and other income (loss), net10,330154,921Income (Loss) before income taxes569,316(989,249)Provision for income taxes62,439122,948Net income (loss)\$ 506,877\$ (1,112,197)Less: Accrual of Series A redeemable convertible preferred stock dividends243,167204,575Less: Accrual of Series A redeemable convertible preferred stock38,105—Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105—Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)		TI	Three Months Ended March 31,		
Product revenue         \$ 1,933,944         \$ 1,921,052           Support and services revenue         3,060,005         4,118,063           Total revenue         4,993,949         6,039,115           Cost of revenue:         26,150         198,715           Product         26,150         198,715           Support and service         728,888         1,253,916           Total cost of revenue         755,038         1,452,631           Gross profit         \$ 4,238,911         \$ 4,586,484           Operating expenses:         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)         (226,302)           Total operating expenses         3,679,925         5,730,654           Operating income (loss), net         10,330         154,921           Income (loss), net         10,330         154,921           Income (loss)         \$ 506,877         \$ (1,112,197)           Less: Accrual of Series A redeemable convertible preferred stock         2,269,042         -           Less: Accrual of Series A redeemable convertible preferred stock         2,269,042         - <th></th> <th></th> <th>2018</th> <th></th> <th>2017</th>			2018		2017
Support and services revenue         3,060,005         4,118,063           Total revenue         4,993,949         6,039,115           Cost of revenue:         26,150         198,715           Support and service         728,888         1,253,916           Total cost of revenue         755,038         1,452,631           Gross profit         \$ 4,238,911         \$ 4,586,484           Operating expenses:         1,004,698         2,294,863           Selling and marketing         1,03,550         2,050,542           General and administrative         1,651,940         1,621,551           Restructuring costs (benefit)         (113,263)         (236,302)           Total operating expenses         3,679,925         5,730,654           Operating income (loss)         558,986         (1,144,170)           Interest and other income (loss), net         10,330         154,921           Income (Loss) before income taxes         62,439         122,948           Net income (loss)         \$ 506,877         \$ (1,112,197)           Less: Accrual of Series A redeemable convertible preferred stock         2,269,042         -           Less: Accrual of Series A redeemable convertible preferred stock         2,269,042         -           Less: Accrual of Series A redeemable c	Revenue:				
Total revenue         4,993,949         6,039,115           Cost of revenue:         Product         26,150         198,715           Support and service         728,888         1,253,916           Total cost of revenue         755,038         1,452,631           Gross profit         \$ 4,238,911         \$ 4,586,484           Operating expenses:         1,004,698         2,294,863           Selling and marketing         1,03,550         2,050,542           General and administrative         1,654,940         1,621,551           Restructuring costs (benefit)         (173,203)         (236,302)           Total operating expenses         3,679,925         5,730,654           Operating income (loss)         558,986         (1,144,170)           Interest and other income (loss), net         10,330         154,921           Income (Loss) before income taxes         62,439         122,948           Net income (loss)         \$ 506,877         \$ (1,112,197)           Less: Accrual of Series A redeemable convertible preferred stock         2,269,042         -           Less: Accruit of series A redeemable convertible preferred stock         2,269,042         -           Less: Accruit of series A redeemable convertible preferred stock         2,269,042         - <t< td=""><td>Product revenue</td><td>\$</td><td>1,933,944</td><td>\$</td><td>1,921,052</td></t<>	Product revenue	\$	1,933,944	\$	1,921,052
Cost of revenue:         26,150         198,715           Product         26,150         198,715           Support and service         728,888         1,253,916           Total cost of revenue         755,038         1,452,631           Gross profit         \$ 4,238,911         \$ 4,586,484           Operating expenses:         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         3,679,925         5,730,654           Operating income (loss)         558,986         (1,144,170)           Interest and other income taxes         569,316         (989,249)           Provision for income taxes         569,316         (989,249)           Net income (loss)         \$ 62,439         122,948           Net income (loss) A redeemable convertible preferred stock         2,269,042         —           Less: Accretion to redemption value of Series A redeemable convertible preferred stock         38,105         —           Less: Accretion to redemption value of Series A redeemable convertible preferred stock         38,105         —           Le	Support and services revenue		3,060,005		4,118,063
Product         26,150         198,715           Support and service         728,888         1,253,916           Total cost of revenue         755,038         1,452,631           Gross profit         \$ 4,238,911         \$ 4,586,484           Operating expenses:         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         3,679,925         5,730,654           Operating income (loss)         558,986         (1,144,170)           Interest and other income taxes         569,316         (989,249)           Provision for income taxes         560,877         \$ (1,112,197)           Less: Accrual of Series A redeemable convertible preferred stock         2,26,042            Less: Accrual of Series A redeemable convertible preferred stock         38,105            Less: Accrual of Series A redeemable convertible preferred stock         38,105            Less: Accrual of Series A redeemable convertible preferred stock         38,105            Less: Accrual of Series A redeemable convertible preferred stock         38,105	Total revenue		4,993,949		6,039,115
Support and service         728,888         1,253,916           Total cost of revenue         755,038         1,452,631           Gross profit         \$4,238,911         \$4,586,484           Operating expenses:         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         3,679,925         5,730,654           Operating income (loss)         558,986         (1,144,170)           Interest and other income (loss), net         10,330         1154,921           Income (Loss) before income taxes         569,316         (989,249)           Provision for income taxes         62,439         122,948           Net income (loss)         \$506,877         \$ (1,112,197)           Less: Accrual of Series A redeemable convertible preferred stock         2,269,042            Less: Accruation to redemption value of Series A redeemable convertible preferred stock         38,105         -           Net loss attributable to common stockholders         \$ (2,043,437)         \$ (1,316,772)           Basic net loss per share attributable to common stockholders         \$ (0,05	Cost of revenue:				
Total cost of revenue         755,038         1,452,631           Gross profit         \$ 4,238,911         \$ 4,586,484           Operating expenses:         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         3,679,925         5,730,654           Operating income (loss)         558,986         (1,144,170)           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)         \$ 506,877         \$ (1,112,197)           Less: Accretion to redemption value of 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         \$ (0,03)         \$ (1,316,772)           Basic net loss per share attributable to common stockholders         \$ (0,03)         \$ (0,03)           Ubited net loss per share a	Product		26,150		198,715
Gross profit         \$ 4,238,911         \$ 4,586,484           Operating expenses:         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         3,679,925         5,730,654           Operating income (loss)         558,986         (1,144,170)           Interest and other income (loss), net         10,330         154,921           Income (Loss) before income taxes         569,316         (989,249)           Provision for income taxes         569,316         (989,249)           Net income (loss)         \$ 506,877         \$ (1,112,197)           Less: Accrual of Series A redeemable convertible preferred stock         38,105            Less: Accruation to redemption value of Series A redeemable convertible preferred stock         38,105            Net loss attributable to common stockholders         \$ (0,05)         \$ (1,316,772)           Basic net loss per share attributable to common stockholders         \$ (0,05)         \$ (0,03)           Weighted average basic shares outstanding         44,564,094         44,088,352	Support and service		728,888		1,253,916
Operating expenses:Research and development costs1,004,6982,294,863Selling and marketing1,193,5502,050,542General and administrative1,654,9401,621,551Restructuring costs (benefit)(173,263)(236,302)Total operating expenses3,679,9255,730,654Operating income (loss)558,986(1,144,170)Interest and other income (loss), net10,330154,921Income (Loss) before income taxes569,316(989,249)Provision for income taxes506,877\$ (1,112,197)Less: Accrual of Series A redeemable convertible preferred stock dividends243,167204,575Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105Net loss attributable to common stockholders\$ (0,05)\$ (0,03)Diluted net loss per share attributable to common stockholders\$ (0,05)\$ (0,03)Weighted average basic shares outstanding44,564,09444,088,352	Total cost of revenue		755,038		1,452,631
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       3,679,925       5,730,654         Operating income (loss)       558,986       (1,144,170)         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)       \$ 506,877       \$ (1,112,197)         Less: Accrual of Series A redeemable convertible preferred stock dividends       243,167       204,575         Less: Accretion to redemption value of Series A redeemable convertible preferred stock       38,105          Less: Accretion to redemption value of Series A redeemable convertible preferred stock       38,105          Net loss attributable to common stockholders       \$ (2,043,437)       \$ (1,316,772)         Basic net loss per share attributable to common stockholders       \$ (0,05)       \$ (0,03)         Diluted net loss per share attributable to common stockholders       \$ (0,05)       \$ (0,03)         Weigh	Gross profit	\$	4,238,911	\$	4,586,484
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       3,679,925       5,730,654         Operating income (loss)       558,986       (1,144,170)         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)       \$ 506,877       \$ (1,112,197)         Less: Accretion to redemption value of 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       \$ (2,043,437)       \$ (1,316,772)         Basic net loss per share attributable to common stockholders       \$ (0.05)       \$ (0.03)         Diluted net loss per share attributable to common stockholders       \$ (0.05)       \$ (0.03)         Weighted average basic shares outstanding       44,564,094       44,088,352	Operating expenses:				
General and administrative $1,654,940$ $1,621,551$ Restructuring costs (benefit) $(173,263)$ $(236,302)$ Total operating expenses $3,679,925$ $5,730,654$ Operating income (loss) $558,986$ $(1,144,170)$ 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) $\$$ $506,877$ $\$$ Less: Accrual of 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 $\$$ $(0.05)$ $\$$ Basic net loss per share attributable to common stockholders $\$$ $(0.05)$ $\$$ $(0.03)$ Weighted average basic shares outstanding $44,564,094$ $44,088,352$	Research and development costs		1,004,698		2,294,863
Restructuring costs (benefit)(173,263)(236,302)Total operating expenses3,679,9255,730,654Operating income (loss)558,986(1,144,170)Interest and other income (loss), net10,330154,921Income (Loss) before income taxes569,316(989,249)Provision for income taxes62,439122,948Net income (loss)\$ 506,877\$ (1,112,197)Less: Accrual of Series A redeemable convertible preferred stock243,167204,575Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Weighted average basic shares outstanding44,564,09444,088,352	Selling and marketing		1,193,550		2,050,542
Total operating expenses3,679,9255,730,654Operating income (loss)558,986(1,144,170)Interest and other income (loss), net10,330154,921Income (Loss) before income taxes569,316(989,249)Provision for income taxes62,439122,948Net income (loss)\$ 506,877\$ (1,112,197)Less: Accrual of Series A redeemable convertible preferred stock dividends243,167204,575Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0,05)\$ (0,03)Diluted net loss per share attributable to common stockholders\$ (0,05)\$ (0,03)Weighted average basic shares outstanding44,564,09444,088,352	General and administrative		1,654,940		1,621,551
Operating income (loss)558,986(1,144,170)Interest and other income (loss), net10,330154,921Income (Loss) before income taxes569,316(989,249)Provision for income taxes62,439122,948Net income (loss)\$ 506,877\$ (1,112,197)Less: Accrual of Series A redeemable convertible preferred stock2,269,042Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105Net loss attributable to common stockholders\$ (0,05)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0,05)\$ (0,03)Diluted net loss per share attributable to common stockholders\$ (0,05)\$ (0,03)Weighted average basic shares outstanding44,564,09444,088,352	Restructuring costs (benefit)		(173,263)		(236,302)
Interest and other income (loss), net10,330154,921Income (Loss) before income taxes569,316(989,249)Provision for income taxes62,439122,948Net income (loss)\$ 506,877\$ (1,112,197)Less: Accrual of Series A redeemable convertible preferred stock dividends243,167204,575Less: Deemed dividend on Series A redeemable convertible preferred stock2,269,042Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Diluted net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Weighted average basic shares outstanding44,564,09444,088,352	Total operating expenses		3,679,925		5,730,654
Income (Loss) before income taxes569,316(989,249)Provision for income taxes62,439122,948Net income (loss)\$ 506,877\$ (1,112,197)Less: Accrual of Series A redeemable convertible preferred stock dividends243,167204,575Less: Deemed dividend on Series A redeemable convertible preferred stock2,269,042Less: Accrucion to redemption value of Series A redeemable convertible preferred stock38,105Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Diluted net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Weighted average basic shares outstanding44,564,09444,088,352	Operating income (loss)		558,986	_	(1,144,170)
Provision for income taxes62,439122,948Net income (loss)\$ 506,877\$ (1,112,197)Less: Accrual of Series A redeemable convertible preferred stock dividends243,167204,575Less: Deemed dividend on Series A redeemable convertible preferred stock2,269,042-Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105-Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Diluted net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Weighted average basic shares outstanding44,564,09444,088,352	Interest and other income (loss), net		10,330		154,921
Net income (loss)\$ 506,877\$ (1,112,197)Less: Accrual of Series A redeemable convertible preferred stock dividends243,167204,575Less: Deemed dividend on Series A redeemable convertible preferred stock2,269,042Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Diluted net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Weighted average basic shares outstanding44,564,09444,088,352	Income (Loss) before income taxes		569,316		(989,249)
Less: Accrual of Series A redeemable convertible preferred stock dividends243,167204,575Less: Deemed dividend on Series A redeemable convertible preferred stock2,269,042Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Diluted net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Weighted average basic shares outstanding44,564,09444,088,352	Provision for income taxes		62,439		122,948
Less: Deemed dividend on Series A redeemable convertible preferred stock2,269,042Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Diluted net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Weighted average basic shares outstanding44,564,09444,088,352	Net income (loss)	\$	506,877	\$	(1,112,197)
Less: Accretion to redemption value of Series A redeemable convertible preferred stock38,105—Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Diluted net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Weighted average basic shares outstanding44,564,09444,088,352	Less: Accrual of Series A redeemable convertible preferred stock dividends		243,167		204,575
Net loss attributable to common stockholders\$ (2,043,437)\$ (1,316,772)Basic net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Diluted net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Weighted average basic shares outstanding44,564,09444,088,352	Less: Deemed dividend on Series A redeemable convertible preferred stock		2,269,042		—
Basic net loss per share attributable to common stockholders\$(0.05)\$(0.03)Diluted net loss per share attributable to common stockholders\$(0.05)\$(0.03)Weighted average basic shares outstanding44,564,09444,088,352	Less: Accretion to redemption value of Series A redeemable convertible preferred stock		38,105	_	—
Diluted net loss per share attributable to common stockholders\$ (0.05)\$ (0.03)Weighted average basic shares outstanding44,564,09444,088,352	Net loss attributable to common stockholders	\$	(2,043,437)	\$	(1,316,772)
Weighted average basic shares outstanding 44,564,094 44,088,352	Basic net loss per share attributable to common stockholders	\$	(0.05)	\$	(0.03)
	Diluted net loss per share attributable to common stockholders	\$	(0.05)	\$	(0.03)
Weighted average diluted shares outstanding44,564,09444,088,352	Weighted average basic shares outstanding		44,564,094	_	44,088,352
	Weighted average diluted shares outstanding		44,564,094		44,088,352