

CROSSROADS SYSTEMS, INC

A Delaware Corporation
8214 Westchester Dr. Suite 950
Dallas, TX 75225

(214) 999-0149

www.crossroads.com

SIC CODE: 6712

Quarterly Report **For the Period Ending: January 31, 2020** **(the “Reporting Period”)**

The number of shares outstanding of our Common Stock is **5,971,994** SHARES as of January 31, 2020.

The number of shares outstanding of our Common Stock was **5,971,994** SHARES as of October 31, 2019 (end of previous reporting period)

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒ (Double-click and select “Default Value” to check)

Indicate by check mark whether the company’s shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes: ☐ No: ☒

Part A **General Company Information**

Item 1 Name of the issuer and its predecessors (if any) and the address of its principal executive officers

Crossroads Systems, Inc
Prior Symbol CRDS - Bankruptcy Plan Effective October 3, 2017; Current CRSS

The address of the issuer's principal executive offices.

Crossroads Systems, Inc
8214 Westchester Dr. Suite 950
Dallas, TX 75225
(214) 999-0149
www.crossroads.com; www.capitalplusfin.com
ir@crossroads.com; info@capitalplusfin.com

Item 2 Shares Outstanding

	COMMON STOCK		
	As of January 31, 2020	As of October 31, 2019	As of October 31, 2018
Number of Shares Authorized	75,000,000	75,000,000	75,000,000
Number of Shares outstanding	5,971,774	5,971,774	5,971,994
Number of Shares in Public Float	1,522,221	1,522,221	1,522,221
Total Number of Shareholders of record	160	157	159
Total Number of Shareholders holding at least 100 shares	55	52	55

List of securities offerings and shares issued for services in the past two years

None

Item 3 Financial information for the issuer's most recent fiscal period.

The Company has provided the following financial statements for the most recent fiscal year ending January 31, 2020 which are attached hereto as Exhibit A and are hereby incorporated by reference:

- Consolidated Balance Sheet
- Consolidated Statement of Operations
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Notes to the Consolidated Financial Statements

Similar financing information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

The Company has provided the following financial statements for the two most recent fiscal years ending October 31, 2019 and October 31, 2018 ("Fiscal 2019"), and ("Fiscal 2018"):

- Report of Independent Public Accounting Firm
- Consolidated Balance Sheet
- Consolidated Statement of Operations
- Consolidated Statement of Changes in Equity

- Consolidated Statement of Cash Flows
- Notes to the Consolidated Financial Statements

These are published as Exhibit A to “Annual Reports” for each of Fiscal 2019 and Fiscal 2018 and filed through the OTC Disclosure and News Service, available at www.otcmarkets.com, and are hereby incorporated by reference.

Item 4 Management’s Discussion and Analysis

The following discussion provides information and analysis of the Company’s results of operations and its liquidity and capital resources, and should be read in conjunction with the Company’s Consolidated Financial Statements and the other financial information included in Exhibit A and elsewhere in this Quarterly Report. This discussion contains forward-looking statements that involve risks and uncertainties. The Company’s actual results could differ materially from those anticipated in these forward-looking statements as a result of any number of factors.

The Company’s operating and reporting period is on a fiscal year ending on October 31. The quarterly reporting period is from November 1, 2019 to January 31, 2020. The comparative period is from November 1, 2018 to January 31, 2019.

Fiscal 2020 Financial Overview & Results of Operations

Operations

Total revenue from operations for the quarter ended January 31, 2020 was \$7.6 million compared to \$7.2 million for the same period of 2019. The increase in revenue was the result of growth in loan portfolio. Net operating income before taxes and non-controlling interest for the quarter ended January 31, 2020 was \$1.1 million compared to \$690,000 for the same period of 2019.

Net Earnings Per Share

Net earnings per share from operations before taxes and after non-controlling interests for the quarter ended January 31, 2020 was \$0.16 compared to \$0.09 for the quarter ended January 31, 2019.

Results of Operations

Comparison of the Three Months Ended January 31, 2020 to the Three Months Ended January 31, 2019

The following table sets forth selected consolidated operating results stated in dollars and as a percentage of net sales:

	For the Three Months Ended		Increase/(Decrease)	
	January 31, 2020	January 31, 2019	\$	%
REVENUES				
Interest income	\$ 3,179,853	2,848,662	\$ 331,192	11.6%
Property sales	4,180,400	4,315,103	(134,703)	-3.1%
Other revenue	284,321	45,600	238,722	523.5%
Total revenues	7,644,575	7,209,365	435,210	6.0%
COSTS AND EXPENSES				
Interest expense	1,515,581	1,391,024	124,557	9.0%
Cost of properties sold	3,669,899	3,678,146	(8,247)	-0.2%
General and administrative	471,810	412,768	59,042	14.3%
Salaries and wages	673,464	737,483	(64,019)	-8.7%
Total costs and expenses	6,330,753	6,219,421	111,333	1.8%
Income from operations	1,313,821	989,944	323,877	32.7%
OTHER EXPENSES				
Interest expense	(211,876)	(300,270)	88,394	-29.4%
Total other expenses	(211,876)	(300,270)	88,394	-29.4%
Income before income tax provision	1,101,945	689,674	412,271	59.8%
INCOME TAX PROVISION	(131,370)	(61,726)	(69,644)	112.8%
NET INCOME	970,575	627,948	342,627	54.6%
Less: net income attributable to non-controlling interests	(158,795)	(136,740)	(22,055)	16.1%
NET INCOME ATTRIBUTABLE TO CONTROLLING INTERESTS	\$ 811,780	\$ 491,208	\$ 320,572	65.3%
Earnings (loss) per share:				
Cash income attributable to common shareholders	943,150	552,934	390,216	70.6%
Weighted average shares outstanding	5,971,994	5,971,994	-	0.0%
Cash income per share	\$ 0.16	\$ 0.09	\$ 0.07	70.6%

Total Revenues

Total property sales revenue from the sale of recently rehabilitated homes was \$4.2 million for the quarter ended January 31, 2020 compared to \$4.3 million for the quarter ended January 31, 2019. The seasonality in our business contributes to flat sales income during the first quarter.

Total interest income revenue generated from the Company's mortgage note receivable portfolio increased to \$3.2 million for the quarter ended January 31, 2020 compared to \$2.8 million for the quarter ended January 31, 2019. The increase was the result of growth in the total mortgage note receivable portfolio during the year.

Cost of Goods Sold

The cost of goods sold related to the sale of homes were flat at \$3.7 million for the quarter ended January 31, 2020 as sales were flat for the quarter. Cost of goods sold includes all the direct costs of the inventory sold as well as the costs related to the rehabilitation of the homes sold. In addition, cost of goods sold includes carrying costs of all the properties sold and inventory on hand.

The second component of cost of goods sold is the interest expense on the mortgage note receivable portfolio. The interest expense related to the portfolio income was \$1.5 million for the quarter ended January 31, 2020 compared to \$1.4 million for the quarter ended January 31, 2019. The increase in interest expense was the result of the mortgage portfolio growing which increased the total debt at the company offset by lower interest rates on that debt for the quarter ended January 31, 2020.

Operating Expenses

Operating expenses consist primarily of the following: compensation, sales and marketing, technology, legal, professional fees, insurance and other operating expenses.

Total operating expenses were \$1.1 million for the quarter ended January 31, 2020 compared to \$1.2 million for the quarter ended January 31, 2019. Operating expenses as a percentage of total revenues were at 15% for the quarter ended January 31, 2020 and decreased slightly from 16% from the same reporting period of 2019.

Other Income/Expense

The other interest expense relates to interest from acquisition debt. Total other interest expenses decreased \$88,000 from the quarter ended January 31, 2020 to the quarter ended January 31, 2019 due to the principal reduction on this debt. The balance on the acquisition debt at January 31, 2020 was \$12.3 million compared to \$15M at January 31, 2019.

Liquidity and Capital Resources

We define liquidity as our ability to generate sufficient cash to fund current loan demand at the subsidiary level and to operate on an ongoing basis. Our liquidity requirements are met primarily through cash flow from operations, receipt of pre-paid and maturing balances in our loan portfolios, debt financing and preferred equity investments.

As of January 31, 2020, Capital Plus Financial had lines of credit available with its current banking partners in excess of \$22 million.

The Company also offers a Preferred Equity instrument to its bank partners which is a considered a qualified investment under the Community Reinvestment Act (“CRA”) investment test for banks. Banks purchase units of the preferred investment which generates cash for the Company and provides banks with an “innovative” investment, providing more favorable CRA assessment from their regulators.

Working Capital

Mortgage Note Portfolio

The mortgage note portfolio consists of \$118.3 million of long term fixed, amortizing single family residential mortgages in the Dallas/Fort Worth, Houston and San Antonio markets. The Company provides a mortgage for the purchase of a property with an equity down payment from the potential buyer. Our mortgage portfolio is comprised of first-time home buyers, and in over 60% of the cases, first time credit recipients. We believe the risk associated with these borrowers is mitigated by their history of debt aversion. Plainly said, those who have shown the financial discipline to operate without debt should be rewarded and not punished as is often the case with a zero credit score borrower attempting to qualify for a mortgage. Each borrower is manually underwritten, and all are given the opportunity to demonstrably prove their ability to repay. A 43% debt to income (“DTI”) ratio is the maximum ratio for approved mortgages, but the average DTI ratio in our portfolio is 24%, further reinforcing the quality of our borrowers. All mortgages are originated in house and are Qualified Mortgages (QM). Our weighted average rate on the portfolio was 10.56% at January 31, 2020.

The Company has a default rate below 3% per year and when it does take a property back into inventory, it is able to put it back into its rehab cycle and resell it. Given its ability to rehab and resell the properties at a profit, the Company has determined a reserve for delinquent and defaulted mortgages is not necessary as of January 31, 2020.

As of January 31, 2020, the Company had a mortgage note receivable balance of \$118.3 million compared to \$105.8 million as of January 31, 2019.

In addition, the company carries higher value residential mortgage notes held for sale in its securities portfolio held to provide needed liquidity. From time to time, the Company will also provide commercial real estate loans as part of its community development mission. The outstanding balance of these loans at January 31, 2020 was \$6.6 million compared to \$4.2 million at January 31, 2019.

Inventory

Inventory consists of properties that are currently undergoing remodeling or are being held for sale. Inventory is stated at the lower of its cost or net realizable value using the specific identification method. Repair costs, commissions, closing costs, interest and other costs associated with individual properties are included in the cost of the property and are expensed as part of the cost of sales when the property is sold.

The Company regularly evaluates inventories that are slow-moving or incurring costs in excess of budgeted costs. The Company determined a reserve for slow-moving inventory was not necessary as of January 31, 2020.

As of January 31, 2020, gross inventory was \$13.1 million compared to \$9.5 million as of January 31, 2019, an increase of \$3.6 million or 38%. The increase in inventory as of January 31, 2020 compared to January 31, 2019 resulted from the Company's strategic decision to start increasing inventory earlier in the fall to allow for increased home sales for Spring 2020.

Revolving Credit Facility

The Company has a revolving line of credit for the acquisition of properties and another for its mortgage loans. The outstanding balance on the inventory line at January 31, 2020 was \$9.5 million compared to \$7.4 million at January 31, 2019. The increase in outstanding balance is the result of increasing inventories for the upcoming sales season.

The outstanding balance on the mortgage loan revolving credit facility was \$42.5 million as of January 31, 2020, compared to \$34.2 million as of January 31, 2019. The increase was the result of adding new loans to the credit facility.

Cash Flows Provided by Operations

Continuing Operations

Net cash used by operating activities during the year ended January 31, 2020 was \$3.9 million compared to \$5.4 million of net cash used for the year ended January 31, 2019. The main driver of cash usage was the increase inventories of homes for the upcoming spring sales season.

Cash Flows Used in Investing and Financing Activities

Net cash used by investing activities during the year ended January 31, 2020 was \$2.0 million compared to \$1.9 million of net cash used for the year ended January 31, 2020. This represents the payment of escrowed taxes on the mortgage loan portfolio.

Net cash provided by financing activities during the year ended January 31, 2020 was \$731,000 compared to \$2.2 million for the year ended January 31, 2019. During the quarter ended January 31, 2019, the Company raised \$2.5 million in its preferred unit investment which was utilized to pay down acquisition debt.

There are no known trends, events or uncertainties that have or are reasonably like to have a material impact on the company's short-term or long-term liquidity. The internal sources of liquidity are profits generated from the company's operating subsidiary, Capital Plus Financial, and its external sources of liquidity remain debt and equity from banking institutions that assist in the institutions compliance with the Community Reinvestment Act (CRA). The company has no material commitments for capital expenditures and the expected source of funds for such expenditures. There are no known trends, events, or uncertainties that had had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations. There are no significant elements of income or loss that do not arise from the company's continuing operations. There are also no causes for any material changes from period to period in one or more line items on the company's financial statements nor are the seasonal aspects that had a material effect on the financial condition of the results of operations.

Critical Accounting Policies and changes

N/A

Off-Balance Sheet Arrangements.

NA

Item 5 Legal Proceedings

Any current past, pending, or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator.

None

Item 6 Defaults upon senior securities.

None

Item 7 Other Information.

None

Item 8 Exhibits.

EXHIBIT A

Financial Statements for the Period Ending January 31, 2020

Condensed Consolidated Balance Sheets as of January 31, 2020, and October 31, 2019

Condensed Consolidated Statements of Operations For the fiscal quarter ended January 31, 2020, and January 31, 2019

Condensed Consolidated Statements of Cash Flows For the fiscal quarter ended January 31, 2020, and January 31, 2019

Notes to the Consolidated Financial Statements

CROSSROADS SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS	January 31, 2020	October 31, 2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 412,992	\$ 1,656,114
Restricted cash	623,747	2,583,057
Interest receivable	1,319,349	893,343
Current portion of notes receivable	1,380,352	1,447,842
Current portion of other notes receivable	89,918	339,429
Inventory	13,056,189	11,796,430
Prepaid expenses and other current assets	294,941	351,547
Total current assets	17,177,487	19,067,762
NOTES RECEIVABLE, net of current maturities and allowance of \$0	116,991,740	115,435,031
OTHER NOTES RECEIVABLE, net of current maturities and allowance of \$0	6,499,846	6,463,049
GOODWILL	18,566,966	18,566,966
DEFERRED TAX ASSET	19,548,954	19,680,324
OTHER NON-CURRENT ASSETS	42,886	36,083
TOTAL ASSETS	\$178,827,880	\$ 179,249,215
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 267,436	\$ 289,230
Accrued liabilities	490,442	609,546
Escrow liabilities	440,335	2,646,581
Current portion of credit facilities	58,384,100	66,167,346
Current portion of other note payable	135,579	179,327
Current portion of acquisition notes payable	1,871,378	2,495,168
Total current liabilities	61,589,270	72,387,198
CREDIT FACILITIES, net of current maturities	54,949,201	45,608,430
OTHER NOTE PAYABLE, net of current maturities	1,335,571	1,335,571
ACQUISITION NOTES PAYABLE, net of current maturities	12,429,611	12,418,163
OTHER LONG-TERM LIABILITIES	370,322	156,049
TOTAL LIABILITIES	130,673,976	131,905,411
EQUITY		
Common stock, \$0.001 par value: 75,000,000 shares authorized, 5,971,994 shares issued and outstanding	5,972	5,972
Additional paid in capital	242,357,163	242,358,843
Accumulated deficit	(212,262,737)	(213,074,517)
Crossroads Systems, Inc. stockholders' equity	30,100,398	29,290,298
Non-controlling interests	18,053,506	18,053,506
TOTAL EQUITY	48,153,904	47,343,804
TOTAL LIABILITIES AND EQUITY	\$178,827,880	\$ 179,249,215

CROSSROADS SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	For the Three Months Ended January 31, 2020	January 31, 2019
REVENUES		
Interest income	\$ 3,179,853	2,848,662
Property sales	4,180,400	4,315,103
Other revenue	284,321	45,600
Total revenues	7,644,575	7,209,365
COSTS AND EXPENSES		
Interest expense	1,515,581	1,391,024
Cost of properties sold	3,669,899	3,678,146
General and administrative	471,810	412,768
Salaries and wages	673,464	737,483
Total costs and expenses	6,330,753	6,219,421
Income from operations	1,313,821	989,944
OTHER EXPENSES		
Interest expense	(211,876)	(300,270)
Total other expenses	(211,876)	(300,270)
Income before income tax provision	1,101,945	689,674
INCOME TAX PROVISION	(131,370)	(61,726)
NET INCOME	970,575	627,948
Less: net income attributable to non-controlling interests	(158,795)	(136,740)
NET INCOME ATTRIBUTABLE TO CONTROLLING INTERESTS	\$ 811,780	\$ 491,208

CROSSROADS SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	<u>January 31,</u> <u>2020</u>	<u>January 31,</u> <u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 970,575	627,949
Adjustments to reconcile net income to net cash		
used in operating activities:		
Loss on derivative related activity	(6,803)	(154,870)
Stock awards in settlement of liabilities	(1,680)	2,521
Amortization of deferred financing fees	11,450	11,450
Provision for income taxes	131,370	61,726
Changes in operating assets and liabilities:		
Interest receivable	(426,006)	(69,911)
Notes receivable	(1,276,506)	(1,429,993)
Inventory	(1,259,759)	(2,034,971)
Prepays and other assets	56,606	(28,797)
Accounts payable	(21,794)	21,955
Accrued liabilities	95,170	(271,617)
Escrow liabilities	(2,206,246)	(2,096,082)
Net cash used in operating activities	(3,933,623)	(5,360,641)
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	1,959,310	1,869,078
Net cash used in investing activities	1,959,310	1,869,078
CASH FLOWS FROM FINANCING ACTIVITIES		
Preferred equity contributions	-	2,500,000
Preferred equity dividend distributions	(158,795)	(136,740)
Borrowings on credit facilities, net	5,137,946	2,697,500
Principal payments on credit facilities	(3,580,421)	(263,383)
Principal payments on other notes payable	(43,748)	(41,002)
Principal payments on acquisition note payable	(623,792)	(2,555,679)
Net cash provided by financing activities	731,190	2,200,696
Net change in cash and cash equivalents and restricted cash	(1,243,122)	(1,290,867)
Cash and cash equivalents and restricted cash at beginning of period	1,656,114	2,323,614
Cash and cash equivalents and restricted cash at end of period	<u>\$ 412,992</u>	<u>\$ 1,032,747</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	<u>\$ 1,887,976</u>	<u>\$ 1,426,636</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

CROSSROADS SYSTEMS, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. COMPANY PROFILE AND NATURE OF OPERATIONS

Crossroads Systems, Inc. (OTC Pink: CRSS) (the “Company”, “CRSS” or “Parent”) was an intellectual property licensing company headquartered in Austin, Texas. Founded in 1996 as a product solutions company, Crossroads created some of the storage industry's most fundamental patents and licensed patents to more than 50 companies prior to filing for re-organization under Chapter 11 of the Federal Bankruptcy Code on August 13, 2017.

On December 18, 2017, the Parent closed on the acquisition of 100% of the common equity of Capital Plus Financial, LLC (“CPF”), a Texas based community development financial institution (“CDFI”). CPF’s mission is to make homeownership available to the Hispanic market throughout Texas. CPF is also a certified B Corporation which is a group of for-profit companies certified to meet rigorous standards of social and environmental performance, accountability and transparency. CPF operates in Texas where it acquires, renovates, and sells single family homes providing seller financing through notes receivable.

Principals of Consolidation

The consolidated financial statements include the accounts of CRSS and CPF. Capital Mortgage Servicing, LLC (“CMS”) is wholly owned by CPF. (collectively, “we”, “us”, or the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The operations are for the period from November 1, 2019 to January 31, 2020.

Cash and Cash Equivalents

The Company considers all currency on hand, money market accounts, and highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash includes escrow accounts related primarily to CMS’s mortgage servicing obligations.

Notes Receivable

The Company originates predominantly 30 year notes receivable through sales of rehabilitated homes or purchases notes receivable that are secured by an assignment of a deed of trust. The Company intends to hold the notes for the long-term as it has the ability to fund the notes receivable through borrowings from lenders that are secured by the notes receivable and properties. Notes receivable are stated at their unpaid principal balances less an allowance for loan losses. The average contractual interest rate per note was approximately 10.56% as of January 31, 2020. Interest income is recognized monthly per the terms of the respective loan agreements. Notes receivable have maturities that range from 4 to 30 years. All of the Company’s loans and underlying collateral are located in Texas.

The Company uses payment history to monitor the credit quality of the notes receivable on an ongoing basis. The Company assesses the carrying value of its notes receivable for impairment when it determines that impairment indicators are present. Notes are evaluated for impairment when it is probable the Company will be unable to collect all amounts due for scheduled principal and interest payments, including notes in the process of repossession. Impaired notes are generally measured based on the fair value of the collateral. Impaired notes, or portions thereof, are charged off when deemed uncollectible. A specific reserve is created for impaired notes based on the fair value of the underlying collateral. No specific impairment was deemed necessary as of January 31, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Notes Receivable, Continued

The Company may also receive escrow payments for property taxes and insurance included in its note receivable collections. The liabilities associated with these escrow collections totaled \$623,747 as of January 31, 2020 and are included in escrow liabilities on the consolidated balance sheet.

The Company purchased \$1,250,904 in notes receivable it originated for third-parties at face value near the time they were originated during the quarter ended January 31, 2020. The Company did not sell any notes during the quarter ended January 31, 2020.

Allowance for Loan Losses on Notes Receivable

The allowance for loan losses reflects management's estimate of probable and inherent losses in the notes receivable balances that may be uncollectible based upon review and evaluation of the loan portfolio as of the consolidated balance sheet date. An allowance for loan losses is determined after giving consideration to, among other things, the loan characteristics, including the financial condition of borrowers, the value and liquidity of collateral, delinquency and historical loss experience.

In addition, the Company considers such factors as changes in the nature and volume of the portfolio, overall portfolio quality, and current economic conditions. The Company applies multiple strategies to mitigate the risks associated with delinquent loans, including foreclosures and subsequent rehabilitation and resales. As a result, the Company historically has not experienced any significant losses and has determined that an allowance for probable and inherent loan losses was not required as of January 31, 2020.

The Company's policy is to place a note receivable on nonaccrual status when either principal or interest is past due and remains unpaid for 90 days or more. Accrued interest receivable is reversed for notes placed on nonaccrual status. Payments received on nonaccrual notes receivable are accounted for on a cash basis, first to interest and then to principal, as long as the remaining book balance of the asset is deemed to be recoverable. The accrual of interest resumes when the past due principal becomes current. The unpaid principal balance of notes receivable on nonaccrual status was \$2,001,364 at January 31, 2020.

The Company assesses the collectability of notes receivable on a note by note basis to determine if formal foreclosure proceedings are necessary. The total principal balance of notes receivable for which the Company has begun formal foreclosure proceedings totaled \$342,450 as of January 31, 2020.

Other Notes Receivable

As of January 31, 2020, the Company had an outstanding balance of \$4.95 million in such financing on three residential properties and \$1.64 million for two commercial real estate loans. The weighted average interest rate on the residential loans was 10.2% and the rates on the two commercial loans were 7.75% and 7.25%, respectively. The residential properties require monthly principal and interest payments based on 30-year amortization schedules maturing between 2047 and 2049. The commercial properties require at least monthly interest payments and have maturity dates ranging from November 2020 through February 2022.

Due to their individually significant balances, the Company continually monitors other notes receivable for potential losses and the need for an allowance for loan losses. As of January 31, 2020, all other notes receivable were current and in good standing, and based on the borrowers' history and values of the associated properties, the Company determined no allowance for loan losses was required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Inventory

Inventory consists of properties that are currently undergoing remodeling or are being held for sale. Inventory is stated at the lower of its cost or net realizable value using the specific identification method. Repair costs, commissions, closing costs, interest and other costs associated with individual properties are included in the cost of the property and are expensed as part of the cost of sales when the property is sold.

The Company regularly evaluates inventories that are slow-moving or incurring costs in excess of budgeted costs. The Company determined a reserve for slow-moving inventory was not necessary as of January 31, 2020.

Goodwill

Goodwill resulted from the acquisition of CPF on December 18, 2017. Goodwill is accounted for in accordance with Accounting Standards Codification (“ASC”) 350, *Intangibles – Goodwill*. Management evaluates goodwill for impairment annually or when circumstances indicate the estimated fair value exceeds the reporting unit’s carrying value indicating potential impairment of goodwill. The Company determined that goodwill was not impaired at January 31, 2020.

Revenue Recognition

Interest income on notes receivable and other notes receivable is recognized on the accrual basis when earned using the effective interest method. Revenue from residential home sales is recognized when title passes to the purchaser and collectability is reasonably assured. Revenue is recognized based on the contracted sales price.

Fair Value Measurement

The Company accounts for its derivative instruments in accordance with ASC 820-10, *Fair Value Measurement*, which among other things provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I measurement) and the lowest priority to unobservable inputs (level III measurements). The three levels of fair value hierarchy under ASC 820-10 are as follows:

- | | |
|-----------|--|
| Level I | Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives. |
| Level II | Significant observable inputs other than quoted prices in active markets for which inputs to the valuation methodology include: (1) Quoted prices for similar assets or liabilities in active markets; (2) Quoted prices for identical or similar assets or liabilities in inactive markets; (3) Inputs other than quoted prices that are observable for the asset or liability; (4) Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability. |
| Level III | Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. |

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, notes receivable, other notes receivable, credit facilities, other note payable and acquisition notes payable. The carrying amount of cash and cash equivalents approximates its fair value because it is short-term in nature. This is considered a Level I valuation technique. The credit facilities, other note payable and acquisition notes payable generally have short-term maturity dates or variable interest rates that reflect market rates and the Company has determined that their fair value approximates their carrying value. This is considered a Level II valuation technique. The Company assessed the fair value of notes receivable and other notes receivable and determined their fair value approximates their book value based on anticipated cash flows for principal and interest and relatively immaterial interest rate fluctuations, net of other factors.

Deferred Financing Fees

The Company incurred costs for deferred financing fees when obtaining the acquisition note payable to Veritex Community Bank detailed in Note 6. The debt issuance costs are presented as a deduction against the corresponding debt on the consolidated balance sheet. The deferred financing fees are amortized over the respective debt agreement with amortization expense included in other interest expense in the accompanying consolidated statement of operations. Amortization expense was \$11,450 for the quarter ended January 31, 2020. Net deferred financing fees were \$166,299 as of January 31, 2020.

Stock-Based Compensation

The Company recognizes compensation expense related to stock options and restricted stock on a straight-line basis over the requisite service period based on the estimated fair value of the awards on the date of grant. Compensation cost associated with stock options granted is determined using a calculated option value. The calculated value of each stock option grant was derived using the Black Scholes option-pricing model based on significant inputs including the Company's common stock price on the grant date, risk-free interest rate, expected option life, and expected volatility. The Company used the contractual life as the expected option life since no historical data exists. The Company used historical common stock data to estimate expected volatility for valuation of the stock options.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates that could change in the near term and have a significant impact on the consolidated financial statements include the deferred tax assets and allowance for loan losses.

Income Taxes

The Company accounts for income taxes using the liability method of accounting. Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not such assets will not be realized. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Taxes, Continued

The Company recognizes the financial statement benefit of a tax position that does not meet the more-likely-than-not threshold only after expiration of the statute of limitations of the relevant tax authority sustains our position following an audit. For tax positions meeting the more likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon the ultimate settlement with the relevant tax authority. We recognize interest and penalties related to uncertain tax positions in income tax expense. There were no identified tax benefits or liabilities that were considered uncertain positions at January 31, 2020.

Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk are cash, cash equivalents, and notes receivable. The notes receivable are secured by the residential homes that were financed through the loan. The Company maintains deposits with major financial institutions, which from time-to-time, may exceed the federally insured limits at each institution. The Company had cash and restricted cash in financial institutions that exceeded federally insured limits of approximately \$3.4 million. Management believes any potential credit risk is minimal.

Risks and Uncertainties

The Company's business is affected, directly and indirectly, by domestic and international economic and political conditions and by governmental monetary and fiscal policies. Conditions such as inflation, recession, real estate values, volatile interest rates, governmental monetary policy and other factors beyond the Company's control may adversely affect the Company's results of operations. Adverse economic conditions could result in an increase in notes receivable delinquencies, foreclosures and non-performing assets and a decrease in the value of property or other collateral which secures the Company's loans.

The Company relies on various forms of revolving and long-term borrowings to finance its working capital requirements and has historically demonstrated the ability to obtain additional financing or refinance maturing obligations as needed to support the Company's ongoing financing needs. As disclosed in Note 6 of these consolidated financial statements, the Company has approximately \$60.3 million in current debt obligations maturing within one year.

3. NOTES RECEIVABLE

The principal balance outstanding on the notes receivable and the expected principal collections for the next five years and thereafter are as follows for the years ending October 31:

2020	\$ 1,380,352
2021	1,428,330
2022	1,571,957
2023	1,732,045
2024	1,859,965
Thereafter	<u>110,419,688</u>
	<u>\$ 118,392,337</u>

3. NOTES RECEIVABLE, CONTINUED

A detailed aging of notes receivable that are past due as of January 31, 2020 are as follows:

		%
Total notes receivable	\$ 118,392,337	100.0
Past due notes receivable:		
31-60 days past due	\$ 3,058,166	2.6
61-90 days past due	802,815	0.7
91-120 days past due	1,092,239	0.9
Greater than 120 days past due	909,126	0.8
Total past due notes receivable	\$ 5,862,345	5.0

4. OTHER NOTES RECEIVABLE

The principal balance outstanding on the other notes receivable and the expected principal collections for the next five years and thereafter are as follows for the years ending October 31:

2020	\$ 89,918
2021	825,056
2022	828,626
2023	41,391
2024	45,776
Thereafter	4,758,997
	\$ 6,589,764

All other notes receivable were current and in good standing as of January 31, 2020.

5. ACCRUED LIABILITIES

Accrued liabilities consisted of the following at January 31, 2020:

Board Compensation	\$ 19,650
Deferred revenues	129,861
Interest payable	174,465
Professional Fees	116,466
Salaries and wages	50,000
	\$ 490,442

6. DEBT

Credit Facilities

The Company uses various types of credit facilities to finance notes receivable and inventories. The loans are secured by notes receivable or inventories. Loans with Happy State bank and Oakwood bank were guaranteed by certain owners of the Company prior to the expiration of the guarantees in December 2019 and January 2020, respectively.

In connection with the credit facilities, the Company has agreed to comply with certain financial and non-financial covenants provided for in the agreements. Management was not aware of any covenant violations for the year ended January 31, 2020.

On January 21, 2020, the Oakwood Bank debt was refinanced, extending the maturity date to January 25, 2025 and increasing available funds to \$10 million. The refinancing is reflected in the following schedules.

The Company had the following credit facilities as of January 31, 2020:

Lender	Interest Rate	Maturity Date	Balance
Texas Citizens Bank 9950	4.75%	9/20/35 (a)	3,558,913
First National Bank of Ballinger	4.25%	6/2/20	9,898,486
First National Bank of Ballinger	5.75% (b)	2/20/22	1,246,140
Bank SNB Term	4.07%	9/30/20	16,680,570
Happy State Bank Interim Construction (new)	6.00% (b)	10/1/20	813,139
Happy State Bank Interim Construction (lot)	6.00% (b)	10/1/20	531,818
Happy State Bank Interim 2	5.00% (b)	5/17/20 (c)	9,464,905
Happy State Bank Term	5.50%	9/18/41	16,457,957
Happy State Bank Term 4	5.50%	10/1/43	2,151,053
Oakwood Bank	6.02%	1/6/20	10,000,000
Veritex Community Bank (formerly Green Bank)	5.62% (b)	4/25/20 (a)	20,201,056
Legacy Bank Texas	6.26% (b)	6/11/21	22,329,264
CrossFirst Bank - CRSS	2.49% (b)	12/14/21	2,199,377
Veritex Community Bank - CRSS	6.42%	12/18/24	12,267,913
			127,800,591
Less current portion of credit facilities			(60,255,477)
Credit facilities, net of current maturities			<u>\$ 67,545,114</u>

(a) These facilities are due on demand and presented as current.

(b) These facilities require only monthly interest payments through maturity.

Future minimum principal payments for the credit facilities are as follows for the years ending October 31:

2020	\$ 60,255,478
2021	25,908,428
2022	7,032,092
2023	3,594,295
2024	3,602,335
Thereafter	27,407,963
	<u>\$ 127,800,591</u>

Acquisition Notes Payable

To fund consideration in the December 18, 2017 acquisition of CPF, the Company entered into a \$22,000,000 note payable with Veritex Community Bank (the "Veritex Note") and a \$2,200,000 note payable to CrossFirst Bank (the "CrossFirst Note").

Veritex Note

The Veritex Note bears interest at the annual LIBOR rate plus an applicable margin of 4.50%, which was 6.42% at January 31, 2020. The Veritex Note requires monthly principal payment of \$207,931, plus interest, through maturity on December 18, 2024, the date at which all unpaid principal and interest is due. The Veritex Note is collateralized by certain operating assets of the Company not already collateralized by the credit facilities. The balance on the Veritex Note, net of amortizing deferred financing fees of \$166,299, was \$12,267,991 at January 31, 2020.

6. DEBT, CONTINUED

CrossFirst Note

The CrossFirst Note was created to fund \$2,200,000 of the purchase price in the acquisition of CPF to money market accounts in the seller's names at CrossFirst Bank to serve as collateral over the duration of the note. The CrossFirst Note requires a monthly interest payment at the CrossFirst Bank money market account rate plus an applicable margin of 1.00%, which was 2.25% at January 31, 2020. The CrossFirst Note matured on December 14, 2019 and was extended December 14, 2021, when all unpaid principal and interest will be due. The balance on the CrossFirst Note was \$2,199,377 at January 31, 2020.

Future minimum principal payments for the acquisition notes payable are as follows for the years ending October 31:

2020	\$ 1,871,378
2021	2,495,168
2022	4,694,545
2023	2,495,168
2024	2,495,168
Thereafter	415,861
	<u>\$ 14,467,290</u>

Other Note Payable

The Company assumed a note payable in the December 2017 acquisition of CPF with an outstanding principal balance as of the date of the acquisition totaling \$1,827,750 (the "Other Note"). The Other Note is subordinate to the other debt obligations, accrues interest at 6.50% per annum, calls for monthly payments of principal and interest of \$22,710, and matures on December 31, 2026. The balance on the Other Note was \$1,471,150 at January 31, 2020.

Future minimum principal payments for the Other Note is as follows for the years ending October 31:

2020	\$ 135,579
2021	191,337
2022	204,151
2023	217,823
2024	234,411
Thereafter	489,849
	<u>\$ 1,471,150</u>

7. DERIVATIVES

The Company uses derivatives to manage risks related to changing interest rates. The Company does not enter into derivative contracts for speculative purposes. The Company is obligated under a master interest rate swap agreement with Bank SNB to fix the variable interest rate portion of the Bank SNB term note, which is based on the daily prime rate, to a fixed rate of 4.07%. The maturity date of this agreement is September 30, 2020. The swap agreement was not designated as a cash flow hedge and therefore, gains or losses on the swap agreement, as well as the other offsetting gains or losses on the hedged items attributable to the hedged risk, are recognized in current operations.

ASC 815-10, *Derivatives and Hedging*, requires derivative instruments to be measured at fair value and recorded in the consolidated balance sheet as either assets or liabilities. The interest rate swap agreement is considered a Level II investment. The Company recognized a gain of \$6,802 for the quarter ended January 31, 2020 which was included with interest expense in costs and expenses in the consolidated statement of operations. The fair value of the derivative instrument is included in other non-current assets and was \$18,345 at January 31, 2020.

8. OPERATING LEASES

The Company is obligated, as lessee, under non-cancelable operating lease agreements for office space located in Bedford, Texas and Houston, Texas. The lease agreements require monthly payments of \$12,600 through their expiration in December 2022.

Future minimum payments required under non-cancelable operating lease agreements are as follows for the years ending October 31:

2020	\$	113,400
2021		151,200
2022		151,200
2023		25,200
	\$	<u>441,000</u>

Rent expense associated with non-cancelable operating leases for the quarter ended January 31, 2020 was \$37,800.

9. STOCKHOLDERS' EQUITY

The Company is authorized to issue up to 75 million shares of \$0.001 par value common stock and 25 million shares of \$0.001 par value preferred stock. As of January 31, 2020, 5,971,994 shares of common stock were issued and outstanding and no shares of preferred stock were issued and outstanding.

10. STOCK BASED COMPENSATION

The Company has granted incentive stock options ("ISOs") through the 2018 Stock Incentive Plan ("Stock Plan"). As of January 31, 2020, there were 797,760 shares authorized for issuance under the Stock Plan.

Stock option awards granted under the Stock Plan generally vest 100% three years from the grant date. Vested options do not expire while the recipient is an employee of the Company but are forfeited upon resignation or termination. Outstanding options were granted at an exercise price equal to the average of the Company's stock price over the 30 day period prior to the grant date. The exercise of stock options are fulfilled through the issuance of previously authorized but unissued common stock shares. During the year ended October 31, 2019, 5,000 stock options previously awarded to an employee at an exercise price of \$7.47 were forfeited upon the employee's resignation. There were no outstanding stock options as of January 31, 2020.

11. NON-CONTROLLING INTERESTS – CPF PREFERRED EQUITY

CPF has 36 preferred units at \$500,000 per unit outstanding as of January 31, 2020. No new units were issued during the quarter ended January 31, 2020. During the quarter ended January 31, 2019, 5 preferred units were issued for total proceeds of \$2.5 million.

The rights and privileges of preferred units are as follows:

- Duration and Voting: preferred units have no maturity date and have no voting rights.
- Dividends: Holders of preferred units are entitled to receive cumulative dividends at an annual rate of 3.50% through June 2022 and reset to the prime rate on a quarterly bases thereafter for the remainder of the investment.
- Conversion and Redemption: preferred units are not convertible into common units or any other equity of CPF or the Company and are redeemable at the Company's option after the fifth anniversary of the date of issuance.
- Liquidation preference: holders of preferred units are entitled to a liquidation preference equal to all dividends in arrears plus the initial capital contribution.

During the quarter ended January 31, 2020, CPF paid preferred dividends totaling \$158,795.

12. RELATED PARTY ACTIVITIES

The Company leases office space in Dallas, Texas on a month to month basis from Southwest Federated, Inc., a related party through common ownership. Monthly payments under the lease were \$4,500 and total rental payments for the quarter ended January 31, 2020 were \$13,500.

13. CONTINGENCIES

The Company is party to certain legal proceedings in the ordinary course of business. Common legal proceedings include, among other things, breach of contract and unlawful eviction. Although litigation is inherently uncertain, based on past experience and the information currently available, management does not believe that such claims will have a material adverse effect on the Company's financial position, liquidity, or results of operations.

In January 2020, as part of supporting its community development mission, the Company provided a corporate guarantee on a single-family residential housing development in Rockwall, TX, which is a part of the Dallas/Fort Worth Metroplex. Simmons Bank, a banking partner to the Company provided a loan to a established local developer in the amount of \$5,779,872 collateralized by 118 single family lots. CPF guaranteed the loan and received a fee in the amount of 2% of the loan amount and 20% of the economics from the developer return. The 20% economics will be earned as the project is completed. The Company will monitor the loan to the developer as if it was the lender and prepare its own quarterly analysis of compliance.

The loan closed on January 27, 2020 and will mature on January 27, 2023. The loan rate is fixed at 5.25% and requires annual mandatory principal reduction of 25%. The loan is structured where the lot take down contracts have 25% cash equity in each deal and the current loan to value is at 75% or below

In evaluating the opportunity, management evaluated the non-interest income opportunity to diversify its revenue stream, expand its impact reach yet stay within its area of expertise. In an event of default by the developer our construction managers and crews have the expertise to complete the development and construct the homes.

As of the date of this report, the loan was in good standing and the Company had no reason to set up a contingent liability.

14. INCOME TAXES

Income tax expense is computed by applying the Federal corporate tax rate of 21% for the quarter ended January 31, 2020 and is reconciled to the provision for income taxes as follows:

Current	\$ -
Deferred	131,370
	<u>\$ 131,370</u>

As of October 31, 2019, the Company had federal net operating loss carry-forwards ("NOL's") and research and experimentation credits ("R&E Credits") available to reduce future taxable income of approximately \$135.0 million and \$5.1 million, respectively. Such deferred tax assets expire as follows:

2020 - 2022	\$ 60,500,000
2023 - 2027	25,700,000
2028 - 2032	22,100,000
2033 - 2037	31,800,000
	<u>\$ 140,100,000</u>

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. While the Company projects annual taxable

income to increase steadily into the future, future profitability depends heavily on the Company's ability to borrow at rates averaging those incurred during the year ended October 31, 2019. Positive or negative changes in average borrowing rates greater than 0.50% could materially affect estimates of future taxable income and any related valuation allowances.

On the basis of this evaluation, as of January 31, 2020, a valuation allowance of \$14.7 million has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized, which is due primarily to the significant amount of deferred tax assets expiring over the next three years. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased.

15. SUBSEQUENT EVENTS

In accordance with ASC 855, *Subsequent Events*, the Company evaluated all material events or transactions that occurred after January 31, 2020, the consolidated balance sheet date, and through March 5, 2020, the date the consolidated financial statements were issued, noting the following transaction for disclosure as a subsequent event.

On February 14, 2020, as part of supporting its community development mission, the Company provided a corporate guarantee on a single family residential housing development in Rockwall, TX, which is a part of the Dallas/Fort Worth Metroplex. Simmons Bank, a banking partner of the Company provided a loan to a local developer in the amount of \$6,464,385 collateralized by 131 single family lots.

SUPPLEMENTAL INFORMATION

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES SUPPLEMENTAL SCHEDULE I: CONSOLIDATED BALANCE SHEET JANUARY 31, 2020 UNAUDITED

	Crossroads Systems, Inc.	Capital Plus Financial, LLC	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 27,784	\$ 385,208	\$ -	\$ 412,992
Restricted cash	-	623,747	-	623,747
Interest receivable	-	1,319,349	-	1,319,349
Current portion of notes receivable	-	1,380,352	-	1,380,352
Current portion of other notes receivable	-	89,918	-	89,918
Intercompany receivables	3,143,910	19,576,266	(22,720,176)	(0)
Inventory	-	13,056,189	-	13,056,189
Prepaid expenses and other current assets	175,284	119,657	-	294,941
Total current assets	3,346,978	36,550,685	(22,720,176)	17,177,487
NOTES RECEIVABLE, net of current maturities and allowance of \$0	-	116,991,740	-	116,991,740
OTHER NOTES RECEIVABLE, net of current maturities and allowance of \$0	0	6,499,846	-	6,499,846
GOODWILL	18,566,966	-	-	18,566,966
DEFERRED TAX ASSET	19,548,954	-	-	19,548,954
INVESTMENT IN SUBSIDIARY	13,386,175	-	(13,386,175)	-
OTHER NON-CURRENT ASSETS	-	42,886	-	42,886
TOTAL ASSETS	\$ 54,849,073	\$ 160,085,157	\$ (36,106,351)	\$ 178,827,879
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Accounts payable	\$ 9,953	\$ 257,483	\$ -	\$ 267,436
Accrued liabilities	49,012	441,430	-	490,442
Escrow liabilities	-	440,335	-	440,335
Intercompany payables	19,576,266	-	(19,576,266)	(0)
Current portion of credit facilities	-	69,556,841	(11,172,741)	58,384,100
Current portion of other note payable (subordinated debt)	-	-	135,579	135,579
Current portion of acquisition notes payable	-	-	1,871,378	1,871,378
Total current liabilities	19,635,231	70,696,089	(28,742,050)	61,589,270
CREDIT FACILITIES, net of current maturities	-	43,776,460	11,172,741	54,949,201
OTHER NOTE PAYABLE, net of current maturities (subordinated)	-	1,471,150	(135,579)	1,335,571
ACQUISITION NOTES PAYABLE, net of current maturities (includes \$2.2M subordinated debt)	14,300,989	-	(1,871,378)	12,429,611
OTHER LONG-TERM LIABILITIES	-	370,322	-	370,322
TOTAL LIABILITIES	33,936,220	116,314,022	(19,576,266)	130,673,976
EQUITY				
Common stock, \$0.001 par value: 75,000,000 shares authorized, 5,971,994 shares issued and outstanding	5,972	-	-	5,972
Additional paid in capital	242,361,362	-	(2,519)	242,358,843
Accumulated earnings (deficit)	(221,454,482)	25,717,630	(16,527,566)	(212,264,418)
Crossroads Systems, Inc. stockholders' equity	20,912,853	25,717,630	(16,530,085)	30,100,397
Non-controlling interests	-	18,053,506	-	18,053,506
TOTAL EQUITY	20,912,853	43,771,136	(16,530,085)	48,153,903
TOTAL LIABILITIES AND EQUITY	\$ 54,849,073	\$ 160,085,157	\$ (36,106,351)	\$ 178,827,879

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
SUPPLEMENTAL SCHEDULE II: CONSOLIDATED STATEMENT OF OPERATIONS
JANUARY 31, 2020
UNAUDITED

	<u>Crossroads Systems, Inc.</u>	<u>Capital Plus Financial, LLC</u>	<u>Total</u>
REVENUES			
Interest income	\$ -	\$ 3,179,853	\$ 3,179,853
Property sales	-	4,180,400	4,180,400
Other revenue	-	284,321	284,321
Total revenues	-	7,644,575	7,644,575
COSTS AND EXPENSES			
Interest expense	-	1,515,581	1,515,581
Cost of properties sold	-	3,669,899	3,669,899
General and administrative	54,899	416,911	471,810
Salaries and wages	-	673,464	673,464
Total costs and expenses	54,899	6,275,854	6,330,753
Income (loss) from operations	(54,899)	1,368,721	1,313,821
OTHER EXPENSES			
Interest expense	(211,876)	-	(211,876)
Total other expenses	(211,876)	-	(211,876)
Income (loss) before income tax provision	(266,775)	1,368,721	1,101,945
INCOME TAX PROVISION	(131,370)	-	(131,370)
NET INCOME (LOSS)	(398,145)	1,368,721	970,575
Less: net income attributable to non-controlling interests	-	(158,795)	(158,795)
NET INCOME (LOSS) ATTRIBUTABLE TO CONTROLLING INTERESTS	\$ (398,145)	\$ 1,209,926	\$ 811,780

Item 9 Certifications

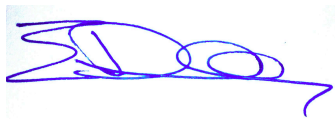
10) Issuer Certification

I, Eric Donnelly, certify that:

I have reviewed this quarterly disclosure statement of Crossroads Systems, Inc.;

Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.



Eric Donnelly
Chief Executive Officer

Date: March 13, 2020

I, Farzana Giga, certify that:

I have reviewed this quarterly disclosure statement of Crossroads Systems, Inc.;

Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.



Farzana Giga
Chief Financial Officer

Date: March 13, 2020