

FalconStor Software Announces Third Quarter 2013 Results

MELVILLE, N.Y., October 29, 2013—FalconStor Software, Inc. (NASDAQ: FALC), a market leader in data protection and migration, today announced financial results for its third quarter ended September 30, 2013.

“FalconStor continued its stabilization and rebalancing efforts during the past quarter. We entered into a joint-development agreement to build our next generation product, we completed a preferred equity placement and we rebalanced our assets and our resources to align with the future focus of the company,” said Gary Quinn, president and CEO of FalconStor. “Our efforts this quarter met our internal objectives, but we are always striving to improve as we move forward.”

Financial and Business Highlights and Overview:

- Total revenues increased 5% compared with the previous quarter; non-GAAP operating loss improved to \$1.6 million, compared with \$4.2 million non-GAAP operating loss in the previous quarter.
- Closed the quarter with \$29.5 million of cash, cash equivalents and marketable securities, compared with \$21.9 million at June 30th.
- Closed an equity investment of \$9.0 million from Hale Capital Partners, LP, on September 16, 2013.
- In connection with the investment by Hale Capital Partners, LP, Martin Hale Jr., was elected to the Company’s Board of Directors on September 16, 2013.
- Commenced a company-wide “rebalancing” during the quarter to rationalize all of the costs of our business. Based on these efforts, we have eliminated costs, or identified costs to be eliminated in the coming months, totaling approximately \$15 million to \$18 million on an annualized basis across all regions and functions of the business. These costs consist of both personnel and non-personnel expenses which we identified as not being core to our going forward business plan. We anticipate that we will continue to wind down certain costs during the fourth quarter and that we will incur additional restructuring costs during the fourth quarter.

Financials

Total revenues for the third quarter of 2013 were \$14.7 million, a decrease of 14 percent from \$17.1 million in the same period a year ago. GAAP loss from operations for the third quarter of 2013 was \$4.2 million, compared with an operating loss of \$3.6 million for the third quarter of 2012. GAAP net loss for the quarter was \$2.2 million compared with a net loss of \$3.6 million for the same period a year ago. Net loss attributable to common stockholders for the quarter, which includes the effects of the accretion to redemption value of the Series A preferred stock and the accrual of preferred stock dividends, was \$2.3 million, or \$0.05 per share, compared with \$3.6 million, or \$0.08 per share, for the same period a year ago. Included in the operating results for the third quarter of 2013 and 2012 were expenses of \$2.3 million and \$0.8 million, respectively, related to restructuring charges, and \$0.1 million and a benefit of \$1.4 million, respectively, of

investigation, litigation and settlement related costs. In addition, included in net loss for the third quarter of 2013 was an income tax benefit of \$2.1 million related to the reversal of uncertain tax positions as a result of the expiration of applicable statutes of limitation.

Non-GAAP loss from operations was \$1.6 million for the third quarter of 2013, compared with non-GAAP loss from operations of \$3.1 million for the same period a year ago. Non-GAAP net loss was \$1.8 million, or \$0.04 per share, in the third quarter of 2013, compared with a non-GAAP net loss of \$3.1 million, or \$0.07 per share, in the third quarter of 2012. Non-GAAP results exclude the effects of stock-based compensation, costs associated with the Company's investigations, litigation and settlement related costs, restructuring costs, certain tax items and the effects of preferred stock.

For the nine months ended September 30, 2013, total revenues were \$44.0 million, a decline of 17% from \$52.9 million for the same period a year ago. GAAP loss from operations for the nine months ended September 30, 2013 was \$12.6 million compared with a GAAP loss of \$12.0 million for the nine months ended September 30, 2012. GAAP net loss was \$11.8 million for the nine months ended September 30, 2013, compared with a loss of \$12.6 million in the same period a year ago. Net loss attributable to common stockholders for the nine months was \$11.9 million, or \$0.25 per share, compared with \$12.6 million, or \$0.27 per share, for the same period a year ago.

Non-GAAP loss from operations was \$8.7 million for the nine months ended September 30, 2013, compared with a loss of \$9.4 million in 2012. Non-GAAP net loss was \$10.0 million, or \$0.21 per share, compared with a loss of \$10.1 million, or \$0.21 per share, in the same period a year ago.

The Company closed the quarter with \$29.5 million in cash, cash equivalents and marketable securities. Deferred revenue at September 30, 2013 was \$25.3 million, compared with \$24.1 million at December 31, 2012.

Non-GAAP Financial Measures

The non-GAAP financial measures used in this press release are not prepared in accordance with generally accepted accounting principles and may be different from non-GAAP financial measures used by other companies. The Company's management refers to these non-GAAP financial measures in making operating decisions because they provide meaningful supplemental information regarding the Company's operating performance. In addition, these non-GAAP financial measures facilitate management's internal comparisons to the Company's historical operating results and comparisons to competitors' operating results. We include these non-GAAP financial measures (which should be viewed as a supplement to, and not a substitute for, their comparable GAAP measures) in this press release because we believe they are useful to investors in allowing for greater transparency into the supplemental information used by management in its financial and operational decision-making. The non-GAAP financial measures exclude (i) costs associated with the Company's class action and derivative lawsuits, government investigations, and related legal fees, (ii) restructuring costs, (iii) impact of the tax benefits realized from the reversal of uncertain tax positions due to the expiration of applicable statutes of limitations, (iv) effects of our Series A Preferred Stock and (v) noncash stock-based compensation charges and any potential tax effects. For a reconciliation of our GAAP and non-GAAP financial results, please refer to our Non-GAAP Operating Data GAAP Reconciliation, presented in this release.

About FalconStor Software

FalconStor Software, Inc. (NASDAQ: FALC) is a market leader in disk-based data protection. The company's mission is to transform traditional backup and disaster recovery into next-generation service-oriented data protection. Built upon an award-winning platform, FalconStor solutions deliver disk-based backup, continuous data protection, WAN-optimized replication and disaster recovery automation. FalconStor solutions are available through a worldwide network of partners, including solution providers, top-tier strategic partners and major OEMs. Thousands of customers worldwide, from small businesses to Fortune 100 enterprises, entrust their data to FalconStor solutions. FalconStor maintains headquarters in Melville, N.Y., and offices throughout Europe and the Asia Pacific region. For more information, visit www.falconstor.com or call 1-866-NOW-FALC (866-669-3252).

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This press release includes forward-looking statements that involve risk and uncertainties that could cause actual results to differ materially from the forward-looking statements. These risks and uncertainties include: delays in product development; market acceptance of FalconStor's products and services; technological change in the data protection industry; competition in the data protection market; results and costs associated with governmental investigations; intellectual property issues; and other risk factors discussed in FalconStor's reports on Forms 10-K, 10-Q and other reports filed with the Securities and Exchange Commission.

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