CROSSROADS SYSTEMS INC

FORM 10-K
(Annual Report)

Filed 01/13/16 for the Period Ending 10/31/15

Address	11000 NORTH MOPAC EXPRESSWAY
	AUSTIN, TX 78759
Telephone	5123490300
CIK	0001093207
Symbol	CRDS
SIC Code	3577 - Computer Peripheral Equipment, Not Elsewhere Classified
Industry	Computer Peripherals
Sector	Technology
Fiscal Year	10/31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended **October 31, 2015**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission file number: **001-15331**

CROSSROADS SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**74-2846643** (I.R.S. Employer Identification No.)
11000 North Mopac Expressway, Suite 150 **Austin, TX** (Address of principal executive offices)	**78759** (Zip Code)

(512) 349-0300
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on Which Registered
Common Stock ($0.001 par value)	NASDAQ Capital Market
Rights to Purchase Series G Preferred Stock	NASDAQ Capital Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in, definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the Common Stock, held by non-affiliates of the registrant as of April 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of $2.42 per share on the Nasdaq Capital Market, was $38,027,669.

24,509,435 shares of Common Stock were outstanding at January 13, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

None.

CROSSROADS SYSTEMS, INC.

FORM 10-K

TABLE OF CONTENTS

PART I

Unless the context otherwise requires, references in this Annual Report on Form 10-K to "Crossroads," the "Company," "we," "us" and "our" refer to Crossroads Systems, Inc. and its subsidiaries.

Item 1. Business

Overview

Crossroads Systems, Inc. is a global provider of data storage solutions. Founded in 1996 and based in Austin, Texas, Crossroads develops technology and products that address specific IT challenges, such as cost-effectively storing and protecting business-critical data. Crossroads' commitment to innovation has resulted in numerous awards and the adoption of our products and technology by leading companies around the world.

Our strategic product focus is on long-term data preservation and protection in markets experiencing high data growth. We currently ship the following products: StrongBox®, StrongBox VM, StrongBox DataManager, StrongBox VSeries Tape Libraries, SPHiNX ™ , Read Verify Appliance®, and FileStor HSM. All of our solutions solve storage and data management problems while delivering cost savings and simplicity. Moreover, our products are designed with a scalable architecture, allowing customers to easily purchase additional storage capacity without interrupting their operations. We sell our products through an international network of original equipment manufacturers (OEMs) such as FUJIFILM Recording Media U.S.A., Inc. (Fujifilm), as well as distributors, resellers, and strategic partners.

Over nearly two decades, our engineers have created a strong portfolio of intellectual property assets. These technological innovations have produced patents that have been licensed extensively throughout the storage industry. Since 2000, Crossroads has licensed its patents to over 50 companies and been paid over $61 million for the right to use our valuable technology. Our efforts to license our intellectual property continue as Crossroads' technological developments become even more widely used in data storage solutions.

Our Direction and Strategy

Our fundamental purpose is to help customers simplify and improve IT operations where access to mission-critical data is key. Our commitment to solving complex data storage problems provides ongoing value to our customers, partners and shareholders. Our objective is to deliver innovative, reliable, and affordable data storage solutions. By doing so, we expect to increase our product revenues and achieve profitability. As we endeavor to gain additional market acceptance of our newest products, we are focused on meeting the needs of our sales channel partners while controlling operating expenses.

Crossroads' product strategy is guided by the following principles:
- Solutions must fit existing user workflows without requiring customers to change their behavior
- Solutions must be easy to use
- Solutions must be vendor neutral and standards based
- Solutions must be "future-proof" and allow for seamless upgrades and expansion

Our strategy is to deliver solutions into markets where data is critical to the ongoing operations of the business. Improving the productivity and efficiency of data assets has become a top priority for organizations worldwide. Recent industry research indicates that data is estimated to grow at more than 40% annually, but IT budgets are forecasted to grow at between 5% and 7%. As a result of these opposing forces, many companies lack the essential resources to efficiently manage their growing information assets. Our comprehensive data storage and protection solutions offer alternatives designed to enable customers to easily and cost-effectively store, share, preserve, and protect data while keeping it easily accessible.

Crossroads' products are a result of the company's nearly two-decade dedication to innovative problem solving. By investing heavily in research and development, Crossroads has a unique and extensive knowledge of data storage and data management technologies. Therefore, protecting our proprietary technology is an important component of our business strategy. We've made break-through advances in data storage and have licensed our technology to more than 50 storage companies. Our patent licensing program has generated over $61 million in revenue since 2000. We will continue to offer licenses to our patents and pursue licensing arrangements with storage companies who use our technology without a license.

Products

Our products are delivered two ways; either as software or as software embedded in an appliance. We also provide post-sale support and offer professional services.

We currently sell the following products:

- *StrongBox* — a storage gateway solution that integrates storage tiers and technologies to simplify data management and enable the lowest cost data preservation;
- *StrongBox VM* — a software version of StrongBox that runs on VMware ESXi servers;
- *StrongBox DataManager* — a software enhancement to StrongBox that provides transparent file migration from primary storage systems, such as NetApp, Windows, Linux, and other servers, into StrongBox. Users gain fluid data movement all from a single, integrated solution;
- *StrongBox VSeries Tape Libraries* — paired with the StrongBox or StrongBox VM to provide customers a complete data storage solution. StrongBox VSeries libraries use LTO-6 and LTO-7 tape media, delivering the most scalable, cost-effective, and reliable storage medium available;
- *SPHiNX* — a virtual tape system that provides complete data protection to reduce the cost and complexity of data backup and disaster recovery;
- *ReadVerify Appliance (RVA)* — proactively monitors tape media usage and the overall health of tape resources; and
- *FileStor HSM* — a software solution that provides intelligent file management for policy-based data migration.

Principal Markets and Distribution Channels, Marketing and Customers

We employ an international distribution strategy that utilizes original equipment manufacturers (OEMs), distributors, resellers, and strategic partners (collectively known as partners).

Our approach is to work with partners who offer our products as part of an overall data protection and preservation solution to their customers. Our sales force is responsible for managing key partner and customer relationships. End user customers include universities, government agencies, small businesses, and multinational corporations. Our customers also include storage companies that license our patented technology.

A large portion of our revenue comes from either our licensing campaign or OEM relationships. OEM relationships require several years to mature and must be considered in our time to market requirements. We are party to a software license and distribution agreement with HP whereby we license to HP certain software products and intellectual property rights for use in HP's products. HP pays us royalties and support fees pursuant to contractual formulas in the agreement. Sales to HP, which include IP license revenue, comprised 37.2% of revenue in fiscal 2015, compared to 36.6% of revenue in fiscal 2014. We expect our HP OEM product and maintenance revenue to continue to decline as HP transitions to HP-proprietary solutions.

In August 2013, we announced an OEM relationship with FUJIFILM Recording Media U.S.A., Inc. ("Fujifilm"), where Crossroads allows Fujifilm to private label the Crossroads StrongBox product. The private label relationship is designed to allow Fujifilm to offer its customers the StrongBox appliance, marketed by Fujifilm as Dternity, and technology for seamless integration with Fujifilm's Permivault, a cloud based storage service.

StrongBox and StrongBox VM

The StrongBox appliance is a storage gateway solution that integrates storage tiers and technologies to simplify data management and enable the lowest-cost data preservation. Our product is designed for customers who need scalable storage at the lowest cost to meet specific quality of service (QoS) requirements. The StrongBox appliance can be used as file-based, network-attached storage (NAS) or for object-based storage to support massively scalable data workloads. By fusing high-performance flash and disk with Linear Tape File System (LTFS) tape technology, StrongBox delivers an optimal blend of economy and performance in one simple solution. Nearline (flash/disk) storage keeps data available and deep archiving (tape) ensures the lowest cost for long-term preservation. Our product differentiation is reflected in intelligent and automatic data management that simplifies storage management.

StrongBox VM (virtual machine) delivers all the power of our flagship StrongBox appliance without dedicated hardware. StrongBox VM is also a storage gateway solution that provides protected nearline and archive storage for unstructured data. By combining flash, disk, and LTFS tape into a streamlined, cost-effective storage solution, StrongBox VM helps customers protect data on-site, off-site, or in the cloud. A simple addition to VMWare ESXi servers, StrongBox VM enables organizations to quickly create file and object-based shared storage that supports local, off-site, and distributed storage architectures without requiring dedicated hardware.

StrongBox faces competition primarily from disk and tape vendors. Often, companies use disk for archiving, but as data storage requirements grow, disk storage becomes prohibitively expensive to scale and manage. StrongBox is a lower-cost alternative to expanding disk storage. Companies such as EMC, IBM, Hitachi Data Systems, DDN Storage, and NetApp are competitors. However, we can also partner with these same storage companies in cases where customers use high-performance disk systems but require a lower priced archive tier of storage. This cooperative competition occurs mostly in large data environments where the customer defines the required solution. In smaller data environments, there are a variety of competitors including Zen, StorageDNA, and SGL. Our competitive advantage is based on price, tunable performance, and built-in data protection that disk-based solutions cannot deliver.

Although we believe StrongBox is the best disk and tape based storage solution on the market, there are tape-based solutions that leverage disk caching in similar ways. These include solutions offered by companies like IBM, Quantum, and Spectra Logic. We believe none of them provide tunable performance or allow multiple users to write and read from the system simultaneously, without compromising performance. The higher end competitive products are also generally much more expensive than StrongBox. We also compete at the low end of the market where we may not be the least expensive alternative; however, we believe StrongBox's features and functionality far outweigh any difference in price. Furthermore, StrongBox offers customers a non-proprietary way to preserve and manage data. In this case, non-proprietary means that StrongBox customers can access their data without the need for proprietary software. This is a key feature desired by our customers and valued by our partners. With StrongBox, customers avoid what is known as 'vendor lock-in'; a term describing how some storage buyers are trapped by a vendor because data is only accessible if used with certain proprietary software.

Despite the proliferation of public cloud technology, StrongBox is generally not competing with cloud providers such as Amazon Web Services (AWS). Customers in our segment of the market are typically searching for a storage solution for data they specifically do not want stored in the public cloud. Factors that influence decision makers to choose StrongBox over the public cloud include:

- Cost: The cost to move large files, such as television programs or satellite images, is prohibitive to our prospective buyers. The cost of bandwidth as well as access fees charged by certain cloud providers makes StrongBox less expensive than cloud services. Cloud services may look inexpensive up front, but become prohibitively costly over longer time periods.
- Security: StrongBox customers value keeping data confined and within their chain of custody, either on site or in a secure second physical location.
- Difficulty accessing data: StrongBox customers can retrieve stored data quickly, because data is either on internal disk or on tape that can be quickly accessed. Large files stored by public cloud providers may take hours or days to retrieve, thereby creating business challenges for stakeholders.

SPHiNX

SPHiNX is a virtual tape system that enables faster backups and simplified disaster recovery to reduce the cost and complexity of data protection. SPHiNX improves and consolidates backup processes using a single disk-based system that writes data much more efficiently than traditional tape backup. By automating backup processes, SPHiNX allows IT administrators to execute backups seamlessly from one centralized location. A single SPHiNX system can protect multiple servers or remote sites at a central location, simplifying multi-site protection.

SPHiNX competes with traditional providers of tape-based storage systems, such as Oracle, IBM, HP, and Quantum. We also compete with other virtual tape storage companies such as TSI, Falconstor Software, and EMC. Some of our competitors sell, or have announced plans to sell, products and services to connect, protect and secure business-critical data that compete directly with our offerings. Aligning with our corporate commitment to vendor-neutral solutions, SPHiNX can be paired with any third party tape library or disk systems. Most competitors lock customers into expensive, long-term maintenance agreements, forcing them to stay with one vendor. In this scenario, customers cannot continue to use existing hardware or choose the vendor they prefer as requirements change over time. SPHiNX allows customers to expand the system as their needs increase rather than buying large blocks of unnecessary capacity. SPHiNX offers a distinct advantage over traditional tape backup with fast data write speeds and no risk of manual tape handling errors. SPHiNX directly competes with deduplication appliances, but retrieval from SPHiNX is much faster. In 2016, we expect additional product development to further improve our market position.

RVA

Crossroads ReadVerify Appliance (RVA) provides a nonintrusive method for monitoring, validating, analyzing, and reporting on the performance, utilization, and health of the physical tape library environment. On December 11, 2015, Crossroads notified its partners and customers that we would no longer ship RVA after March 11, 2016. In its place, Crossroads will offer a software version of RVA that can run as a virtual machine.

RVA competes primarily with the built-in tape monitoring features that often come with enterprise libraries. There are storage system managers that monitor disk-based storage but the RVA is unique in that it monitors tape drives, media and libraries. Some tape library manufacturers, including Spectra Logic and Oracle, also provide competing tools; however, those solutions only work within a single library and only for a specific library manufacturer. The RVA works across multiple libraries and different manufacturers and provides richer-content trending analysis and reporting details.

Technology Licensing

We generate revenue when companies using our technology agree to pay us either an upfront licensing fee, or a combination of upfront fees and on-going licensing fees for the use of our intellectual property. Our licensing and litigation agreements sometimes include provisions to cross-license patents from other companies, further enhancing our intellectual property assets and product capabilities. The Company's intellectual property assets are identified in two distinct categories. The first category, known as the '972 patent family, consists of 31 patents and pending patents that are primarily concentrated around access controls. The second category, known as the non-'972 patents, consists of 134 patents and pending patents that are primarily directed to five product families: optimizing command processing, enabling interoperability, managing networks, enhancing tape libraries, and improving data systems. These product families are described in more detail below.

The ‘972 Patent Family

The ‘972 patent family has been the focus of years of litigation and licensing campaigns. As of October 31, 2015, approximately 50 companies have licensed ‘972 patents from Crossroads. Of these, 17 companies licensed our patents without litigation and the remaining companies took licenses as a result of litigation-related settlements. All lawsuits initiated by Crossroads have been filed in the U.S. District Court for the Western District of Texas.

One of the litigated cases in the Western District Court of Texas went through a jury trial. The jury reached a verdict that the asserted patents were valid and infringed by the defendant. The jury awarded damages to Crossroads that consisted of 3% and 5% of product sales as reasonable royalties on two different infringing products made by the defendant. The case was appealed to the U.S. Court of Appeals for the Federal Circuit, and the jury’s verdict was affirmed. In another case, we received a default judgment against the defendant and were entitled to an award of royalties. Upon request in another case, the U.S. Patent and Trademark Office (the “U.S. Patent Office”) conducted a re-examination of certain patents within the ‘972 Patent Family. The U.S. Patent and Office examined over two hundred prior art references and ultimately re-certified the patentability of the claims of those patents. In the course of our lawsuits to date, the U.S. District Court has construed the meaning of several terms within the claims of the ‘972 patent family and in each instance the rulings were in favor of Crossroads.

We entered into an agreement with TQ Zeta LLC, an affiliate of Techquity, and Intrepidus Holdings LLC (collectively, “Techquity”), in which Techquity will share in the revenue generated from the ‘972 patent litigation. For consideration of $10.0 million received, Techquity received the rights to 52% of the first $20 million in licenses of the ‘972 patents, 40% of the amounts between $20 and $100 million, and 12% of all licenses above the $100 million in aggregate licensing.

The Non-‘972 Patent Family

Our non-’972 patent family comprises five distinct patent categories:

- “ *Optimized Command Processing* ” relating to techniques for ensuring that data and messages flow smoothly through the network;
- “ *Enabling Interoperability* ” relating to facilitating communication between different protocols and networks;
- “ *Managing the Network* ” relating to methods for diagnosing and correcting network errors;
- “ *Enhancing Tape Libraries* ” relating to enhancing and optimizing operation of tape storage for Storage Area Networks (SANs); and
- “ *Improving Data Systems* ” relating to techniques for optimizing file systems and database usage in SANs.

In connection with a loan from CF DB EZ LLC, an affiliate of Fortress Credit Co LLC with its affiliates (collectively referred to as Fortress) the non-’972 patents were assigned to a limited partnership controlled by Fortress, and are subject to a security interest granted to Fortress in connection with a secured credit agreement entered into with Fortress in July 2013. Certain terms in the Fortress agreement permit us to recover full control of the assets in return for the payment of a monetization call option of up to $2 million dollars. We are evaluating strategic alternatives related to the non-’972 patent portfolio, including the possibility of exercising our rights in the agreement to regain full control of the patents. Crossroads fully paid off all debt obligations under the Fortress Credit Agreement on October 30, 2015.

In November 2013, the Company hired a third-party patent consulting firm to analyze the non-’972 patents. The firm was paid a flat fee and tasked to provide an unbiased, fact-based professional opinion on the monetization potential of the portfolio. This firm determined that the 117 patent assets reviewed comprise 78 patent families and the average remaining life on these patents at that time exceeded 10 years. Certain of the non-’972 patents likely apply to technology that complies with four industry standards. Because these industry standards are widely used, we believe that dozens of companies may have used, or may be using, the technology described in our patents without authority or properly being licensed by Crossroads. The third party analysis estimated that past and future revenues of products that may potentially infringe our non-’972 patents could exceed $82 billion. However, Crossroads can provide no assurances regarding the accuracy of the assumptions underlying this analysis, our ability to recover any royalties or licensing fees relating to these patents, or the timing for any such royalties or licensing fees.

In August 2014, the Company hired an intellectual property law firm to provide consulting services related to Crossroads' non-972 patent portfolio. The firm was asked to validate key assumptions, propose a detailed monetization strategy and timeline, identify potentially infringing companies and products, develop detailed claims charts, and estimate revenue opportunities associated with each potentially infringing company. The firm’s work was completed in 2015.

Crossroads has not yet begun an active licensing program for the non-‘972 patent family. Because we have not developed a strategy, nor identified which potentially infringing companies to pursue, we have not created a budget for litigation or monetization of our non-’972 patent portfolio. Various monetization alternatives available to us include the following:

- a sale of all or a portion of the patent family;
- pursuing litigation against companies we believe are infringing our rights under this patent family in order to encourage these companies to take a license to our technology (whether alone or in partnership with a law firm or firms that may take a contingent recovery);
- one or more strategic partnerships with a patent monetization company, in which case we would share a portion of the license revenues with the strategic partners taking responsibility for some or all expenses related to licensing (including litigation); or
- entering into arrangements with lenders or financial partners in order to fund litigation.

We are carefully reviewing these and other options to monetize the portfolio. Other options may become available to us and we will review those alternatives appropriately.

Employees

As of October 31, 2015, we had 46 employees. Of the total employees, 14 were engaged in sales, marketing, and business development; 22 in research and development; and 10 in general and administrative, support and operations functions. None of our employees are represented by a labor union, and we consider current employee relations to be good.

Research and Development

We incurred research and development costs of $4.8 million and $5.7 million in fiscal 2015 and 2014, representing 61.1% and 50.9% of net revenue, respectively. In fiscal 2015, we continued to augment our product lines by providing feature enhancements to our software and hardware platforms.

Our plans for fiscal 2016 include enhancements across our product lines. A particular area of focus will be continued feature and performance evolution for our StrongBox product.

Environmental Compliance

Our business involves purchasing finished goods as components from different vendors and then assembling and configuring these components into finished products at our facilities. Accordingly, we are not involved in the actual manufacturing of components, which can often involve significant environmental regulations with respect to the materials used, as well as work place safety requirements. Our operations and properties, however, do remain subject in particular to domestic and foreign laws and regulations governing the storage, disposal and recycling of computer products. For example, our products are subject to the European Union’s Directive 2002/96/EC Waste Electrical and Electronic Equipment and Directive 2002/95/EC on Restriction of the use of Certain Hazardous Substances in Electrical and Electronic Equipment. To date, we have not been the subject of any material investigation or enforcement action by either U.S. or foreign environmental regulatory authorities. Further, because we do not engage in primary manufacturing processes like those performed by our suppliers who are industrial manufacturers, we believe that costs related to our compliance with environmental laws should not materially adversely affect us.

Competition

During the 19 years Crossroads has been in business, the competitive pressures have been great. We believe that several companies misappropriated our proprietary technology in the early formative years of the Company, thereby forcing Crossroads to engage in multiple capital raises and legal actions to enforce its intellectual property rights. Today, the worldwide storage market is highly competitive. Competitors vary in size from small start-ups to large multi-national corporations that may have substantially greater financial, research and development and sales and marketing resources. From a customer and partner perspective, key competitive factors include product features, reliability, scalability, simplicity, and price. The markets for all of our products are characterized by significant price competition and we anticipate that our products will continue to face price pressure.

Legal Proceedings

The Company is and may become involved in various lawsuits as well as other certain legal proceedings that have not been fully resolved and arise in the ordinary course of business. These are proceedings to which we are a party in our own name or proceedings that have been brought against the Company. Information regarding certain material litigation proceedings is provided in Item 3 “Legal Proceedings” of this Annual Report on Form 10-K.

Properties

We lease approximately 16,200 square feet of office space in Austin, Texas, which serves as our principal executive offices, laboratory, data center, and administrative space. The original lease was effective October 31, 2005, and the term of the lease was recently extended and now expires on March 31, 2020. The extended term of the lease represents a lease commitment of approximately $245,000 per year through the lease term. We also lease a 1,163 square foot sales office in Schwabisch Gmund, Germany. The lease is a month-to-month term, with a 3-month notice of termination clause, and we pay rent of approximately $15,500 per year.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available on our website at www.crossroads.com, as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission ("SEC"). Additionally, our Standards of Professional Practice and Ethical Conduct, Code of Ethics for Senior Management and Financial Employees, Audit Committee Charter, Compensation Committee Charter and Nominating and Corporate Governance Committee Charter may be accessed through the website. Reports and other information we file with the SEC may also be viewed at the SEC's website at www.sec.gov or viewed or obtained at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The Company's website and the information contained therein or connected thereto shall not be deemed to be incorporated into this Annual Report on Form 10-K.

Item 1A. Risk Factors

Investing in our securities involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including our consolidated financial statements and related notes, before deciding whether to purchase any of our securities. Any of these risks may have a material adverse effect on our business, financial condition, results of operations and cash flows and our prospects could be harmed. In that event, the price of our securities could decline and you could lose part or all of your investment.

Risks Related to Our Business, Industry and Financial Condition

A large percentage of our sales come from a few customers, some of whom are also competitors, and these customers generally have no minimum or long-term purchase commitments. The loss of, or a significant reduction in demand from, one or more key customers could materially and adversely affect our business, financial condition and operating results.

Our sales have been and continue to be concentrated among a few customers. Sales to our top three customers in fiscal 2015 represented 54.1% of total revenue, and HP, our largest customer, represented 37.2% of our total revenue. Furthermore, customers are not obligated to purchase any minimum product volume and our relationships with our customers are terminable at will. In addition, from time to time these customers have solicited, and may in the future solicit, bids from us and our competitors for products and services we are currently providing, which could reduce or terminate all or a part of our relationship with that customer. If we experience declines in revenue from any of our large customers, we could be materially and adversely affected. In addition, certain of our large customers are also our competitors, and such customers could decide to reduce or terminate their purchases of our products for competitive reasons. Merger and acquisition activity could also increase the risk that large customers reduce or terminate their purchases of our products.

Many of our tape and disk products are primarily incorporated into larger storage systems or solutions that are marketed and sold to end users by our large original equipment manufacturer, or OEM, customers as well as our value added resellers (“VARs”), system integrators (“SIs”), and strategic partners. Because of this, we have limited market access to these end users, limiting our ability to reach and influence their purchasing decisions. These market conditions further our reliance on these OEM and other large customers. Thus if they were to significantly reduce, cancel, or delay their orders with us, our operations could be materially and adversely affected.

We derive much of our revenue from the sales and support of virtual tape servers, and if demand for these systems does not continue, our business, results of operations, and financial condition may be harmed.

We derive much of our revenue from the sales of virtual tape servers and associated customer support and services. As a result, we are vulnerable to fluctuations in demand for these systems, whether as a result of competing technologies and products, the impact of the continuing weakening of U.S. and global economic conditions, decreases or delays in corporate spending for information technologies, product obsolescence, lack of customer acceptance, technological change, customer budgetary constraints or other factors. If demand for our systems does not grow, our business, results of operations, and financial condition would be harmed.

We face significant competition and expect this competition to intensify, which could prevent us from increasing our revenue, reduce our gross margins, and result in the loss of market share.

The market for our products is highly competitive and we expect competition to intensify in the future. Other companies have introduced and may in the future introduce new products in the same markets we serve or intend to enter. Currently, we face competition from traditional providers of tape-based storage systems as well as a number of established storage companies that offer a variety of different disk-based storage products. Some of our strategic partners currently market products and services that compete with our products. We also compete with a number of emerging hardware and software companies that may become more significant competitors in the future. In addition, at the low-end of our product line, we may compete with other hardware or software providers that incorporate data storage and protection capabilities in their products. New competitive offerings have been recently announced or introduced in our marketplace by our competitors, and we anticipate additional offerings by our competitors may be announced or introduced in 2016. Further, many of our competitors have substantially greater financial, sales and other resources than we do and may in some cases benefit from lower costs than we do. In some cases, they also have more recognizable brands than our own.

Competition in the past has resulted in pricing pressure on our products and services, and we anticipate that pricing pressure will increase in the future. Competition has in some instances resulted in a negative impact on the length of our sales cycle, and we may experience longer sales cycles in future periods due to increased competition. In particular, if a large number of orders, or a large dollar value order, is delayed or cancelled, our financial results may be harmed. Competition may result in reduced gross margins for our products, increased sales and marketing expenses and a failure to increase, or the loss of, market share.

Our sales cycle varies substantially from customer to customer and future revenues in any period may be lower than our historical revenues or forecasts.

Our sales are difficult to forecast because the data storage market is rapidly evolving and our sales cycle varies substantially from customer to customer. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. This is particularly true during times of economic slowdown and when selling products that require complex installations. Additional factors that may extend our sales cycle, particularly orders for new products, include:

- the amount of time needed for technical evaluations by customers;
- customers' budget constraints and changes to customers' budgets during the course of the sales cycle;
- customers' internal review and testing procedures;
- the timing of product releases or upgrades by us or by our competitors;
- our engineering work necessary to integrate a storage solution with a customer's system;
- the complexity of technical challenges that need to be overcome during the development, testing or qualification process for new products or new customers;
- fluctuations in our IP revenue;
- meeting unique customer specifications and requirements; and
- difficulties by our customers in integrating our products and technologies into their own products.

Our product revenue is difficult for us to predict since it is directly affected by the timing of orders. In addition, our operating expense levels are based, in part, on our expectations as to future sales. As a result, if sales levels are below expectations, our operating results may be disproportionately affected. We cannot assure you that our sales will not decline in future periods.

Some of our revenue is subject to the pricing policies of our customers over whom we have no control.

We have no control over our customers' pricing of their products and there can be no assurance that licensed products will be competitively priced or will sell in significant volumes. One important requirement for licensed technology is that any premium charged by our customers in the price of their products utilizing our licensed technology over alternatives needs to be reasonable in comparison to the perceived benefits of the products. If the benefits of our technology do not match the price premium charged by our customers, the resulting decline in sales of products incorporating our technology could harm our operating results.

Our products handle mission-critical data for our customers and are highly technical in nature. If customer data is lost or corrupted, or our products contain software errors or hardware defects, we could have product liability exposure and our reputation and business could be harmed.

Our products are involved in storing and replicating mission-critical data for our customers, which is highly technical and complex. If any data is lost or corrupted in connection with the use of our products, our reputation could be seriously harmed and market acceptance of our products could suffer. In addition, our products have contained and may in the future contain software errors, hardware defects or security vulnerabilities. We rely on our suppliers to deliver high quality components for use in our products and we have limited or no control over our suppliers' product development and production processes. Some software errors or defects in the hardware components of our products may only be discovered after a product has been installed and used by customers, which could increase our support costs, reduce our margins and harm our reputation among our customers. In addition, we could face claims for product liability, tort or breach of warranty. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and adversely affect the market's perception of us and our products.

We face potential liability for performance problems of our products because our end users employ our storage technologies for the storage and backup of important data and to satisfy regulatory requirements. Although we maintain technology errors and omissions insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability or accrual of litigation costs that is not covered by insurance or is in excess of our insurance coverage could harm our business.

In addition, we could potentially face claims for product liability from our customers if our products cause property damage or bodily injury. Although we maintain general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability or accrual of litigation costs that is not covered by insurance or is in excess of our insurance coverage could harm our business.

Focusing our business model on leveraging OEM and strategic partners with respect to sales of the StrongBox product and intellectual property monetization may not result in anticipated benefits.

As we announced in 2013, we undertook a significant reduction in force and are focusing our strategy primarily on leveraging OEM and strategic partners with respect to the Crossroads StrongBox product and are also focusing our efforts on realizing the value of our intellectual property. We have encountered and will continue to encounter risks and difficulties frequently experienced by companies with evolving business strategies. In particular, these new strategies may not have the business success that we hope for and our reduction in force may not ultimately result in the cost savings that management anticipates. Our strategy may place increased demands on our personnel and could adversely affect our ability to attract and retain talent, and to perform our accounting, finance and administrative functions. If we do not manage these risks successfully, our business and operating results will be adversely affected.

If we lose key personnel or are unable to attract and retain qualified personnel on a cost-effective basis, our business would be harmed.

Our success is substantially dependent upon the performance of our senior management and key technical and sales personnel. Our management and employees can terminate their employment at any time, and the loss of the services of one or more of our executive officers or other key employees could harm our business. Our success also is substantially dependent upon our ability to attract additional personnel for all areas of our organization, particularly in our sales and research and development departments. Our dependence on attracting and retaining qualified personnel is particularly significant in light of our reduction in force announced in October 2013. Following that reduction in force, we have less redundancy and excess capacity in our workforce, which heightens the risks and potential negative consequences that could result from the departure of certain key management, technical or sales personnel that we may have difficulty replacing.

Competition for qualified personnel in our industry is intense, and we may not be successful in attracting and retaining such personnel on a timely basis, on competitive terms, or at all. If we were unable to attract and retain the necessary technical, sales and other personnel on a cost-effective basis, our business would be harmed.

Our international sales and operations subject us to additional risks that may harm our operating results.

In the year ended October 31, 2015, we derived approximately 15.4% of our revenue from international customers. We expect to continue to add personnel in additional countries. Our international operations subject us to a variety of risks, including:

- the difficulty of managing and staffing international offices and the increased travel, infrastructure, and legal compliance costs associated with multiple international locations;
- our executive officers' lack of proximity to the international activities being managed and the inherent limitations of cross-border information flow;
- the management of our relationships with distributors outside the United States, whose sales and lead generation activities are very important to our international operations;
- difficulties in enforcing contracts and collecting accounts receivable, and longer payment cycles, especially in emerging markets;
- tariffs and trade barriers and other regulatory limitations on our ability to sell our products in certain foreign markets;
- increased exposure to foreign currency exchange rate risk;
- potential exposure to adverse tax consequences;
- shortages in component parts and raw materials;
- import and export and trade regulation changes that could erode our profit margins or restrict our ability to transport our products;
- the burden and cost of complying with foreign and U.S. laws governing corporate conduct outside the U.S.;
- potential restrictions on the transfer of funds between countries;
- import and export duties and value-added taxes;
- natural disasters, including earthquakes, typhoons and tsunamis;
- increased exposure to possible violations of U.S. laws regulating the export of our products, and to other U.S. and foreign laws affecting the conduct of business globally such as product certification, environmental and waste management and data privacy laws;
- reduced protection for intellectual property rights in some countries; and
- political and economic instability.

Sales to international customers may also result in greater shipping costs and additional expenses to conform our products to the requirements of local laws or local product specifications. As we continue to expand our business internationally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Our failure to successfully manage any of these risks could harm our international operations, reduce or delay our international sales, result in fines and penalties, and reduce profitability on a dollar adjusted basis.

We have a history of losses and we may not be able to sustain profitability in the future.

For the years ended October 31, 2015 and 2014, we recorded net losses of approximately $9.0 million and $9.2 million, respectively. We may incur additional losses in future periods. We expect to make significant expenditures related to the development of our business. We may incur significant losses in the future for a number of reasons, including those discussed in other risk factors and factors that we cannot foresee. In addition, continued losses may cause us to undertake cost reduction plans. If we undertake cost reduction initiatives or restructuring plans, these plans may adversely impact our operations, may cause us to recognize restructuring or other charges, and may not result in our realizing any or all of the anticipated benefits of these plans.

Our ability to utilize our net operating loss carryforwards ("NOLs") or recognize tax benefits on future domestic taxable income may be limited.

Our ability to fully utilize our existing NOLs could be limited or eliminated in various ways. (i) if we experience an "ownership change" within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. An "ownership change" is generally defined as greater than a 50% change in equity ownership by value over a rolling three-year period. We may experience an "ownership change" in the future as a result of changes in our common stock ownership, which would result in a limitation on our ability to utilize our NOLs. (ii) due to changes in federal laws and regulations that could negatively impact our ability to recognize benefits from our NOLs; or (iii). should we not reach profitability or be only marginally profitable prior to the expiration of the NOLs. There can be no assurance that we will have sufficient taxable income to be able to utilize our NOLs prior to their expiration.

If we fail to manage growth effectively, our business would be harmed.

We have restructured our operations significantly since inception and anticipate that further changes of our operations and headcount may be required. Our operating structure has changed recently, and any changes or future growth will place significant demands on our management, infrastructure and other resources. To manage any future change, we will need to hire, train, integrate and retain a number of highly skilled and motivated employees. We will also need to continue to improve our financial and management controls and reporting systems and procedures. We could encounter delays or difficulties in implementing any of these systems. If we do not effectively hire, train, integrate and retain sufficient highly qualified personnel to support any future growth, and if we do not effectively manage the associated increases in expenses, our business, results of operations and financial condition would be harmed.

Any shortages in components used in our products could delay shipment of our products or increase our product costs, which could harm our business.

Significant time and effort would be required to locate new vendors for the components we use in our products, if available at all, to qualify replacement components or to develop our products using alternative suppliers. The unavailability of any necessary components could delay or prevent us from shipping our products. Component suppliers may be vulnerable to pressure from large purchasers of their products, who may be competitors of ours, to allocate available component supplies to them. The global economic conditions may also adversely affect our suppliers and their liquidity, and the availability of, or terms and conditions on which we purchase, their products and services. In addition, increased demand generally by third parties for the components we use in our products may lead to decreased availability and higher prices for those components.

If we experience shortages in components that we use in our products, or do not accurately predict the availability of and demand for such components, or if new product introductions by our suppliers do not meet our expectations for timing, availability, functionality, performance, quality or price, then our business and gross margins could be negatively impacted, and our reputation and customer relationships could be harmed.

Our business and operating results may be harmed if we undertake any restructuring activities.

From time to time, we may undertake to restructure our business, such as the reductions in our workforce that we announced during 2013. There are several factors that could cause a restructuring to have an adverse effect on our business, financial condition and results of operations. These include potential disruption of our operations, the development of our technology, the deliveries to our customers and other aspects of our business. Employee morale and productivity could also suffer and we may lose employees whom we want to keep. Loss of sales, service and engineering talent, in particular, could damage our business.

Any restructuring would require substantial management time and attention and may divert management from other important work. Employee reductions or other restructuring activities also cause us to incur restructuring and related expenses such as severance expenses. Moreover, we could encounter delays in executing any restructuring plans, which could cause further disruption and additional unanticipated expense

Recent turmoil in the financial markets and the global economic conditions have adversely affected and may continue to adversely affect our industry, business and gross margins.

The challenging economic conditions in the U.S. and world economic markets and the future economic environment may continue to adversely affect our business. Our business depends on the overall demand for information technology, in particular for data storage and protection products for backup storage and network-based disaster recovery. Information technology spending has historically declined with worsening general economic and market conditions, and we believe the economic conditions previously caused our customers to significantly reduce or delay their information technology purchases and that these reductions and delays negatively impacted demand for our products and services and our business. If the U.S. and global economic conditions worsen and if our customers believe economic conditions will not improve or a downturn will occur in the foreseeable future, then our customers may continue to significantly reduce their information technology budgets and may decrease their demand for our products and services.

As a result of this economic slowdown and the ongoing tightening of credit markets, our customers may be delayed in obtaining, or may not be able to obtain, necessary financing for their purchases of our products. A lack of liquidity in the capital markets or the continued global economic conditions may cause our customers to delay or cancel their purchases, increase the time they take to pay or default on their payment obligations.

The global economic conditions may not only cause our customers to significantly reduce or delay their information technology budgets, which would negatively impact demand for our products and services, but may also result in:

- increased price competition for our products, not only from our competitors, but also as a result of our customers' or potential customers' utilization of inventoried or underutilized products, which could put additional pressure on our near term gross profits;
- risk of excess or obsolete inventories;
- excess engineering capacity and higher associated overhead costs as a percentage of revenue; and
- more limited ability to accurately forecast our business and future financial performance.

As a result of the recent and ongoing economic conditions, we may face new risks that we have not yet identified. In addition, a number of the risks associated with our business, which are disclosed in these risk factors, may increase in likelihood, magnitude or duration.

Litigation, Regulation and Business Risks Related to our Intellectual Property

We face current and potential adverse determinations in litigation stemming from our efforts to protect and enforce our patents and intellectual property rights and make other claims, which could broadly impact our intellectual property rights and our ability to conduct our business as currently operated, distract our management and cause substantial expenses and declines in our revenue and stock price.

We may not generate positive returns on our research and development investments.

Developing our products is expensive and our investment in product development may involve a long investment return cycle. For the year ended October 31, 2015, our research and development expenses were approximately $4.8 million, or approximately 61.1% of revenue. Our future plans include significant investments in research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. These investments may not generate positive returns in the near term, or at all.

Efforts to protect our intellectual property rights and to defend claims against us can increase our costs and will not always succeed; any failures could adversely affect revenues and profitability.

Intellectual property rights are crucial to our business, particularly our technology licensing programs. We endeavor to obtain and protect our intellectual property rights in the United States and in selected international markets. Our IP licensing revenue for the year ended October 31, 2015 was $1.0 million, or approximately 12.6% of revenues, and our IP licensing revenue for the year October 31, 2014 was $1.9 million, or approximately 16.8% of revenues. If we experience a decline in revenue from our licensees, as a result of economic conditions, customers' business performance, or otherwise, we could be materially and adversely affected. We may be unable to retain all of our intellectual property protection. Even if protection is obtained, competitors or others in the chain of commerce may raise legal challenges to our rights or illegally infringe on our rights, including through means that may be difficult to prevent or detect. For example, much of our proprietary technology resides in software that frequently is not publicly available and has prevented and may continue to prevent us from realizing the full value of our intellectual property. In addition, because of the rapid pace of technological change, and the confidentiality of patent applications in some jurisdictions, competitors may be issued patents from applications that were unknown to us prior to issuance. These patents could reduce the value of our intellectual property, to the extent they cover technologies on which we have unknowingly relied, require that we seek to obtain licenses or cease using the technology, no matter how valuable to our business. We cannot assure we would be able to obtain such a license on acceptable terms. The extent to which we succeed or fail in our efforts to protect our intellectual property will affect our costs, sales and other results of operations.

If we are unable to protect our intellectual property rights, our competitive position could be harmed, and we will be required to incur significant expenses to enforce our intellectual property rights.

We depend on our ability to protect our proprietary technology. We rely on trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. Despite our efforts, the steps we have taken to protect our proprietary rights may not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation or infringement is uncertain, particularly in countries outside of the United States. Further, we do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Even issued patents may be contested, circumvented or invalidated. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future.

Protecting against the unauthorized use of our patents, trademarks and other proprietary rights is expensive, difficult and, in some cases, impossible. Additional litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of our own intellectual property and that of others. Such litigation could be costly and divert management resources, either of which could harm our business. We have also identified a number of companies that we believe may infringe our intellectual property, and there are likely others in our industry that infringe our intellectual property that we have not yet identified. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce and defend their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to successfully identify third-party infringement or prevent third parties from infringing upon or misappropriating our intellectual property, nor can we ensure that we will not be accused of infringement or misappropriation of the intellectual property rights of others.

Adverse outcomes in legal proceedings could subject us to substantial damages and adversely affect our results of operations and profitability.

We are involved in major lawsuits concerning intellectual property and other matters, which are time-consuming and the outcomes of which may be significant to results of operations in the period recognized or limit our ability to engage in our business activities. However, the outcome of legal proceedings and claims brought against the Company are subject to great uncertainty, and although we intend to vigorously pursue our claims, there are no guarantees that we can protect our intellectual property rights in our current litigation or related proceedings, settle any of the current litigation actions, prevail in any of the current litigation actions or related proceedings or prevent the unauthorized use of our technology now and in the future. Further, any favorable result we receive at the trial level or at the U.S. Patent Office may be appealed by the other party. Such appeals are expensive and time consuming, resulting in increased costs and, at a minimum, delay in receiving revenue. A successful appeal could overturn entirely any positive result for the company from a trial court or the U.S. Patent Office. Although we diligently pursue enforcement litigation, we cannot predict with significant reliability the decisions made by juries, trial courts, the U.S. Patent Office or an appellate court.

Additionally, unintended consequences of our litigation may adversely affect our business, including, without limitation, that we may have to devote significant time and financial resources to pursuing the litigation, that we have become subject to counterclaims or lawsuits and may become subject to additional counterclaims and lawsuits, that the parties we pursue claims against have filed actions, and may file additional actions, with the government (including *inter partes* review proceedings) to attempt to invalidate or render our patents unenforceable, and that the expenses of pursuing the litigation and related proceedings could increase based upon these counterclaims, lawsuits, *inter partes* review proceedings or new developments in the pending proceedings. In addition, if we do not prevail in our patent litigation or in the *inter partes* review proceedings, the consequences could include the circumvention or invalidation of our patents, which could have a material adverse effect on our ongoing licensing program, our ability to enforce our existing licenses, and the ability to recover damages based on infringement of our patents. Additionally, an adverse result in a counterclaim or lawsuit against us, or an *inter partes* review proceeding, could result in our not having the intellectual property rights necessary to practice our business as currently operated or to sell our products, including our StrongBox products. These and other factors not currently known to or deemed material by management, could have a material and adverse impact on our business, prospects, liquidity, and results of operations.

We have transferred ownership of the non-'972 Patents to a limited partnership with an affiliate of Fortress that we do not fully control, and efforts by this limited partnership to generate revenues from the transferred patents and patent applications may not be successful.

As described above, in connection with a July 2013 secured loan transaction with Fortress, we transferred substantially all of our non-'972 patents to a limited partnership of which an affiliate of Fortress is the general partner. Fortress generally has the power to manage, control and conduct the business and affairs of the partnership. While the limited partnership agreement gives us the right to consent to certain actions, as a limited partner we do not control the partnership and have a limited ability to direct any licensing and monetization activities without Fortress's consent.

This partnership poses risks not otherwise present when we alone seek to license our technology. For example: Fortress, may or may not take actions that we believe to be in our best interest; we may incur liabilities as a result of actions taken, or not taken, by the partnership; we may be required to devote significant management time to the requirements of and matters relating to the partnership, including litigation and licensing matters, as well management of the partnership relationship; any strategy or other disputes between us and Fortress may result in delays, expenses or operational impasses; and while we have retained a fully paid-up, royalty-free, worldwide, non-transferable, non-exclusive license to use the assigned patents, these patents are now owned by a third party not under our control, and will remain as such unless and until we are able to buy out Fortress's interest in the partnership.

This partnership may attempt to pursue patent licensing and enforcement activity that may generate revenues for us. However, we cannot predict the success of those efforts or when revenues, if any, are generated. Any efforts to generate such revenues may require us to expend significant monetary resources. Until the Company has exercised its option to repurchase Fortress's interest in the partnership, any revenues generated from a licensing program will be subject to the revenue sharing agreement defined in the limited partnership agreement. These limitations on our ability to monetize our non-'972 patent family could negatively affect our financial condition and results of operations.

Our strategy to license and/or monetize the value of our intellectual property through enforcement or other strategies may not be successful.

As discussed elsewhere in this filing, we maintain an active licensing program related to our '972 patent family, and we are in the process of developing a campaign to monetize our non-'972 patents.

Our strategy to monetize our non-'972 patents is in the preliminary stage. At this time, with the assistance of third party consultants, we are developing a strategy to pursue one or more alternative methods of monetizing the non-'972 patents, which may include one or more of the following strategies:

- a sale of all or a portion of the patent family;
- pursuing litigation against companies we believe are infringing our rights under this patent family in order to encourage these companies to take a license to our technology (whether alone or in partnership with a law firm or firms that may take a contingent recovery);

- one or more strategic partnerships with a patent monetization company, in which case we would share a portion of the license revenues with the strategic partners taking responsibility for some or all expenses related to licensing (including litigation); or

- entering into arrangements with lenders or financial partners in order to fund litigation.

Some of these strategies could be costly, and we cannot assure you that we will be able to fund such strategies ourselves nor be able to raise financing or enter into a partnership to provide for such funding. We cannot predict with certainty the time it would take to achieve any revenues from such strategies, and we cannot assure you such activities will, in fact, generate revenue. As stated above, there also are contractual limits on our ability to monetize our non-'972 patents.

If we are unable to develop and manufacture new products that achieve acceptance in the data protection and the network storage software markets, our operating results may suffer.

The data protection and the network storage software markets continue to evolve and as a result there is continuing demand for new products. Accordingly, we may need to develop and manufacture new products that address additional data protection or network storage software market segments and emerging technologies to remain competitive in the data storage software industry. We are uncertain whether we will successfully qualify new data protection or network storage software products with our customers by meeting customer performance and quality specifications. Any failure to address additional market segments could harm our business, financial condition and operating results.

We operate in a rapidly evolving industry and changes in existing technologies or the emergence of new products or technologies could reduce demand for our products and significantly harm our business.

The data storage market is characterized by rapid technological change, frequent product and technology introductions, evolving industry standards, industry consolidation, and evolving customer preferences. The introduction of new products by our competitors or us, or new storage market entrants, could render our existing products obsolete or uncompetitive. Additionally, changes in existing technologies could cause demand for our products to decline. For example, if changes in technology result in a significant reduction in the price for hard disk drives, enterprises may not need to utilize information security, data protection, information assurance, business information assurance, business continuity, disaster recovery, data privacy, risk management, fraud prevention, corporate governance and regulatory compliance products or services. One or more new technologies also could be introduced that compete favorably with our products or that cause our products to no longer be of significant benefit to our customers. In addition, because our products work with enterprise backup software applications to transfer and store data in the storage environment, we are dependent on enterprises' use of these applications for data protection and disaster recovery purposes. If enterprises adopt products or technologies that enable them to protect and recover their data, demand for our products and services could be reduced significantly.

Our operating results depend on new product introductions, which may not be successful, in which case our business, financial condition and operating results may be materially and adversely affected.

To compete effectively, we must continually improve existing products and introduce new ones. We have devoted and expect to continue to devote considerable management and financial resources to these efforts. We cannot provide assurance that:

- we will introduce new products in the timeframe we forecast;
- we will not experience technical, quality, performance-related, or other difficulties that could prevent or delay the introduction and market acceptance of new products;
- our new products will achieve market acceptance and significant market share, or that the markets for these products will continue or grow as we have anticipated;
- our new products will be successfully or timely qualified with our customers by meeting customer performance and quality specifications which must occur before customers will place large product orders; or
- we will achieve high volume production of these new products in a timely manner, if at all.

If we are not successful in timely completion of our new product qualifications and then ramping sales to our key customers, our revenue and results of operations could be adversely impacted. In addition, if the quality of our products is not acceptable to our customers, this could result in customer dissatisfaction, lost revenue, and increased warranty and repair costs.

The inability of our products to interoperate with backup software applications would cause our product and licensing business to suffer.

We have designed our products to interoperate with the leading enterprise backup software applications available in the market. If our products are not compatible with the leading backup software applications, demand for our products will decline. Some backup software providers currently offer products that compete with ours and other providers may do so in the future. Backup software providers may in the future make changes that would diminish the ability of our products to interoperate with their applications. If this were to occur, we may need to spend significant time and effort to ensure the continued compatibility of our products, which may not be possible. Any of these developments could significantly harm our business.

Our products must conform to industry standards and integrate smoothly with user systems in order to be accepted by customers in our markets.

We offer our software on a stand-alone basis and as part of a product in which we install our software onto third party hardware. Our current products are only one part of a storage system. All components of these systems must comply with the same industry standards in order to operate together efficiently. We depend on companies that provide other components of these systems to conform to industry standards. Some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by OEM customers or end users. If other providers of components do not support the same industry standards as we do, if competing standards emerge or if our products are not easy to deploy or do not integrate smoothly with end user systems, our products may not achieve market acceptance, which would adversely affect our business.

Issues with the hardware on which our software products are installed could increase our support costs and result in lower sales of our products.

We deliver some of our products, both through our resellers and directly to end-users, installed on third party hardware. If the hardware does not function properly, our support costs will go up. We will have to arrange or pay for the repair or replacement of the broken hardware and we may have to increase the size of our support operations. Hardware reliability issues could also result in reputational harm to our company and could cause partners and end-users to refuse to make purchases from us, even if our software products function properly.

Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by man-made problems such as computer viruses or terrorism.

Our headquarters facilities contain redundant power supplies and generators. However, our domestic and foreign operations, and the operation of our strategic and OEM partners, VARs, SIs and others, remain susceptible to fire, floods, tornadoes, power loss, power shortages, telecommunications failures, break-ins and similar events. In addition, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. Acts of terrorism or war could also cause disruptions in our or our customers' businesses or the economy as a whole. To the extent that such disruptions result in delays or cancellations of customer orders, or delay the manufacture and shipment of our products, our business would be harmed.

Failure of IT and telecommunications systems for product sales and licensing could adversely impact our business and operating results.

The Company depends on IT and telecommunications systems for our operations. These systems support a variety of functions including data storage and retrieval, order processing, shipping, shipment tracking, billing, support center and internal information exchange around the globe. The Internet and individual websites have experienced a number of disruptions and slowdowns, some of which were caused by organized attacks. In addition, some websites have experienced security breakdowns. Security breakdowns, disruptions or breaches that compromise sensitive information, could harm our relationship with our customers. Our support centers are dependent upon telephone and data services provided by third party telecommunications service vendors and our IT and telecommunications system. Any significant increase in our IT and telecommunications costs or temporary or permanent loss of our IT or telecommunications systems could harm our relationships with our customers. The occurrence of any of these events could have an adverse effect on our operations and financial results.

Risks Related to Capitalization Matters and Corporate Governance

The share price of our common stock has been and will likely continue to be volatile.

The trading price of our common stock has been, and is likely to continue to be, highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. In addition to the factors discussed in these risk factors and elsewhere in our reports and other documents filed with the SEC, factors that may cause volatility in our share price include:

- our ability to meet our working capital needs;
- quarterly variations in operating results;
- changes in financial estimates by us or securities analysts who may cover our stock or by our failure to meet the estimates made by securities analysts;
- changes in market valuations of other similar companies;
- announcements by us or our competitors of new products or of significant technical innovations, contracts, acquisitions, divestitures, strategic relationships or joint ventures;
- additions or departures of key personnel;
- any deviations in net sales or in losses from levels expected by securities analysts;
- unfavorable legal or regulatory rulings associated with the enforcement of our IP rights;
- the realization of any of the risk factors presented in this annual report; and
- future sales of common stock.

Furthermore, the stock markets recently have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions such as recessions, interest rate changes, international currency fluctuations or political unrest, may negatively impact the market price of our common stock. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could harm our business.

If securities or industry analysts do not publish research or reports about our business, our stock price and trading volume could decline.

The trading market for our common stock may depend on the research and reports that industry or securities analysts publish about us or our business. We do not have any control over research and reports these analysts publish or whether they will be published at all. If one or more of the analysts who decide to cover us downgrade our stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

If our common stock is delisted, the market value of, and your ability to transfer or sell, shares of our common stock may be materially and adversely affected.

In order to maintain the listing of our common stock on the Nasdaq Capital Market, we are required to meet specified financial requirements, including requirements that we maintain a minimum closing bid price of at least $1.00 per share for our common stock and that we maintain (i) a minimum stockholders' equity of $2,500,000, (ii) a minimum market value of listed common stock of $35,000,000, or (iii) net income from continuing operations of at least $500,000 in the most recent fiscal year or two of the last three fiscal years.

On July 22, 2015, we received a written notification from the Nasdaq Listing Qualifications Department indicating that the Company did not satisfy the minimum $35 million in market value of listed securities requirement for continued listing on the Nasdaq Capital Market for the prior 30 consecutive business days, or the alternative requirement of $2.5 million in stockholders' equity as of its most recent periodic report, as set forth in Nasdaq Listing Rule 5550. Nasdaq has granted the Company a 180-day period to evidence compliance with the $35 million market value of listed securities requirement, through January 19, 2016. If the Company does not regain compliance by the deadline, the Company could be subject to delisting or suspension action.

If our common stock is delisted from the Nasdaq Capital Market, your ability to transfer or sell your shares of common stock may be limited and the market value of common stock may be materially adversely affected as a result of lower trading volumes or trade delays. Further, delisting from Nasdaq could also result in negative publicity, adversely affect our ability to raise additional capital, adversely affect the market liquidity of our securities, affect our ability to meet our liquidity needs and diminish investor, business partner and employee confidence.

We face a challenging liquidity environment and may require additional financing, which could be difficult to obtain on favorable terms or at all. Our failure to obtain necessary financing or doing so on unfavorable terms could adversely affect our results of operations.

We have historically relied on outside financing, cash flows from operations, and IP licensing and settlement revenue to fund our operations, capital expenditures and expansion. We currently face a difficult liquidity environment, and expect to require significant capital expenditures as we continue to introduce StrongBox into the marketplace. Expected revenue from our StrongBox product has been slower to materialize than expected, limiting our cash provided by operations from sales of StrongBox. We also may require additional capital from equity or debt financings in the future to fund our operations, respond to competitive pressures or strategic opportunities or pursue our intellectual property monetization strategy.

We may not be able to secure timely additional financing arrangements on favorable terms, or at all. The terms of any additional financing may limit our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us if and when we require it, our ability to grow or support our business, to bring our products to market, to respond to business challenges and to pursue our intellectual property monetization strategy could be significantly limited.

Our system of internal controls may be inadequate.

We maintain a system of internal controls in order to ensure we are able to collect, process, summarize, and disclose the information required by the SEC within the time periods specified. Any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Due to these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Additionally, public companies in the United States are required to review their internal controls under the Sarbanes-Oxley Act of 2002. If the internal controls put in place by us are not adequate or fail to perform as anticipated, errors could occur that would not be detected, which could require us to restate our consolidated financial statements, result in an adverse opinion on the effectiveness of our internal controls or require us to take other actions that will divert significant financial and managerial resources, as well as be subject to fines and/or other government enforcement actions. Furthermore, the price of our stock could be adversely affected and our investors could lose confidence in the accuracy and completeness of our financial reports.

We do not presently intend to pay any cash dividends on or repurchase any shares of our common stock and our ability to pay dividends is limited by law and our other financing arrangements.

We do not presently intend to pay any cash dividends on our common stock. The Series F Convertible Preferred Stock has the right to receive dividends that accrue at a rate of 5.00% annually, are payable on June 30 and December 31 of each year, and are payable, at our option, in cash or common stock with reference to the volume-weighted-average price of our common stock on its principle trading market.

Except as required by the terms of our preferred stock, any payment of future dividends on our securities will be at the discretion of the board of directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends, and other considerations that our board of directors deems relevant. Cash dividend payments in the future may only be made out of legally available funds and, if we experience substantial losses, such funds may not be available. In addition, our credit agreement with Fortress prohibits us from paying cash dividends, making distributions or payments or redeeming, retiring or purchasing any of our capital stock and our shares of convertible preferred stock have dividend rights that rank senior to our common stock and include a covenant limiting our ability to pay dividends while at least 20% of the currently issued convertible preferred stock is outstanding. Accordingly, you may have to sell some or all of your common stock in order to generate cash flow from your investment.

Our convertible preferred stock contains covenants that may limit our business flexibility.

Our convertible preferred stock contains covenants preventing us from taking certain actions without the approval of the holders of a majority or a super-majority of the convertible preferred stock, depending on the action as described below. The need to obtain the approval of holders of our convertible preferred stock before taking these actions could impede our ability to take certain actions that management or our board of directors may consider to be in the best interests of our stockholders.

For as long as at least 20% of the shares of our convertible preferred stock issued in our March 2013 private placement are outstanding, we may not take any of the following actions, among others, without first obtaining the approval of the holders of at least a majority of the shares of convertible preferred stock then outstanding:

- create a new class or series of equity securities or any other security convertible into equity securities ranking senior or pari passu to the convertible preferred stock with respect to voting, dividends, or liquidation rights;
- amend, alter, or repeal any of our governing documents in a manner materially adverse to our convertible preferred stock;
- declare or pay a dividend or distribution on any securities, including our common stock, prior to the payment of the dividends required to be paid to holders of our convertible preferred stock; or
- repurchase or otherwise acquire more than a de minimis number of shares of any class of securities junior to the convertible preferred stock (which includes our common stock), except with respect to (1) shares of common stock issued upon the conversion of shares of our convertible preferred stock or the exercise of warrants issued in our March 2013 private placement, or (2) repurchases of certain securities held by our departing officers and directors up to an aggregate maximum of $100,000.

For as long as at least 20% of the shares of our convertible preferred stock issued in our March 2013 private placement are outstanding, we also may not take any of the following actions, among others, without first obtaining the approval of the holders of at least 70% of the shares of convertible preferred stock then outstanding:

- sell (outside the ordinary course) or hypothecate any of our current or future assets (other than for hypothecations pursuant to and consistent with our existing working capital arrangements); or
- incur any new debt (including redeemable preferred stock), other than pursuant to our existing working capital relationship and trade debt incurred in the ordinary course of business; *provided* , however, that the foregoing restrictions will not apply to:
- any assignment, conveyance, disposition, encumbrance, hypothecation, pledge, lease, sale, transfer or other disposition our intellectual property that (1) generates net proceeds of at least $3 million and (2) does not cause a material adverse effect on us or our current and anticipated operations including our StrongBox line of products, and
- license arrangements entered into in the ordinary course of business.

We cannot assure you that the holders of our convertible preferred stock would approve any such restricted action, even where we believe such an action would be in the best interests of our stockholders. Any failure to obtain such approval could limit our business flexibility, harm our business and result in a decrease in the value of our common stock or convertible preferred stock.

We do not have cumulative voting and a small number of existing shareholders exert significant control over our company, which could limit your ability to influence the outcome of shareholder votes.

Our shareholders do not have the right to cumulative votes in the election of our directors. Cumulative voting, in some cases, could allow a minority group to elect at least one director to our board. Because there is no provision for cumulative voting, a minority group will not be able to elect any directors. Accordingly, the holders of a majority of the shares of common stock, present in person or by proxy, will be able to elect all of the members of our board of directors.

Our executive officers and directors, together with our largest shareholders, beneficially own a majority of our common stock as of January 7, 2016. As a result, these persons may be able to exercise significant influence over the outcome of shareholder votes, including votes concerning the election of directors, the adoption or amendment of provisions in our charter or bylaws and the approval of mergers and other significant corporate transactions.

From time to time we may make acquisitions. The failure to successfully integrate future acquisitions could harm our business, financial condition and operating results.

As a part of our business strategy, we have in the past and may make acquisitions in the future. We may also make significant investments in companies, products or technologies. If we fail to successfully integrate such acquisitions or significant investments, it could harm our business, financial condition, and operating results. Risks that we may face in our efforts to integrate any recent or future acquisitions include, among others:

- failure to realize anticipated savings and benefits from the acquisition;
- difficulties in assimilating and retaining employees;
- potential incompatibility of business cultures;
- coordinating geographically separate organizations;
- diversion of management’s attention from ongoing business concerns;
- coordinating infrastructure operations in a rapid and efficient manner;
- the potential inability to maximize our financial and strategic position through the successful incorporation of acquired technology and rights into our products and services;
- potential difficulties in monetizing or defending our intellectual property portfolio;
- failure of acquired technology or products to provide anticipated revenue or margin contribution;
- insufficient revenues to offset increased expenses associated with the acquisition;
- costs and delays in implementing or integrating common systems and procedures;
- reduction or loss of customer orders due to the potential for market confusion, hesitation and delay;
- impairment of existing customer, supplier and strategic relationships of either company;
- insufficient cash flows from operations to fund the working capital and investment requirements;
- difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- the possibility that we may not receive a favorable return on our investment, the original investment may become impaired or we may incur losses from these investments;
- dissatisfaction or performance problems with the acquired company;
- the assumption of risks of the acquired company that are difficult to quantify, such as litigation;
- the cost associated with the acquisition; and
- assumption of unknown liabilities or other unanticipated adverse events or circumstances.

Acquisitions present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of any transaction. We cannot provide assurance that we will be able to successfully integrate any business, products, technologies or personnel that we may acquire in the future, and our failure to do so could harm our business, financial condition, and operating results.

The requirements of being a public company may strain our resources, divert management’s attention and affect our ability to attract and retain qualified board members.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, the listing requirements of the Nasdaq Capital Market and other applicable securities rules and regulations. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. For example, in 2010, the President signed into law the Dodd-Frank Act. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us. However, as we continue to review and monitor this new law and its associated regulations, we expect to incur additional operating costs that could have a material adverse effect on our financial condition and results of operations.

These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as regulatory and governing bodies provide new guidance. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

As a public company that is subject to these rules and regulations, we may find that it is more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors and qualified executive officers.

We are subject to risks related to the provision of employee health care benefits and recent health care reform legislation.

In March 2010, comprehensive health care reform legislation under the Patient Protection and Affordable Care Act and the Health Care Education and Affordability Reconciliation Act was passed and signed into law. Provisions of the health reform legislation become effective at various dates over the next several years, and many of the regulations and guidance with respect to the health care reform legislation have not been implemented. Due to the breadth and complexity of the health reform legislation, the lack of implementing regulations and interpretive guidance, and the phased-in nature of the implementation, it is difficult to predict the overall impact of the health reform legislation on our business over the coming years. Our results of operations, financial position and cash flows could be materially adversely affected due to this health reform legislation.

Certain provisions in our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment.

Our certificate of incorporation and bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

- the rights of the holders of our convertible preferred stock to elect one director;
- the rights of the holders of our convertible preferred stock to approve certain transactions and corporate actions;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by our board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

We are also subject to certain anti-takeover provisions under Delaware law. Under Delaware law, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction.

We adopted a tax benefits preservation plan, designed to preserve the value of certain income tax assets, primarily tax NOLs, which may discourage acquisition and sale of large blocks of our stock and may result in significant dilution for certain stockholders.

On May 23, 2014, we adopted a tax benefits preservation plan (the "Tax Benefit Preservation Plan"). The Tax Benefit Preservation Plan is designed to preserve stockholder value and the value of certain income tax assets primarily associated with NOLs by acting as a deterrent to any person acquiring beneficial ownership of 4.99% or more of our outstanding common stock (including shares of Series F Convertible Preferred Stock) without the approval of the Board. The Tax Benefit Preservation Plan may discourage existing 5% stockholders from selling their interest in a single block which may impact the liquidity of our common stock, may deter institutional investors from investing in our stock, and may deter potential acquirers from making premium offers to acquire us. These factors may depress the market price of our stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

For a discussion of our properties, please read "Business — Properties" in Part I, Item 1 of this Annual Report on Form 10-K, which information is incorporated herein by reference.

Item 3. Legal Proceedings

The Company is and may become involved in various lawsuits as well as other certain legal proceedings that have not been fully resolved and arise in the ordinary course of business. These are proceedings to which we are a party in our own name or proceedings that have been brought against the Company. Information regarding certain material proceedings is provided below and the possible effects on our business of proceedings we are defending is disclosed in Item 1A. "Risk Factors", under the heading Litigation, Regulation, and Business Risks Related to our Intellectual Property, and is incorporated by reference herein.

Patent Litigation Proceedings

We have a number of ongoing lawsuits and related proceedings as described below. In discussing these patent litigation proceedings, the following terms will be used:

- A " *Markman hearing* " in a patent infringement case is a pre-trial hearing in U.S. District Court, in which the court hears arguments regarding the meanings of key words used in a disputed patent claim. The outcome of a Markman hearing can play a significant role in whether a finding of infringement and validity are made by the Court or by the jury at trial. The earliest we expect a ruling on any Markman hearing is approximately five months after the hearing.

- An " *Inter Partes Review* (IPR)" is a post-grant review of an issued patent in which the petitioner attempts to challenge the validity of a patent on certain grounds (e.g. novelty and obviousness). If successful during inter partes review, a petitioner could potentially invalidate some or all of the claims in the patents asserted against that petitioner in related litigation, and an adverse ruling in any of these proceedings would result in invalidation or other limitations on our patent rights. Inter partes review, if granted, is typically a twelve- to eighteen-month process.

Crossroads v. Dot Hill

On September 11, 2013 we filed a lawsuit against Dot Hill Systems Corp. ("Dot Hill") styled Crossroads Systems, Inc. v. Dot Hill Systems Corp., Civil Action No. 1:13-CV-800-SS alleging patent infringement of U.S. Patent No. 6,425,035 and breach of the Amended Settlement and License Agreement dated June 27, 2006 between Crossroads and Dot Hill. The action is pending. The Markman hearing was conducted October 6-7, 2014. Dot Hill moved to join two existing IPR proceedings previously filed against us by other defendants (one filed by NetApp/Oracle/Huawei and one filed by Cisco/Quantum, each as defined below) and to stay the pending litigation based on those IPR proceedings. On June 16, 2015, Judge Sparks entered the Markman order (the "Markman Order") construing the claims in a manner favorable to us and issued an order staying the case pending resolution of the IPR proceedings. If the patents are found partially or entirely invalid during the IPR proceedings, we might be adversely impacted in the litigation proceeding against Dot Hill, including potentially losing the ability to continue with our claims of infringement.

Crossroads v. Oracle, Huawei, Cisco, NetApp and Quantum

These related cases were filed on October 7, 2013, November 26, 2013, and February 18, 2014 in the United States District Court for the Western District of Texas alleging infringement by these parties of one or more patents in the '972 patent family. The asserted patents (6,425,035, 7,934,041, 7,987,311 and 7,051,147) were subject to a re-examination of the patents conducted in 2005-2006 by the U.S. Patent Office or were issued after the re-examination. On May 7, 2014, these cases and the Dot Hill case were consolidated for purposes of discovery and a Markman hearing occurred on October 6 and 7, 2014. On June 16, 2015, Judge Sparks entered the Markman Order construing the claims in a manner favorable to Crossroads and entered an order staying these actions in light of various pending IPR proceedings.

During the time we were pursuing the potential infringers of the '972 patent family, we gave companies with potentially infringing products the opportunity to license the Company's proprietary technology. For example, NetApp was first given notice of potential infringement in 2004. Cisco was first given notice of potential infringement in 2002. Quantum has been on notice of its potential infringement since 2006. Oracle acquired several companies that were given notice of potential infringement at least as early as 2009 and Oracle itself has been on notice since then. Despite repeated attempts throughout the years to negotiate licenses to the '972 patent family, these companies refused and left us with no alternatives but litigation. We believes these companies (and companies they have acquired) have been illegally using Crossroads' proprietary technology and that the potential compensatory damages could be in excess of $200 million, which does not include enhanced damages or attorney fees. While the uncertainties and expense of litigation are great and we can provide no guarantees of success, we believe the infringement by most of these companies has been prolonged and potentially willful.

In response to the lawsuits brought by Crossroads, collectively these defendants filed nineteen *inter partes* review petitions with the U.S. Patent Office to challenge the validity of the patents asserted by us in these lawsuits. The U.S. Patent Office instituted review of six of the petitions, granted joinder in four of the petitions and denied review of the remaining nine petitions. The first of the petitions were filed only months after we filed lawsuits against these parties and years after they were made aware of their potential infringement. If the patents are found partially or entirely invalid during these *inter partes* review proceedings, we might be adversely impacted in the litigation proceedings against these companies, including potentially losing the ability to continue with our claims of infringement. We believe the Company has meritorious factual and legal defenses to the challenges presented in these petitions and will vigorously defend the validity of the patents. In accordance with the schedule set by the U.S. Patent Office, the oral hearings for the IPRs were conducted on October 30, 2015 and the final decisions for the instituted IPRs are expected to be completed by April 8, 2016, if not sooner.

We filed a lawsuit on November 26, 2013 against Huawei Technologies Co. Ltd., Huawei Enterprise USA, Inc. & Huawei Technologies USA, Inc. (collectively, "Huawei") alleging infringement of U.S. Patent Nos. 6,425,035, 7,051,147 and 7,934,041 (the case is styled Crossroads Systems, Inc. v. Huawei Technologies Co., Ltd. et al; Civil Action No. 1:13-cv-01025-SS (W.D. Tex., Austin Division)). On July 17, 2015, the parties settled the case.

We filed a lawsuit on October 7, 2013 against Oracle Corporation ("Oracle") alleging infringement of U.S. Patent Nos. 6,425,035, 7,051,147 and 7,934,041 (the case is styled Crossroads Systems, Inc. v. Oracle Corporation; Civil Action No. 1:13-cv-0895-SS (W.D. Tex., Austin Division)). The action is pending. The Markman hearing was conducted October 6-7, 2014 and on June 16, 2015, Judge Sparks entered the Markman Order construing the claims in a manner favorable us. Oracle filed nine petitions for IPR at the U.S. Patent Office challenging the validity of each of the patents we asserted in the lawsuit against Oracle. The U.S. Patent Office granted four of those petitions. Based on the IPRs, Oracle filed a motion to stay the litigation pending the outcome of the IPR proceedings, which was granted by the Court. If the patents are found partially or entirely invalid during the IPR proceedings, we might be adversely impacted in the litigation proceeding against Oracle, including potentially losing the ability to continue with its claims of infringement.

We filed a lawsuit on February 18, 2014 against Cisco Systems, Inc. ("Cisco") alleging infringement of U.S. Patent Nos. 6,425,035 and 7,934,041 (the case is styled Crossroads Systems, Inc. v. Cisco Systems, Inc.; Civil Action No. 1:14-cv-00148-SS (W.D. Tex., Austin Division)). The action is pending. The Markman hearing was conducted October 6-7, 2014 and on June 16, 2015, Judge Sparks entered the Markman Order construing the claims in a manner favorable to us. Cisco is a party to three petitions for IPR filed at the U.S. Patent Office challenging the validity of each of the patents we asserted in the lawsuit against Cisco. The U.S. Patent Office granted those petitions. Based on the IPRs, Cisco filed a motion to stay the litigation pending the outcome of the IPR proceedings, which was granted by the Court. If the patents are found partially or entirely invalid during the IPR proceedings, we might be adversely impacted in the litigation proceeding against Cisco, including potentially losing the ability to continue with its claims of infringement.

We filed a lawsuit on February 18, 2014 against NetApp, Inc. ("NetApp") alleging infringement of U.S. Patent Nos. 6,425,035, 7,934,041, 7,987,311 and 7,051,147 (the case is styled Crossroads Systems, Inc. v. Net App, Inc.; Civil Action No. 1:14-cv-00149-SS (W.D. Tex., Austin Division)). The action is pending. The Markman hearing was conducted October 6-7, 2014 and on June 16, 2015, Judge Sparks entered the Markman Order construing the claims in a manner favorable to us. NetApp filed seven petitions for IPR filed at the U.S. Patent Office challenging the validity of each of the patents we asserted in the lawsuit against NetApp. The U.S. Patent Office granted three of those petitions. Based on the IPRs, NetApp filed a motion to stay the litigation pending the outcome of the IPR proceedings, which was granted by the Court. If the patents are found partially or entirely invalid during the IPR proceedings, we might be adversely impacted in the litigation proceeding against NetApp, including potentially losing the ability to continue with its claims of infringement.

We filed a lawsuit on February 18, 2014 against Quantum Corporation ("Quantum") alleging infringement of U.S. Patent Nos. 6,425,035 and 7,934,041 (the case is styled Crossroads Systems, Inc. v. Quantum Corporation; Civil Action No. 1:14-cv-00150-SS (W.D. Tex., Austin Division)). The action is pending. The Markman hearing was conducted October 6-7, 2014 and on June 16, 2015, Judge Sparks entered the Markman Order construing the claims in a manner favorable to us. Quantum filed three petitions for IPR filed at the U.S. Patent Office challenging the validity of each of the patents we asserted in the lawsuit against Quantum. The U.S. Patent Office granted those petitions. Based on the IPRs, Quantum filed a motion to stay the litigation pending the outcome of the IPR proceedings, which was granted by the Court. If the patents are found partially or entirely invalid during the IPR proceedings, we might be adversely impacted in the litigation proceeding against Quantum, including potentially losing the ability to continue with its claims of infringement.

Quantum v. Crossroads

On September 23, 2014, Quantum filed a lawsuit in the U.S. District Court for the Northern District of California alleging that our StrongBox product infringes a patent owned by Quantum. On November 23, 2015, the parties settled the case.

Dot Hill v. Crossroads

On June 29, 2015, Dot Hill filed a lawsuit in the U.S. District Court for the District of Colorado alleging that our StrongBox product infringes a patent owned by Dot Hill. We believe we have meritorious legal positions and will defend our interests vigorously in this matter. If Dot Hill is successful in this lawsuit, it could result in us not having all of the patent rights necessary to conduct the Company's business. The case is ongoing and the Court has proposed the Markman Hearing be conducted July 20, 2016. The Court has not yet set a trial date.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The following table sets forth the high and low sales prices for our common stock, which has been listed on the Nasdaq Capital Market for all periods presented.

	High	Low
Fiscal Year Ended October 31, 2015		
Fourth Quarter	$ 1.57	$ 0.95
Third Quarter	$ 2.50	$ 1.19
Second Quarter	$ 3.05	$ 2.07
First Quarter	$ 2.95	$ 2.16
Fiscal Year Ended October 31, 2014		
Fourth Quarter	$ 3.10	$ 1.80
Third Quarter	$ 3.71	$ 1.62
Second Quarter	$ 3.00	$ 2.02
First Quarter	$ 3.45	$ 1.00

On January 12, 2016, the last reported sale price of our common stock on the Nasdaq Capital Market was $1.00 per share. As of January 12, 2016, there were 24,509,435 shares of our common stock outstanding held by 233 holders of record. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Securities Authorized for Issuance Under Equity Compensation Plans

Our board of directors and stockholders had previously approved our 1999 Stock Option/Stock Issuance Plan and our 2010 Stock Incentive Plan. Except as listed in the table below, we do not have any equity based plans, including individual compensation arrangements that have not been approved by our stockholders. The following table provides information as of October 31, 2015 with respect to our equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	4,111,896	$ 1.86	563,616
Equity compensation plans not approved by security holders	-	-	-
Total	4,111,896	$ 1.86	563,616

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Various statements contained in or incorporated by reference into this annual report that express a belief, expectation, or intention, or that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Exchange Act. These forward-looking statements may include projections and estimates concerning capital expenditures, our liquidity and capital resources, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes, elements of our business strategy and other statements concerning our operations, economic performance and financial condition. When used in this annual report, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "may," "continue," "predict," "potential," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. In particular, the factors discussed below and in Item 1A "Risk Factors", could affect our actual results and cause our actual results to differ materially from expectations, estimates, or assumptions expressed in, forecasted in, or implied in such forward-looking statements.

Forward-looking statements may include statements about:

- our ability to implement our business strategy, including the transition from a hardware storage company to a software solutions and services provider;
- anticipated trends and challenges in our business and the markets in which we operate;
- our expected future financial performance;
- our expectations regarding our operating expenses;
- our ability to generate revenues from patent licensing and enforcement activity through our arrangement with Fortress;
- ability to generate revenues from patent licensing and enforcement activity through our arrangement with Fortress or otherwise;
- the timing of any licensing and enforcement activity;
- future legal and other developments in litigation to which we may be a party, including litigation with respect to our '972 patents;
- our ability to use federal and state net operating loss tax carryforwards and recognize future tax benefits;
- our ability to anticipate market needs or develop new or enhanced products to meet those needs;
- our ability to expand into other sectors of the storage market, beyond protection storage;
- our expectations regarding market acceptance of our products;
- our ability to compete in our industry and innovation by our competitors;
- our ability to protect our confidential information and intellectual property rights;
- our ability to successfully identify and manage any potential acquisitions;
- our ability to manage expansion into international markets;
- our ability to remediate any material weakness in our internal controls identified by our independent registered public accounting firm;
- our ability to maintain or broaden our business relationships and develop new relationships with strategic alliances, suppliers, customers, distributors or otherwise;
- our ability to recruit and retain qualified sales, technical and other key personnel;
- our ability to obtain additional financing; and
- our ability to manage growth.

All forward-looking statements involve risks, assumptions and uncertainties. The occurrences of the events described, and the achievement of the expected results, depend on many events, some or all of which are not predictable or within our control. Actual results may differ materially from expected results. These risks, assumptions and uncertainties are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. In light of these risks, uncertainties and assumptions, the forward-looking events might not occur.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other things contemplated by the forward-looking statements will not occur. Forward-looking statements in this annual report are based on management's beliefs and opinions at the time the statements are made. The forward-looking statements contained in this annual report are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this annual report are made as of the date of this annual report and we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information, future events or otherwise, except as required by applicable securities laws.

Overview

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

Product Focus

We are a global provider of data protection solutions and services. Through the innovative use of new technologies, we deliver customer-driven solutions that enable proactive data protection, advanced data preservation, optimized performance and significant cost-savings over current solutions.

We introduced our Crossroads StrongBox product, an enterprise-level NAS solution based on tape for long-term data protection and preservation. We believe StrongBox is the first fully portable, open-standard, online all-the-time data storage vault that meets the cost, life expectancy and scalability requirements for companies needing to solve their long-term data repository needs.

We deliver our current offerings to the market either as hardware appliances or Virtual Machine (VM) software. This strategy provides our customers the flexibility to choose the appropriate hardware or software platform needed to meet the requirements of their storage environment.. We believe this strategy provides customers with low-cost, high performance solutions that can be quickly installed with minimal disruption.

Substantially all of our current products have been sold in combination with support and services contracts. Our support and services contracts are typically offered for periods of one to three years. We mainly sell these products through a network of OEMs, SIs, VARs, and other strategic partners.

IP Licensing Campaign Focus

We continue to realize revenue from existing intellectual property, or IP, licensees with go-forward royalties derived from the '972 patent family. We maintain an active licensing program related to the '972 family, which has been licensed to over 50 leading storage industry companies. We pursue licensing fees for past shipments and recurring licensing fees related to ongoing shipments. In some cases we are required to litigate where we believe other companies are infringing our patents. Historically, these cases have generally been settled quickly as we engage in business discussions with the opposing parties; however, one or more of the litigants may pursue their defense to greater lengths, which would require higher expenses to continue the lawsuit. Our IP licensing revenue for the fiscal year ended October 31, 2015 was $1.0 million, or approximately 12.6% of revenues.

In July 2013, we entered into a loan transaction with Fortress Credit Co LLC that was later assigned to CF DB EZ LLC, each an affiliate of Fortress Investment Group LLC, which included the formation of a partnership controlled by Fortress to which we assigned all of our existing and issued patents and applications other than our patents in the '972 family. This partnership may seek to generate revenues through patent licensing and enforcement activity with respect to these patents, but we are unable to predict at this time when or if such efforts may commence or, if they do, whether they will be profitable. Certain terms in the Fortress agreement permit us to buy out the Fortress partnership interest and return all of the rights to the assigned non-'972 patent rights to ourselves in return for the payment of a monetization call option of up to $2 million dollars. We intend to periodically monitor and assess the viability and the value to us of such a buyout. Crossroads fully paid off all debt obligations under the Fortress Credit Agreement on October 30, 2015.

We continue to look for different ways to extract value from our patents outside the '972 family, which may include commercial, financial and strategic initiatives. We believe our IP has value beyond its quantifiable monetary value. For example, we believe that the proprietary nature of our products is appealing to both end-users and strategic partners who view our products as not being easily replaceable. Additionally, IP may be a significant barrier to entry for potential competitors. Therefore, we will continue to assess the value of our current portfolio and attempt to expand and take advantage of our IP portfolio.

October 30, 2015, we entered into an agreement with TQ Zeta LLC, an affiliate of Techquity, and Intrepidus Holdings LLC (collectively, "Techquity"), in which Techquity will share in the revenue generated from the '972 patent litigation. For consideration of $10.0 million received, Techquity received the rights to 52% of the first $20 million in licenses of the '972 patents, 40% of the amounts between $20 and $100 million, and 12% of all licenses above the $100 million in aggregate licensing. We are restricted to making only payments of the Fortress debt, and approved legal expenditures with the consideration received. During fiscal year 2015, we paid $2.7 million to Fortress to relieve all remaining obligations of the company, and $1.1 million in legal expenses. $3.8 million was recognized as other income, and $6.2 million is held in deferred revenue and restricted cash.

Key Financial Definitions

Revenue . Revenue consists of sales of hardware, software and services, as well as royalties we earn for products and the license of certain intellectual property. Our "product revenue" is composed of sales of our hardware products and software products sold to our network of strategic partners, including value added resellers, and original equipment manufacturers, as well as directly to end users. Our "IP license, royalty and other revenue" is derived from the licensing of intellectual property, royalty payments, and sales of service contracts.

Cost of Revenue . Cost of revenue is composed of cost of product revenue and IP license, royalty and other revenue. "Cost of product revenue" consists primarily of the cost charged by our previous contract manufacturer to manufacture our products, shipping charges and warranty obligations. "Cost of IP license, royalty and other revenue" consists of professional fees and services, overhead allocations, and obsolete inventory adjustments.

Operating Expenses . Operating expenses consist of sales and marketing, research and development, general and administrative expenses and amortization of intangible assets. Personnel-related costs, which include stock-based compensation expense, are the most significant component of each of these expense categories. We had 46 and 48 employees as of October 31, 2015, and October 31, 2014, respectively. In any particular period, the timing of additional hires could materially affect our operating expenses, both in absolute dollars and as a percentage of revenue.

Sales and Marketing Expenses . Sales and marketing expenses include personnel costs, employee sales commissions and marketing programs. We have sales and marketing personnel throughout the United States and in our sales office in Germany.

Research and Development Expenses . Research and development expenses primarily include personnel costs, depreciation on lab equipment, costs of prototype equipment, other related costs of quality assurance and overhead allocations. We expense research and development costs as incurred. Though we incur software development costs, the costs of software development that we incur after a product has reached marketability are considered immaterial, and to date, we have not capitalized any such costs.

General and Administrative Expenses . General and administrative expenses consist primarily of compensation and related costs for personnel and facilities related to our executive, finance, human resource, information technology and legal organizations, and fees for professional services. Professional services, excluding those for IP (which are included in cost of revenue), consists of outside legal, tax and audit costs.

Amortization of Intangibles . Amortization of intangibles consists of the amortization of purchased technology.

Interest Expense. Interest expense consists of amounts charged by lenders related to interest on our line of credit and term loans, as well as the effective interest amortization of debt, which includes the amortization of financing costs, and the fair value of the Fortress warrants.

Critical Accounting Policies and Estimates

Our discussion and analysis of the financial condition and results of operations is based on the accompanying consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these statements requires us to make significant estimates and judgments about future uncertainties that affect reported assets, liabilities, revenues and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. Our critical accounting estimates require the most difficult, subjective or complex judgments and are described below. An accounting estimate is considered critical if it requires estimates about the effect of matters that are inherently uncertain when the estimate is made, if different estimates reasonably could have been used or if changes in the estimate that are reasonably possible could materially impact the consolidated financial statements. We have discussed the development, selection and disclosure of our critical accounting policies with the Audit Committee of our board of directors. We believe the assumptions and estimates used and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

Application of the various accounting principles related to measurement and recognition of revenue requires us to make judgments and estimates in the following related areas: determining fair value in arrangements with multiple deliverables, the amount of revenue allocated to undelivered elements in software arrangements using vendor-specific objective evidence ("VSOE"), the interpretation of non-standard terms and conditions in sales agreements, and assessments of future price adjustments, such as future product returns and estimates for contractual licensee fees. Additionally, we sometimes use judgment in determining whether any undelivered elements are essential to the functionality of the delivered elements in order to determine the appropriate timing of revenue recognition.

For established products and post-contract support ("PCS"), we determine fair value based on VSOE, which consists of the prices charged when these services are sold separately.

While the majority of our sales arrangements contain standard terms and conditions, we sometimes apply judgment when interpreting complex arrangements with non-standard terms and conditions to determine the appropriate accounting. An example of such a judgment is deferring revenue related to significant post-delivery obligations and customer acceptance criteria until such obligations are fulfilled.

We record reductions to revenue for estimated future product returns. These allowances are based on programs in existence at the time revenue is recognized. We have historically been able to reliably estimate the amount of allowances required and recognize revenue, net of these projected allowances, upon shipment to our customers. If allowances cannot be reliably estimated in any specific reporting period, revenue would be deferred until the rights have lapsed and we are no longer under obligation to reduce the price or accept the return of the product.

We license our patented technology to customers under licensing agreements that allow those customers to utilize our technology in specific products they offer. As consideration, licensees pay us a fee based on the amount of sales of their products that incorporate our patented technology. On a periodic and timely basis, the licensees provide us with reports listing their sales to end users for which they owe us license fees. Similarly, royalty revenue is estimated from licensee reports of units sold to end users subject to royalties under master contracts. In both cases, these reports are used to substantiate delivery and we recognize revenue based on the information in these reports.

For arrangements entered into or materially modified beginning November 1, 2010, when elements such as hardware, software and services are contained in a single arrangement, or in related arrangements with the same customer, we allocate revenue to each element in an arrangement based on relative selling price using a selling price hierarchy. The selling price for a deliverable is based on its VSOE if available, third party evidence ("TPE") if VSOE is not available, or our best estimate of selling price ("ESP") if neither VSOE nor TPE is available. The maximum revenue recognized on a delivered element is limited to the amount that is not contingent upon the delivery of additional items.

For established products, we use VSOE. For new products, installation and professional services for which we are unable to establish selling price using VSOE or TPE, we use ESP. The objective of ESP is to determine the price at which we would transact a sale if these items were sold on a standalone basis. In determining ESP, we use the cost to provide the new product, installation or professional service plus a margin. When using cost plus a margin, we consider the total cost of the item to establish a VAR or OEM price. We also consider the historical margins for established products and other factors, including any changes to pricing methodologies, competitiveness of new products, installation and professional services, pricing pressures due to entering a new market, and cost drivers that could cause future margins to differ from historical margins.

Contracts to Modify or Customize Products

We have entered into contracts with certain customers to significantly modify or customize products. In accounting for such arrangements, we first look to the guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 985-605, Software - Revenue Recognition ("ASC 985-605"), and then ASC Subtopic 605-25, Revenue Recognition – Multiple-Element Arrangements, to determine the appropriate accounting elements in the arrangement. We then consider the appropriate recognition model for each accounting element based on the nature of the element and apply the guidance in ASC Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts, ASC Subtopic 985-60, ASC Subtopic 605-15, Revenue Recognition – Products, or ASC Subtopic 605-20, Revenue Recognition – Services, as applicable. Amounts allocated to the modification/customization service element are evaluated for classification in the consolidated statement of operations as either revenue or reduction of research and development expense based on the following considerations: whether and in what circumstances the consideration received is refundable, ownership of the final product and intellectual property rights to develop the product, and exclusivity of the final product.

Inventory

Our inventory is stated at the lower of cost or market. Cost is determined using standard cost, which approximates the first-in, first-out method. Adjustments to reduce the carrying value of inventory to their net realizable value are made for estimated excess, obsolete or impaired balances. These adjustments are measured as the excess of the cost of the inventory over its market value based upon assumptions about future demand and charged to cost of revenue. At the point of the loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration of the original cost basis or increases in the newly established cost basis.

Impairment of Long-lived Assets

We apply judgment when reviewing long-lived assets for impairment. We apply judgment when evaluating potential impairment indicators. Indicators we consider include adverse changes in the business climate that could affect the value of our long-lived assets, changed long-term economic outlook including downward revisions in our revenue projections, negative current events, decreases or slower than expected growth in sales of products and relative weakness in customer channels.

When an impairment indicator exists, we then evaluate long-lived assets for impairment as appropriate. Because we operate as a single reporting unit, we consider the company as a whole when evaluating our long-lived assets for impairment. If our business operations were to change and revenue streams related to long-lived assets were to become identifiable at a lower level, we would apply significant judgment to determine the appropriate grouping of these assets for impairment testing.

We use an undiscounted cash flow approach to evaluate our long-lived assets for recoverability when there are impairment indicators. Estimates of future cash flows require significant judgments about the future and include company forecasts and our expectations of future use of our long-lived assets, both of which may be impacted by market conditions. Other critical estimates include determining the asset group or groups within our long-lived assets, the primary asset of an asset group and the primary asset's useful life.

Inherent in our development of cash flow projections for the income approach used in an impairment test are assumptions and estimates derived from a review of our operating results, approved business plans, expected growth, cost of capital and income tax rates. We also make certain assumptions about future economic conditions, applicable interest rates and other market data. Many of the factors used in assessing fair value are outside of our control. Future period results could differ from these estimates and assumptions, which could materially affect the determination of fair value of the company and future amounts of potential impairment.

Warranty

We estimate future product failure rates based upon historical product failure trends as well as anticipated future failure rates if believed to be significantly different from historical trends. Similarly, we estimate future costs of repair based upon historical trends and anticipated future costs if they are expected to significantly differ, for example due to negotiated agreements with third parties. We use a consistent model and exercise considerable judgment in determining the underlying estimates. Our model requires an element of subjectivity for all of our products. For example, historical return rates are not completely indicative of future return rates and we must therefore exercise judgment with respect to future deviations from our historical return rates. When actual failure rates differ significantly from our estimates, we record the impact of these unforeseen costs or cost reductions in subsequent periods and update our assumptions and forecasting models accordingly. As our newer products mature, we are able to improve our estimates with respect to these products. We warrant products for a period from 12 to 39 months following the sale while receiving a hardware warranty from our vendors for a period of typically 36 months.

Income Taxes

Deferred tax assets and liabilities are recognized for the effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In addition, deferred tax assets are reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. A number of estimates and judgments are necessary to determine deferred tax assets, deferred tax liabilities and valuation allowances.

We recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. The calculation of our tax liabilities requires judgment related to uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity.

We have provided a full valuation allowance against our U.S. net deferred tax assets due to our history of net losses, difficulty in predicting future results and our conclusion that we cannot rely on projections of future taxable income to realize the deferred tax assets. In addition, we have provided a full valuation allowance against certain of our international net deferred tax assets. Due to reorganizations in these jurisdictions, it is unclear whether we will be able to realize a benefit from these deferred tax assets. Also, certain changes in stock ownership could result in a limitation on the amount of net operating loss and tax credit carryovers that can be utilized each year. Should we undergo such a change in stock ownership, it would severely limit the usage of these carryover tax attributes against future income, resulting in additional tax charges.

Significant management judgment is required in determining our deferred tax assets and liabilities and valuation allowances for purposes of assessing our ability to realize any future benefit from our net deferred tax assets. We intend to maintain this valuation allowance until sufficient positive evidence exists to support the reversal of the valuation allowance. Future income tax expense will be reduced to the extent that we have sufficient positive evidence to support a reversal or decrease in this allowance. We also have deferred tax assets and liabilities due to prior business acquisitions with corresponding valuation allowances after assessing our ability to realize any future benefit from these acquired net deferred tax assets.

Stock-Based Compensation

Stock-based compensation expense can be significant to our results of operations, even though no cash is used for such expense. In determining period expense associated with unvested options, we estimate the fair value of each option at the date of grant. We use the Black-Scholes option pricing model to determine the fair value of the award. This model requires the input of highly subjective assumptions, including the expected volatility of our stock and the expected term the average employee will hold the option prior to the date of exercise. Expected volatility is based on historical volatility of Crossroads stock. The expected term represents an estimate of the time options are expected to remain outstanding based upon historical analysis. The risk-free rate for periods within the contractual life of the option is based on the U.S. treasury yield curve in effect at the time of grant.

The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as an adjustment in the period estimates are revised. Actual results may differ substantially from these estimates. The variables used in the Black-Scholes calculation are listed below for the respective periods:

	Year ended October 31,	
	2015	**2014**
Expected dividend yield	0%	0%
Expected volatility	74 - 76%	73 - 79%
Risk-free interest rate	1.4 - 1.6%	1.4 - 1.7%
Expected term (years)	4 - 5	4 - 5

Warrants

We have warrants to purchase common stock that are issued and outstanding and have been classified as either a liability or as equity in accordance with applicable accounting standards. The terms of these warrants, in particular their anti-dilution provisions, are evaluated on an on-going basis to determine which classification remains appropriate. If these equity warrants were classified as a liability obligation, then the warrants would be adjusted to fair value at each reporting period with the fair market adjustments being recorded to earnings.

Results of Operations

Year Ended October 31, 2015 Compared to the Year Ended October 31, 2014

Revenue. Total revenue decreased $3.3 million, or 29.9%, to $7.8 million for the year ended October 31, 2015 from $11.1 million for the year ended October 31, 2014.

Product revenues for the year ended October 31, 2015 decreased $1.5 million, or 37.4%, to $2.5 million compared with $4.0 million for the year ended October 31, 2014 due primarily to a decrease in revenue from SPHiNX of $0.9 million, due to reduced royalties received from an OEM partner, and a decrease in revenue from our StrongBox product of $0.6 million, as a result of reduced marketing of the product, reducing direct sales volumes in both the U.S. and Europe during the year.

IP license, royalty and other revenue consists of the following for the years ended October 31, 2015 and 2014:

	Years Ended October 31, 2015	Years Ended October 31, 2014
	(in thousands)	
IP license revenue	$ 983	$ 1,874
HP royalty and PCS service revenue	2,759	3,428
PCS and other service revenue (non-HP)	1,544	1,799
IP license, royalty and other revenue	$ 5,286	$ 7,101

IP license, royalty and other revenues for the year ended October 31, 2015 decreased $1.8 million, or 25.6%, to $5.3 million compared with $7.1 million for the year ended October 31, 2014.

IP license revenue decreased $0.9 million as a result of reduced ongoing royalties from certain licensees for the year ended October 31, 2015. HP royalty and PCS service revenue decreased $0.7 million for the year ended October 31, 2015, due to decreasing royalties for legacy router shipments, and reduced support for our SPHiNX product which HP is actively moving to their new platform. PCS and other service revenue (non-HP) decreased $0.3 million primarily due to revenue recognized from the Iron Mountain (“IRM”) contract during the year ended 2014 which did not continue in the fiscal year ended 2015.

Cost of Revenue. Cost of revenue decreased $0.1 million, or 1.9%, to $2.0 million for the year ended October 31, 2015 from $2.1 million for the year ended October 31, 2014. Product costs decreased $0.2 million for the year ended October 31, 2015 from the year ended October 31, 2014, due to decreased product revenue for the fiscal year. IP license, royalty and other costs increased $0.2 million for the year ended October 31, 2015 to $1.3 million from $1.1 million for the year ended October 31, 2014, due to increased cost of sales relating to a new license agreement during the year.

Sales and Marketing. Sales and marketing expenses decreased $0.5 million, or 13.2%, to $3.2 million for the year ended October 31, 2015 from $3.7 million for the year ended October 31, 2014. This decrease was primarily due to decreased payroll and benefits, including stock based compensation, of approximately $0.4 million, and a decrease in commissions of approximately $0.1 million.

Research and Development. Research and development expenses decreased $0.9 million, or 15.7%, to $4.8 million for the year ended October 31, 2015 from $5.7 million for the year ended October 31, 2014. This decrease was due to decreased payroll and benefits expenses, including stock based compensation, of approximately $0.5 million, depreciation of approximately $0.2 million, consulting and outside labor of approximately $0.1 million, and professional fees of approximately $0.1 million.

General and Administrative. General and administrative expenses increased $4.1 million, or 77.2%, to $9.3 million for the year ended October 31, 2015 from $5.2 million for the year ended October 31, 2014. The increase was due to increases in professional and legal services of approximately $4.2 million, partially offset by a decrease in payroll and benefits expenses, including stock based compensation, of approximately $0.1 million. The professional fees are in connection with the increased activity in patent and IP litigation ongoing throughout the year.

Gain on settlement. Gain on settlement decreased $1.0 million, or 100.0%, for the year ended October 31, 2015 from $1.0 million for the year ended October 31, 2014. The gain was due to the bifurcation of the payment received from IRM between amounts received for work performed on the development of the product, and a gain from settlement. We recorded the amounts attributable to development as services revenue, and the gain on settlement was reflected as a reduction in operating expenses.

Interest expense. Interest expense decreased $0.4 million, or 50.0%, to $0.4 million for the year ended October 31, 2015 from $0.8 million for the year ended October 31, 2014. The decrease was due to lower average outstanding borrowings during the fiscal year 2015 compared to 2014.

Amortization of debt discount and issuance costs. Amortization of debt discount and issuance costs expense decreased $0.2 million, or 16.7%, to $1.0 million for the year ended October 31, 2015 from $1.2 million for the year ended October 31, 2014. The amortization relates to the borrowings drawn from Fortress during 2013, and the decrease is due to the reduced calculated amortization based on lower average outstanding balances of Fortress debt.

Change in value of derivative liability. The change in value of derivative liability was $0 for the year ended October 31, 2015, and an expense of $2.8 million for the year ended October 31, 2014. The change is due to the periodic revaluation of the warrants issued in connection with the Series F preferred shares sold during fiscal year 2013. Upon the expiration of the full ratchet anti-dilution provisions on the one-year anniversary of the March 2013 private placement, the Company reclassified the preferred stock and warrants back to permanent stockholders' equity. The derivative liability associated with the warrants was removed and recorded as a positive change in derivative liability in the statement of operations. No activity occurred in fiscal year 2015.

Other Income. Other income was $3.8 million for the year ended October 31, 2015, and $40,000 for the year ended October 31, 2014. The $3.8 million recorded in fiscal year 2015 was the amount recognized in connection to the partial IP revenue stream sale to the Techquity led investment group during the fourth quarter of 2015 (as described in “Liquidity and Capital Resources” below). In 2014, the amount was a gain on sale of fixed assets.

Liquidity and Capital Resources

Cash Flows

Our principal liquidity requirements are to meet our lease obligations, and our working capital needs. Subject to our operating performance, which, if significantly adversely affected, would adversely affect the availability of funds, we expect to finance our operations through cash and cash equivalents provided by operations (including IP licensing) and customer reimbursed expenses, proceeds from the sale of our common stock or preferred stock, debt instruments, and exercises of options or warrants. Expected revenue from our StrongBox product has been slower to materialize than expected, due in part to its longer selling cycle and in part to the time required to establish and train an effective network of sales partners. We may require additional capital from equity or debt financings to fund our operations or respond to strategic opportunities.

The following table summarizes our primary sources and uses of cash in the periods presented:

	Year Ended October 31,	
	2015	**2014**
	(in thousands)	
Net cash provided by (used in) operating activities	$ 1,264	$ (3,694)
Net cash used in investing activities	(226)	(5)
Net cash provided by financing activities	5,841	862
Change in cash and cash equivalents	6,846	(2,849)
Cash, cash equivalents, and restricted cash, end of period	11,792	4,946

Net cash provided by operating activities increased $5.0 million from a use of cash of approximately $3.7 million in the year ended October 31, 2014 to providing approximately $1.3 million in cash in the year ended October 31, 2015. Net loss for the year ended October 31, 2015 decreased approximately $0.2 million from $9.2 million for the year ended October 31, 2014 to $9.0 million for the year ended October 31, 2015, due to lower sales volumes and higher professional expenses, being partially offset by other income of $3.8 million recorded from the partial sale of our IP revenue stream. Included in the 2015 net loss were non cash adjustments for stock based compensation for $1.0 million, amortization of debt discount for $1.0 million, and depreciation for $0.4 million. Cash provided by operating activities were also affected by an increase in deferred revenue of $6.4 million as a result of the deferral of revenue from the partial sale of our IP revenue stream, an increase in accounts payable and accrued expenses by $0.8 million due to IP legal fees to be paid, a decrease in accounts receivable of $0.5 million, and a decrease in prepaid expenses of $0.2 million. Included in the October 31, 2014 net loss were non-cash adjustments for the loss on derivative liability of $2.8 million, which was $0 for the year ended October 31, 2015.

Cash flows from investing activities primarily relate to capital expenditures to support our employees, our capital needs in our research and development efforts. Net cash used by investing activities was $0.2 million in the year ended October 31, 2015 compared to $5,000 in cash used by investing activities during the year ended October 31, 2014. In the year ended October 31, 2015, and 2014, the entire use of cash related to the purchase of property and equipment, net of sales of surplus property, of which increased in the year ended October 31, 2015.

Cash flows provided by financing activities for the year ended October 31, 2015 was $6.0 million. Proceeds from the sale of common stock, and exercise of options amounted to approximately $11.1 million, offset by the repayment of debt of $5.3 million. Cash provided by financing activities for the year ended October 31, 2014 was $0.9 million, primarily from the sale of common stock, and exercise of options of $5.5 million, offset by the repayment of debt of $4.6 million.

Financing Arrangements

Fortress Loan Transaction and Related Warrants . Effective July 22, 2013, we entered into a Credit Agreement with Fortress Credit Co LLC, an affiliate of Fortress Investment Group LLC (such affiliates collectively, “Fortress”) that provides for aggregate term loan commitments of up to $10.0 million, consisting of a term loan A (“Term Loan A”) in the principal amount of $5.0 million and a term loan B (“Term Loan B” and, together with Term Loan A, the “Term Loans”) in the principal amount of $5.0 million. We drew down the full $10.0 million of both Term Loans on July 24, 2013. The obligations under the Credit Agreement are secured by, among other things, substantially all of our assets. In connection with our entry into this loan transaction with Fortress, we transferred 109 pending or granted non-’972 patents, which constitute substantially all of our patents other than those relating to our ’972 patent family, to a limited partnership of which we are a limited partner and of which an affiliate of Fortress is the general partner. The limited partnership concurrently provided us with a non-exclusive license to the assigned non-’972 patent rights for the life of such patents, subject to earlier termination if we undergo an insolvency event.

All obligations under the Fortress Credit Agreement were repaid on October 30, 2015.

As a condition to and in connection with the Credit Agreement, we issued a warrant (the “Fortress Warrant”), pursuant to which Fortress is entitled to purchase 1,454,545 shares of our common stock. The Fortress Warrant is exercisable and will expire on the seventh anniversary of the effective date of the Fortress transactions. These warrants also previously contained what is commonly known as a “full-ratchet” anti-dilution provision, which provided that if we issued or were deemed to have issued additional shares of common stock without consideration or for a consideration per share less than the applicable exercise price of the Fortress Warrants, which is initially $2.0625 per share, then the exercise price of the warrants will be reduced on a “full ratchet” basis, concurrently with the new issue, to the consideration per share we received for the new issue or deemed issue of the additional shares of common stock. In January 2014, the Company and Fortress agreed to amend the warrant to remove this full-ratchet anti-dilution provision.

Private Placements .

On March 22, 2013, we entered into a securities purchase agreement with certain accredited investors for the issuance and sale in a private placement of 4,231,154 units at a purchase price of $2.0625 per unit, valued at $8.6 million, for net proceeds of approximately $7.9 million after related expenses.

Each unit consists of one share of 5.0% Series F convertible preferred stock (the “Series F Preferred Stock”), par value $0.001 per share and a warrant to purchase one-half of a share of common stock per share of Series F Preferred Stock purchased, at an exercise price of $2.00 per whole share, subject to certain adjustments, resulting in the issuance of warrants to purchase an additional 2,282,754 shares of common stock with an exercise price of $2.00 per share. The warrants were valued using the Black-Scholes pricing model at approximately $2,284,000 which resulted in a beneficial conversion feature on the Series F Preferred Stock of approximately $1,090,000. This amount was recorded as a deemed dividend.

The Series F Preferred Stock has the rights, qualifications, limitations and restrictions set forth in the Certificate of Designation (the “Certificate of Designation”) filed with the Secretary of State of the State of Delaware on March 28, 2013. The Certificate of Designation authorizes for issuance up to 4,500,000 shares of Series F Preferred Stock, with 3,750,000 shares designated as “Sub-Series F-1” and 750,000 shares designated as “Sub-Series F-2.” The right of holders of Series F Preferred Stock to convert the Series F Preferred Stock is subject to a 9.99% beneficial ownership limitation for holders of Sub-Series F-1 and a 4.99% beneficial ownership limitation for holders of Sub-Series F-2. Such beneficial ownership limitations may be increased or decreased by a holder of Sub-Series F-1 to any percentage not in excess of 19.99% after providing notice of such increase or decrease to us. For as long as at least 90% of the aggregate number of shares of Sub-Series F-1 issued on the Original Issue Date (as defined in the Certificate of Designation) are outstanding, the holders of such Sub-Series F-1, voting as a single class, will be entitled to elect two directors of the Company. If less than 90%, but at least 20%, of such shares of Sub-Series F-1 are outstanding, such holders, voting as a single class, will be entitled to elect one director. As of the date hereof, 78% of the aggregate number of shares of Sub-Series F-1 are outstanding, as a remainder have been voluntarily converted into common stock at the option of the holders. Therefore, the holders of Sub-Series F-1 shares are entitled to elect one director to our board of directors. The holders of Sub-Series F-2 will not be entitled to vote on the directors elected by the holders of Sub-Series F-1. The holders of shares of the Series F Preferred Stock are entitled to a liquidation preference equal to the original issuance price plus accrued and unpaid dividends.

The Certificate of Designation contains customary anti-dilution protection for proportional adjustments (e.g. stock splits). The Series F Preferred Stock previously included an anti-dilution provision that would adjust the conversion price of the Series F Preferred Stock to the issue price of any equity securities we issued at a price less than $2.0625 per share, subject to certain exceptions. This type of provision is commonly referred to as a "full-ratchet" anti-dilution provision. This "full-ratchet" provision is no longer in effect as it was removed from the Certificate of Designation on March 14, 2014 by the requisite approval of the holders of shares of our common stock and Series F Preferred Stock. In accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing Liabilities from Equity, the Series F Preferred Stock shares are accounted for net, outside of stockholder's equity and warrants may be accounted for as liabilities at their fair value during periods where the full ratchet anti-dilution provision is in effect, which could have a significant impact on our financial statements. Upon the expiration of the full ratchet anti-dilution provisions in March 2014, we reclassified the Series F Preferred Stock and warrants to permanent stockholders' equity.

The Series F warrants are accounted for as a liability at their fair value of $0.8 million as of October 31, 2013. The value of the derivative warrant liability was re-measured at each reporting period with changes in fair value recorded as earnings. We engaged an independent company to value its derivative liability and perform re-measurements. To derive an estimate of the fair value of these warrants, a dynamic Black Scholes formula is utilized that computes the impact of share dilution upon the exercise of the warrant shares. This process relied upon inputs such as shares outstanding, estimated stock prices, strike price and volatility assumptions to dynamically adjust the payoff of the warrants in the presence of the dilution effect. In the event the Series F Preferred Stock shares were redeemed, any redemption price in excess of the carrying amount of the Series F Preferred Stock would be treated as a dividend.

The warrants are exercisable six months after the closing date of the issuance, and expire March 22, 2018.

Dividends on the Series F Preferred Stock accrue at an annual rate of 5.0% of the original issue price and are payable on a semi-annual basis. The Series F Preferred Stock ranks senior to the common stock and each other class or our capital stock, whether common, preferred or otherwise, with respect to distributions of dividends and distributions upon liquidation, dissolution or winding up of the Company. Pursuant to a registration rights agreement entered into with the purchasers of the Series F Preferred Stock, in the event that a registration statement for the resale of the common stock underlying the Series F Preferred Stock and March 2013 warrants is not declared effective prior to July 26, 2013 (120 days from the closing of the March 2013 private placement), then the rate at which dividends accrue on our Series F Preferred Stock will be increased to an annual rate of 12.0% from that date until such time as a registration statement is declared effective, at which time the dividend rate will revert to an annual rate of 5.0%. Our registration statement was not declared effective by July 26, 2013, and as a result the dividend rate on the Series F Preferred Stock at present increased to an annual rate of 12.0% until September 19, 2013, when that registration statement was declared effective. We may elect to satisfy our obligation to pay semi-annual dividends in cash, by distribution of common stock or a combination thereof, in our discretion.

On March 31, 2014, we entered into a securities purchase agreement with certain accredited investors for the issuance and sale in a private placement of 1,986,622 units, at a purchase price of $2.2565 per unit for net proceeds of approximately $4.5 million before expenses. Affiliates of Lone Star Value Management, LLC, of which our Chairman serves as a managing member, purchased approximately $2.9 million of units. Roth Capital Partners acted as our financial advisor in the transaction, which was negotiated and approved by a special committee of the board of directors. We did not engage a placement agent in connection with the private placement, and therefore paid no commissions.

Each unit consists of one share of our common stock, par value $0.001 per share, and a warrant to purchase one-half of a share of common stock, at a weighted average exercise price of $2.45 per whole share.

2015 Common Stock Offering

On January 27, 2015 we sold 3,071,739 units at $2.30 per unit for gross proceeds of $7.1 million. Each unit consists of one share of common stock and a warrant to purchase one-half of a share of common stock. The warrants to purchase 1,658,760 shares of common stock have an exercise price of $2.76 per share. Fees in the amount of $1.1 million relating to the stock placement were netted against proceeds. The warrants were valued at $1.5 million using the Black-Scholes model. The Black-Scholes inputs used were: expected dividend rate of 0%, expected volatility of 75%, risk free interest rate of 1.55%, and expected term of 2.5 years. The warrants are exercisable upon the six-month anniversary of issue, and expire January 31, 2020. As of October 31, 2015, there were 1,993,664 warrants outstanding. We will use the net proceeds of this offering for general working capital purposes.

2015 Common Stock Rights Offering

On July 29, 2015, the Company closed a subscription rights offering for the Company's common stock. The Company completed the rights offering through the distribution to its common and preferred stock holders, who subscribed, to purchase shares of the Company's common stock at $1.25 per share, subject to certain protection mechanics in place to preserve the Company's ability to utilize its NOLs.

The offering allowed each holder to buy 1/3 of a common share, for each common and preferred share owned on the record date. The Company sold 4,479,998 shares for aggregate gross proceeds of approximately $4.9 million. Expenses incurred to complete the offering amounted to approximately $0.4 million.

IP Revenue Stream Sale

On October 30, 2015, we entered into an agreement with TQ Zeta LLC, an affiliate of Techquity, and Intrepidus Holdings LLC (collectively, "Techquity"), in which Techquity will share in the revenue generated from the '972 patent litigation. For consideration of $10.0 million received, Techquity received the rights to 52% of the first $20 million in licenses, settlements or other awards related to the '972 patents, 40% of the amounts between $20 and $100 million, and 12% of all amounts above the $100 million in aggregate licensing, settlements or other awards. We are restricted to making only payments of the Fortress debt, and approved legal expenditures with the consideration received. During fiscal year 2015, the Company paid $2.7 million to Fortress to relieve all remaining obligations of the Company, and $1.1 million in legal expenses. $3.8 million was recognized as other income, and $6.2 million is held in deferred revenue and restricted cash.

Recent Accounting Pronouncements

During November 2014, the FASB issued ASU 2014-16 Derivatives and Hedging (Topic 815) Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity ("ASU 2014-16"). ASU 2014-16 does not change the current criteria in generally accepted accounting principles ("GAAP") for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. That is, an entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria. The amendments clarify how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features—including the embedded derivative feature being evaluated for bifurcation—in evaluating the nature of the host contract. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. These changes are not expected to have a material impact on the its consolidated financial statements. This could impact the accounting for future hybrid financial instruments issued by the Company.

We do not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material impact on our consolidated financial statements or disclosures.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements, together with the report of independent registered public accounting firm are included elsewhere herein. Reference is made to Item 15, "Financial Statements, Financial Statement Schedules and Exhibits."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (ii) to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of October 31, 2015.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting since rules of the SEC permit us to provide only management's report on this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting.

There were no changes in our internal controls over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers and Directors

The following table sets forth certain information regarding our executive officers and directors as of January 13, 2016.

Name	Age	Position
Richard K. Coleman, Jr.	59	President, Chief Executive Officer and Director
Brian Bianchi	49	Chief Operating Officer
David Cerf	50	Executive Vice President of Strategy and Business Development
Jennifer Ray Crane	44	Chief Financial Officer
Mark Hood	51	Executive Vice President of Corporate Development
Jeffrey E. Eberwein	45	Director, Chairman of the Board of Directors
Robert G. Pearse	56	Director
Don Pearce	72	Director
Galen Vetter	64	Director

Richard K. Coleman, Jr . has served as a director since April 2013 and as President and Chief Executive Officer since May 2013. Mr. Coleman is a private investor and technological advisor. His Company, Rocky Mountain Venture Services (RMVS) has helped technology companies plan and launch new business ventures and restructuring initiatives since 1998. He has served in a variety of senior operational roles including CEO of Vroom Technologies, COO of MetroNet Communications, and President of US West Long Distance and has also held significant officer level positions with Frontier Communications, Centex Telemanagement, and Sprint Communications culminating in his appointment to lead its Technology Management Division. Mr. Coleman began his career as an Air Force Telecommunications Officer managing Department of Defense R & D projects. He has served as an Adjunct Professor for Regis University's Graduate Management program and is a guest lecturer for Denver University, focusing on leadership and ethics. Mr. Coleman has served on a number of private, public, and non-profit boards and currently serves on the boards of directors of Ciber, Inc. (NYSE:CBR), a leading global information technology company, since April 2014, where he also serves on the Nominating/Corporate Governance and Audit Committees, and Hudson Global, Inc. (NASDAQ:HSON), a worldwide provider of highly specialized professional-level recruitment and related talent solutions, since May 2014, where he Chairs the Compensation Committee and also serves on the Nominating/Corporate Governance and Strategic Planning Committees. In addition to his prior board experience with a variety on non-profit and private companies, Mr. Coleman previously served on the boards of NTS, Inc., a broadband services and telecommunications company (2012 until its sale in 2014); Aetrium Incorporated, a manufacturer of electromechanical equipment used in the handling and testing of semiconductor devices (2013 – 2014); and On Track Innovations Ltd., one of the pioneers of cashless payment technology (2012 – 2014). Mr. Coleman holds a B.S. Degree from the United States Air Force Academy, an M.B.A. from Golden Gate University, and is a graduate of the United States Air Force Communications Systems Officer School. We believe Mr. Coleman's qualifications to serve on our board of directors include his successful leadership track record, particularly in start-up and turnaround situations, and his extensive expertise and experience in technology-related industries.

Brian Bianchi has served as our Chief Operating Officer since January 2008. Mr. Bianchi served as our Vice President, Engineering Development from November 2004 to January 2008. From May 2002 to October 2004, Mr. Bianchi served as our Director of Development and Product Test. From April 1998 until April 2002, Mr. Bianchi served in various engineering capacities at Crossroads. Prior to joining us, from May 1996 to March 1998, Mr. Bianchi served as Technical Program Manager for Hewlett Packard. From June 1988 to April 1996, Mr. Bianchi served in various capacities at Convex Computer Corporation, including Networking & I/O Software Manager. Mr. Bianchi received a Bachelor of Arts in Computer Science from the University of Texas, Austin.

David Cerf has served as our Executive Vice President of Strategy and Business Development since December 2013 and previously served as Executive Vice President of Business and Corporate Development from April 2005 to December 2013. Prior to joining us in 2005, Mr. Cerf served as Vice President of Sales and Business Development at NexQL, a provider of advanced database acceleration technologies since 2002. Prior to NexQL, Mr. Cerf co-founded 360World, a national provider of video/imaging solutions. In 1988, as the Founder and Managing Director of the Dallas Business Incubator, Mr. Cerf was responsible for the development and funding of more than 50 new high-growth startup companies.

Jennifer Ray Crane has served as our Chief Financial Officer since November 2008. Ms. Crane joined Crossroads in 2003 as Financial Controller and currently leads our financial team. Prior to joining us, Ms. Crane held senior positions at Deloitte&Touche LLP and PriceWaterhouse Coopers LLP, as well as industry positions. Ms. Crane is a Certified Public Accountant licensed in the state of Texas. She is also an active member of the Financial Executive Institute (FEI) association as well as the American Institute of Certified Public Accountants (AICPA) and holds a Bachelor of Business Administration from the University of Texas at Austin.

Mark Hood has served as our Executive Vice President of Corporate Development since February 2015 and previously served as Executive Vice President of Corporate Communications from January 2013 to January 2015. From 2009 - 2013, Mark was founder and CEO of MCH Advisors, and helped early stage technology clients design and launch sales and marketing programs in high-growth markets. From 1995 to 2009, Mark was CEO of Network Consulting Services, a master sales agency he launched to integrate services from multiple telecommunications companies. Mark also held Series 7, 65, and 66 securities licenses and served as General Partner of two equity investment funds. Mark earned a BA in Marketing from Sam Houston State University and an MS in Technology Commercialization from The University of Texas at Austin, McCombs School of Business.

Jeffrey E. Eberwein has served as a director since April 2013, as the Chairman of our board of directors since our 2013 annual meeting of stockholders in June 2013, and as a member of the Compensation and Corporate Governance Committees, and served as the Chairman of the Audit Committee until April 2014. Mr. Eberwein has 23 years of Wall Street experience and is the Founder and CEO of Lone Star Value Management, LLC ("LSVM"), a U.S. registered investment company. Prior to founding LSVM in January 2013, Mr. Eberwein was a Portfolio Manager at Soros Fund Management from January 2009 to December 2011 and Viking Global Investors from March 2005 to September 2008. Since that time he has served and continues to serve on the board of several publically traded companies. Mr. Eberwein serves as Chairman of the Board of Digirad Corporation, a Nasdaq-listed medical imaging Company where he serves on the Compensation and Strategic Advisory Committees, and previously served on the Corporate Governance Committee. Mr. Eberwein also currently serves as Chairman of the board of ATRM Holdings, Inc., a modular building company. On this board he previously served on the Compensation and Nominating/Corporate Governance Committees. Additionally, Mr. Eberwein serves on the board of Hudson Global Inc. ("Hudson"), a Nasdaq-listed global recruitment company, as Chairman of the board since June 2015 and as a director since May 2014. He also serves on Hudson's Audit, Compensation, Nominating/Corporate Governance, and Strategic Planning Committee. Moreover, Mr. Eberwein since May 2015 has served as Chairman of the Board of Ameri Holdings, Inc., an IT services company, where he also serves on the Compensation and Nominating/Corporate Governance Committees. In addition, since April 2015, Mr. Eberwein has served as a director of Novation Companies, Inc., where he currently serves on the Nominating/Corporate Governance, Compensation, and Investment Committees. Mr. Eberwein, from May 2012 to May 2013, served on the board of directors of Goldfield Corporation, a NYSE MKT-listed company in the electrical construction industry, where he served on the audit committee. Additionally, from December 2012 until a sale to a private equity firm was completed in June 2014. Mr. Eberwein served on the board of directors of NTS, Inc., a NYSE MKT-listed broadband services and telecommunications company, where he served on the Compensation and Nominating/Corporate Governance Committees. Mr. Eberwein also served on the board of directors of On Track Innovations Ltd., a Nasdaq-listed smart card company, from December 2012 to March 2014 where he served as Chairman of the Compensation Committee and on the Audit Committee. Mr. Eberwein served on the board of Hope for New York, a 501(c)3 organization dedicated to serving the poor in New York City from 2011 until 2014 where he was treasurer and on the executive committee. Mr. Eberwein earned an MBA from The Wharton School, University of Pennsylvania and a BBA with High Honors from The University of Texas at Austin.

Robert G. Pearse currently serves as a Managing Partner at Yucatan Rock Ventures, a firm he co-founded in 2004, where he specializes in technology investments and consulting. Mr. Pearse serves as a director for Aviat Networks, Inc (NASDAQ:AVNW) and member of the Compensation Committee and Nominating & Governance Committee since 2014. Mr. Pearse serves as a director for Ameri Holdings, Inc. (OTC:AMRH), Chairman of the Compensation Committee and member of the Audit Committee since 2015. Mr. Pearse serves as director for Novation Companies, Inc. (OTC:NOVC), Chairman of the Compensation Committee, and member of the Audit Committee since 2015. Mr. Pearse serves as a director for Crossroads Systems, Inc (NASDAQ:CRDS), Chairman of the Compensation Committee, and member of the Audit Committee and Nominating & Governance Committee since 2013. He previously served as vice president of Strategy and Market Development at NetApp, Inc., a computer storage and data management Company, from September 2005 to August 2012. Before joining NetApp in 2005, Mr. Pearse co-founded Yucatan Rock Ventures and served as a managing partner from January 2004 to September 2005. Prior to that, Mr. Pearse spent approximately 17 years in leadership positions at Hewlett-Packard, most recently as the vice president of Strategy and Corporate Development from 2001 to 2004. His professional experience also includes positions at PriceWaterhouseCoopers LLP, Eastman Chemicals Company, and General Motors. Mr. Pearse earned a Master of Business Administration degree from the Stanford Graduate School of Business in 1986, and a Bachelor of Science degree in Mechanical Engineering from the Georgia Institute of Technology in 1982. We believe Mr. Pearse's qualifications to serve on our board of directors include his extensive business development experience as an executive in the enterprise data management industry.

Don Pearce joined our board of directors in May 2009 and served as Chairman of the Board from May 2010 to November 2011. He also served as Vice President for the Texas division of Alliance Technology Group from April 2009 to January 2011 and before then served as a Regional Sales Manager for Sun Microsystems from October 2005 until June 2008. In addition, Mr. Pearce founded and has been the owner of Pearce Advisory Services since June 2008, a company specializing in consulting with technology companies in how to increase sales. Beginning his career with 12 years in systems and sales management at IBM, Mr. Pearce was employed in Sales and Sales Management at Amdahl Corp where his Division led the company in revenue 13 of 20 years. He then held executive Sales Management positions at Tarantella, StorageTek and Sun Microsystems. He has also served as a member of the Advisory Board for the Computer Science Engineering Department at Southern Methodist University since April 2002 and holds a B.S. in mathematics from SMU. He earned a M.S. in mathematics from Louisiana State University, where he also taught Mathematics for two years. We believe Mr. Pearce's qualifications to serve on our board of directors include his extensive management experience in virtual tape and disk storage sales, including knowledge of and experience with certain large enterprise storage customers, competing vendors and potential strategic partners, as well as a global network of industry contacts. Mr. Pearce is also a recognized leader in business management with a significant track record of delivering revenue generating strategies within the high-tech sector.

Galen Vetter has served as a director since April 2014. He is currently a private investor and professional corporate director. In his career Mr. Vetter served as president of Rust Consulting, Inc. from December 2008 to May 2012, as global chief financial officer of Franklin Templeton Investment Funds from April 2004 to November 2008 and in numerous roles at McGladrey LLP from June 1973 to March 2004. Since January 2009 Mr. Vetter has served as a member on the Advisory Board of Directors of Land O'Lakes Inc., since 2013 has served as a director of ATRM Holdings, Inc., since 2013 has served as a director of Alerus Financial, Inc., and since 2015 has served as a director of Hill Capital Corporation. Prior Board positions include Clearway, Minnesota ProfitSee, Franklin Templeton France S.A., Franklin Templeton Asset Management S.A., Franklin Templeton International Services S.A., and Franklin Templeton Management LVX S.A. He is a licensed certified public accountant (inactive). Mr. Vetter is a member of the National Association of Corporate Directors, including being Board Leadership Fellow certified. He received his Bachelor of Science degree from the University of Northern Iowa. We believe Mr. Vetter's qualifications to serve on our board of directors include his diverse management experience, including financial, analytical, information management, strategy and team development. In addition, our board benefits from Mr. Vetter's enterprise risk management and international business experience. Both by education and by professional experience, Mr. Vetter has had extensive exposure to analysis of financial statements and financial reporting matters and qualifies as an "audit committee financial expert" under Securities and Exchange Commission guidelines.

Board of Directors

Board Composition and Election of Directors

We operate under the direction of our board of directors. Our board of directors is responsible for the management of our business and affairs. Our certificate of incorporation provides that the number of directors may be determined pursuant to our bylaws, which provide that such number may be determined from time to time by our board of directors. However, under our bylaws, the number of directors shall not be less than one. Our directors hold office until their successors have been elected and qualified or until their earlier death, resignation or removal. There are no family relationships among any of our directors or executive officers.

Independent Directors

Messrs. Eberwein, Pearce, Pearse and Vetter qualify as independent directors in accordance with the listing requirements of The NASDAQ Stock Market. The Nasdaq independence definition includes a series of objective tests, such as that the director is not, and has not been for at least three years, one of our employees and that neither the director, nor any of his family members has engaged in various types of business dealings with us. In addition, as further required by the Nasdaq rules, our board of directors has made a subjective determination as to each independent director that no relationships exist which, in the opinion of our board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, our board of directors reviewed and discussed information provided by the directors and us with regard to each director's business and personal activities and relationships as they may relate to us and our management. In addition, our board of directors has concluded that each of Messrs. Pearce, Pearse, and Vetter satisfies the heightened audit committee independence standards set forth in Rule 10A-3 promulgated under the Exchange Act, and each of Messrs. Eberwein, Pearce, and Pearse satisfies Nasdaq listing rules relating to independence for purposes of compensation committee service.

Board Committees

Our board of directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The Audit Committee, Compensation Committee and Nominating and Corporate Governance Committees each operate under a charter approved by our board of directors. Copies of each committee's charter are posted on the Corporate Governance section of our website, www.crossroads.com . Information provided on our website is not incorporated into this Annual Report.

Audit Committee

The members of our Audit Committee are Messrs. Vetter, Pearce, and Pearse. Mr. Vetter chairs the Audit Committee. Mr. Vetter qualifies as an "audit committee financial expert" as defined in applicable SEC rules.

Our Audit Committee's responsibilities include:

- appointing, compensating, retaining and overseeing the work of any public accounting firm engaged by us for the purpose of preparing or issuing an audit report or performing other audit, review or attest services;
- reviewing and discussing with management and the external auditors our audited financial statements;
- considering the effectiveness of our internal control system;
- reviewing management's compliance with our code of business conduct;
- discussing with management our financial risk management policies;
- establishing our policy regarding our hiring of employees or former employees of the external auditors and procedures for the receipt, retention and treatment of accounting related complaints and concerns;
- meeting independently with our external auditors and management;
- reviewing and approving related person transactions; and
- preparing the Audit Committee report required by the proxy rules of the SEC

Our Audit Committee must approve all audit and non-audit services, other than de minimis non-audit services, to be provided to us by our external advisors.

Compensation Committee

The members of our Compensation Committee are Messrs. Eberwein, Pearce and Pearse. Mr. Pearse chairs the Compensation Committee.

Our Compensation Committee's responsibilities include:

- providing guidance and periodic monitoring for all of our corporate compensation;

- considering the effectiveness of our employee equity programs;
- administering our stock incentive plans with respect to our executive officers and employee Board members, including the adjustment of base salary each year;
- implementing and administering our incentive compensation programs and the authorization of all awards under these incentive programs;
- administering our employee benefit plans; and
- approving all perquisites, equity incentive awards, special cash payments or loans made or paid to executive officers and employee board members and assisting the board of directors in succession planning for executive officers.

The Compensation Committee meets with our Chief Executive Officer prior to the start of each fiscal year to discuss the incentive compensation programs to be in effect for such fiscal year. At the end of each fiscal year, the Compensation Committee meets to review the performance of executive officers and employee board members under those programs and award bonuses thereunder. At that time, the Compensation Committee may also adjust base salary levels for executive officers and employee board members subject to the short-swing profit restrictions of Section 16 and review the overall performance of our employee benefit plans. The Compensation Committee also meets when necessary to administer our stock incentive plan.

The Compensation Committee has determined and reviewed the value and forms of compensation for our named executive officers and other officers based on the committee members' knowledge and experience, competitive proxy and market compensation information and management recommendations. The Compensation Committee did not engage a compensation consulting firm in fiscal 2015. The Compensation Committee does not delegate its authority to review, determine and recommend, as applicable, the forms and values of the various elements of compensation for executive officers and directors. The Compensation Committee does delegate to Company management the implementation and record-keeping functions related to the various elements of compensation it has approved.

Nominating and Corporate Governance Committee

The members of our Nominating and Corporate Governance Committee are Messrs. Eberwein, Pearce, and Pearse. Mr. Pearce chairs the Nominating and Corporate Governance Committee.

Our Nominating and Corporate Governance Committee's responsibilities include:

- reviewing, developing and making recommendations to our board related to corporate governance guidelines and policies;
- reviewing and making recommendations to our board regarding proposed changes to our certificate of incorporation and bylaws;
- formulating and overseeing procedures to facilitate stockholder communications with our board;
- reviewing governance related stockholder proposals and recommending board responses;
- overseeing compliance by our board and its committees with applicable laws and regulations;
- evaluating the effectiveness of the committee and reporting the results of this evaluation to our board;
- overseeing risks relating to management and board succession planning, the independence of our board and potential conflicts of interest, and stockholder responses to our business practices;
- overseeing our board evaluation process including conducting periodic evaluations of the performance of our board as a whole and each board committee and evaluating the performance of board members eligible for re-election;
- establishing criteria for the selection of new members to our board;
- reviewing any stockholder nominations for directors and presenting to our board a list of individuals recommended for nomination for election to our board at the Annual Meeting of stockholders;
- assisting our board in making a determination of each outside director's "independence" in accordance with Nasdaq rules;
- formulating and recommending to our board for adoption a policy regarding the consideration of nominees proposed by stockholders for election to our board, and adopting procedures regarding the submission of stockholder nomination requests;
- reviewing the disclosure included in our proxy statement regarding our director nomination process;
- monitoring the orientation and any continuing education programs for directors;
- reviewing the composition of each board committee and presenting recommendations for committee memberships to our board as needed; and
- reviewing the charter and composition of each board committee and making recommendations to our board for the creation of additional board committees or the change in mandate or dissolution of board committees

Code of Business Conduct and Ethics

We have adopted a written code of business conduct and ethics that applies to our senior management and financial employees, including our principal executive officer and principal financial and accounting officer. A current copy of the code is posted on the Corporate Governance section of our website, www.crossroads.com.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than 10% of a registered class of our securities, to file reports of ownership and changes of ownership with the SEC and the NASDAQ Capital Market. Our officers, directors and 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms filed by them.

Based solely on review of copies of the forms received, we believe that, during the last fiscal year, all filings under Section 16(a) applicable to its officers, directors and 10% stockholders were timely, except for one form 4 for each of Mr. Vetter, Mr. Cerf, Mr. Pearse, Mr. Pearce, Mr. Bianchi, Ms. Crane, Mr. Hood and Mr. Eberwein, each of which referred to one transaction.

Item 11. Executive Compensation

Summary Compensation Table for Fiscal Year 2014 and 2015

The following table sets forth the total compensation awarded to, earned by, or paid to Mr. Richard K. Coleman, Jr., Mr. David Cerf and Mr. Brian Bianchi, who are collectively referred to as our "named executive officers," during the years ended October 31, 2014 and 2015:

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)(2)	Option Awards ($)(3)	Nonequity Incentive Compensation ($)(4)	Other ($)(5)	Total ($)
Richard K. Coleman, Jr.	2014	275,000	197,500	-	447,553	-	-	920,053
President and Chief Executive Officer	2015	300,000	237,500	-	383,704	-	-	921,204
David Cerf	2014	250,000	-	54,417	-	27,208	-	331,625
Executive Vice President of Business and Corporate Development	2015	250,000	-	25,438	21,199	25,438	-	322,075
Brian Bianchi	2014	235,000	-	50,525	-	25,263	3,000	313,788
Chief Operating Officer	2015	235,000	-	23,911	21,199	23,911	1,500	305,521

(1) On November 29, 2013, we awarded a cash bonus of $60,000, on March 31, 2014, we awarded a cash bonus of $50,000, on June 4, 2014 we awarded a cash bonus of $45,000, and on September 5, 2014 we recorded a cash bonus of $42,500, reported in fiscal year 2014. On December 15, 2014, we awarded a cash bonus of $117,500, and on June 15, 2015, we awarded a cash bonus of $120,000 to Mr. Coleman, reported in fiscal year 2015.

(2) On January 2, 2015, we awarded 21,540 and 19,736 shares of common stock to Messrs. Cerf and Bianchi, respectively, recorded as a stock bonus in fiscal year 2014. The dollar amounts in the table represent the total grant date fair value of the award in accordance with the authoritative guidance issued by the Financial Accounting Standards Board ("FASB") on stock compensation based on the closing price of our common stock on the date of grant. On November 19, 2015, our Compensation Committee approved the payment of stock bonuses under our 2014 Management Bonus Plan described below. The dollar amounts in the table represent the total grant date fair value of the award in accordance with the authoritative guidance issued by the FASB on stock compensation based on the closing price of our common stock on the date of grant. The number of shares awarded to each such officer will be determined with reference to the price of the Company's common stock as reported on Nasdaq on the date of issuance, which is expected to be in early January 2016.

(3) We granted options to purchase 450,000 shares of common stock on November 21, 2013 to Mr. Coleman, at a grant date fair value of $0.99 per share. This award vests 12.5% per quarter, for eight quarters. We granted options to purchase 270,450 shares of common stock on January 2, 2015 to Mr. Coleman, at a grant date fair value of $1.42 per share. These grants vests equally over 8 quarters, fully vesting on January 31, 2017. We granted options to purchase 25,000 shares of common stock on September 17, 2015 to Messrs. Cerf and Bianchi, at a grant date fair value of $0.85 per share. These awards vest 50% on September 17, 2016, 12.5% on December 17, 2016, 12.5% on March 17, 2017, 12.5% on June 17, 2017, and 12.5% on September 17, 2017.

(4) On December 9, 2014, we awarded cash bonuses of $27,208 and $25,263 to Messrs. Cerf and Bianchi, respectively, under our Management Bonus Plan for fiscal 2014 as described below. On December 15, 2015, we awarded cash bonuses of $25,438 and $23,911 to Messrs. Cerf and Bianchi, respectively, under our Management Bonus Plan for fiscal 2014 as described below.

(5) We award cash bonuses through our Patent Award Plan. Various levels of bonuses are awarded based on the stage a patent is in through the U.S. patent system. Cash patent bonus awards of $3,000 and $1,500 were awarded to Mr. Bianchi during fiscal year 2014 and 2015, respectively.

Management Bonus Plan

Under the 2015 Management Bonus Program, Messrs. Bianchi and Cerf were eligible for a target bonus of 40% of such executive officer's salary paid in fiscal 2015.

Seventy-five percent of the target payout was based on the achievement of financial objectives related to adjusted net income (loss) from product operations

(NIPO), which amount excluded revenue and expenses from intellectual property litigation and licensing, stock-based compensation and depreciation. The NIPO achievement was 35% of the planned amount and the Compensation Committee decided to make a pro-rated award of 50% cash and 50% stock to each of Messrs. Cerf and Bianchi accordingly. The remaining twenty-five percent payout under the 2015 Management Bonus Program was based on the achievement of individual goals for each such executive officer. The MBO for each officer was based on specific, measurable goals that were met throughout the year.

The bonus payouts described above were paid in a combination of (i) a cash payment and (ii) the issuance of restricted stock which vests one year from date of issuance. The number of shares to be issued to each such executive officer was determined with reference to the average of the high and low closing price of the Company's common stock as reported on Nasdaq on the date of issuance. These awards are described above in the footnotes to the "Summary Compensation Table."

Outstanding Equity Awards at Fiscal Year-End 2015

The following table sets forth information regarding unexercised options held by each of our named executive officers as of October 31, 2015.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Options Exercise Price ($)	Options Expiration Date
Richard K. Coleman, Jr.	470(1)	-	1.33	7/31/2023
	82,225(2)	-	1.03	9/16/2023
	90,150(3)	-	0.86	10/31/2023
	540,900(4)	-	1.28	11/23/2023
	101,418(5)	169,032	2.13	1/2/2025
David Cerf	4,508(6)	-	2.93	3/31/2016
	19,036(7)	-	3.73	1/31/2017
	60,100(8)	-	1.30	8/25/2020
	60,100(9)	-	1.30	8/25/2020
	120,200(10)	-	3.95	10/17/2021
	360,600(11)	-	1.75	6/14/2023
	-(12)	25,000	1.34	9/17/2025
Brian Bianchi	14,477(6)	-	2.93	3/31/2016
	52,877(7)	-	3.73	1/31/2017
	15,025(8)	-	1.30	8/25/2020
	15,025(9)	-	1.30	8/25/2020
	30,050(10)	-	3.95	10/17/2021
	360,600(13)	-	2.10	6/13/2023
	-(12)	25,000	1.34	9/17/2025

(1) This award was fully vested on July 31, 2013.
(2) This award was fully vested on September 16, 2013.
(3) This award was fully vested on October 31, 2013.
(4) This award was fully vested on October 31, 2015.
(5) Mr. Coleman was awarded options to purchase 270,450 shares of common stock on January 2, 2015. These awards vest 12.5% on April 2, 2015, 12.5% on July 2, 2015, 12.5% on September 2, 2015, 12.5% on January 2, 2016, 12.5% on April 2, 2016, 12.5% on July 2, 2016, 12.5% on September 2, 2016, and 12.5% on January 2, 2017. Unvested shares are valued at $169,000 as of October 31, 2015.
(6) This award was fully vested on March 31, 2010.
(7) These awards were fully vested as of January 31, 2011.
(8) These awards were fully vested as of August 25, 2014.
(9) These awards were fully vested as of August 25, 2012.
(10) These awards were fully vested as of October 17, 2015.
(11) These awards were fully vested as of June 1, 2015.
(12) We granted options to purchase 25,000 shares of common stock on September 17, 2015 to Messrs. Cerf and Bianchi. These awards vest 50% on September 17, 2016, 12.5% on December 17, 2016, 12.5% on March 17, 2017, 12.5% on June 17, 2017, and 12.5% on September 17, 2017. Unvested shares are valued at $43,000 as of October 31, 2015.
(13) These awards were fully vested as of June 1, 2015.

Employment Agreements

Richard K. Coleman, Jr. Employment Agreement . Richard K. Coleman, Jr. was appointed to serve as our Interim President and Chief Executive Officer ("CEO") on May 8, 2013. On August 2, 2013, we entered into an at-will employment agreement with Mr. Coleman, effective from the date that he began serving as our interim President and CEO. On November 21, 2013, subsequent to the end of our 2013 fiscal year, we entered into an Amended and Restated Employment Agreement with Mr. Coleman that replaced the interim employment agreement.

Mr. Coleman's agreement has an initial term ending November 20, 2016, and its term is automatically renewed for successive one-year terms thereafter unless Mr. Coleman or we elect to terminate it.

Mr. Coleman currently receives an annual base salary of $300,000. His base salary may be increased in the discretion of the board of directors or its Compensation Committee.

Mr. Coleman will be eligible for semi-annual performance bonuses during the term of the employment agreement, which performance bonuses will have a target payout of $150,000 per fiscal half. The amount paid to Mr. Coleman pursuant to these bonus payments will be based on the level of achievement, as determined by the Compensation Committee, of performance objectives that will be developed by the Compensation Committee in consultation with Mr. Coleman. The performance objectives are expected, but not required, to be based upon objectives such as (i) monetization of various parts of the Company's intellectual property portfolio over specified time frames, (ii) cash position and/or cash flow, and/or (iii) net income, profit or other earnings and operating performance measures. Except in connection with a Change of Control (as defined in the employment agreement), Mr. Coleman must be employed with the Company on the last day of a fiscal quarter or fiscal year in order to be eligible for a quarterly performance bonus with respect to that period. If a Change in Control of the Company occurs during the term of the Agreement, the quarterly and annual performance bonus for the quarter and year in which the Change of Control occurs will be deemed to have been achieved at the "target" level.

In connection with the entry into the employment agreement, Mr. Coleman received a grant of options to purchase 450,000 shares of the Company's common stock. These options have an exercise price of $1.54 per share, such amount being the mean of the high and low sales prices of the Company's common stock on November 21, 2013, as determined in accordance with the terms of the Company's 2010 Stock Incentive Plan. Subject to Mr. Coleman's continued employment with the Company, one-eighth of these options will vest quarterly, with the first one-eighth to vest on January 31, 2014. In addition, the unvested portion of these options will immediately vest upon the occurrence of a Change of Control, in the event that Mr. Coleman is terminated in circumstances other than a Termination for Cause (as defined in the employment agreement) or in the event that Mr. Coleman resigns with Good Reason (as defined in the employment agreement). He may receive additional option grants in the discretion of the board of directors or its Compensation Committee.

In the event that Mr. Coleman's employment is terminated by him or by us in circumstances constituting a Termination for Cause or a resignation other than for Good Reason, Mr. Coleman will receive accrued and unpaid salary through the termination date and expense reimbursement. In the event that Mr. Coleman's employment is terminated by the Company in circumstances that do not constitute a Termination for Cause or if Mr. Coleman resigns in circumstances constituting Good Reason, then all of Mr. Coleman's options will accelerate and vest in full (unless an award agreement relating to such options explicitly provides otherwise); and Mr. Coleman will receive accrued and unpaid salary through the termination date, expense reimbursement, one year of severance pay equal to his then-current annual salary, payable over a 12-month period, and a lump sum payment equal to 100% of his target performance bonus for four fiscal quarters and 100% of his target bonus for one fiscal year as if he had remained employed by the Company through the relevant dates to be eligible for such amounts.

2010 Stock Incentive Plan

General

The purpose of the plan is to provide a means through which we may attract able persons to serve as our employees, directors, or consultants and to provide a means whereby those individuals upon whom the responsibilities of our successful administration and management rest, and whose present and potential contributions to our welfare are of importance, may acquire and maintain stock ownership, thereby strengthening their concern for our welfare. A further purpose of the plan is to provide such individuals with additional incentive and reward opportunities designed to enhance our profitable growth. Accordingly, the plan provides for granting incentive stock options, options that do not constitute incentive stock options, restricted stock awards, or any combination of the foregoing, as is best suited to the circumstances of the particular employee, consultant, or director as provided in the plan.

Administration

The plan is administered by a committee of, and appointed by, our board of directors. In the absence of such a committee to administer the plan, the board of directors will serve as the committee. From and after the date upon which we became a "publicly held corporation" (as defined in section 162(m) of the Code and applicable interpretive authority under the Code), the plan is administered by a committee of, and appointed by, our board of directors that is comprised solely of two or more "outside directors" within the meaning of used in section 162(m) of the Code and applicable interpretive authority under the Code and within the meaning of "Non-employee Director" as defined in Rule 16b-3 under the Exchange Act.

The committee has the authority, in its discretion, to determine which employees, consultants, or directors will receive an award, the time or times when an award will be made, whether an incentive stock option or non-statutory stock option will be granted, and the number of shares to be subject to each option or restricted stock award. In making such determinations, the committee will take into account the nature of the services rendered by the respective employees, consultants, or directors, their present and potential contribution to our success, and such other factors as it in its discretion will deem relevant.

Duration of the Plan

No further awards may be granted under the plan after ten years from the date of adoption of the plan. The plan will remain in effect until all options granted under the plan have been exercised, forfeited, assumed, substituted, satisfied or expired and all restricted stock awards granted under the plan have vested or been forfeited.

Shares Subject to the Plan

The aggregate number of shares of our common stock that may be issued under the plan will not exceed 5,250,000 shares. Shares will be deemed to have been issued under the plan only to the extent actually issued and delivered pursuant to an award or to the extent an award is settled in cash. To the extent that an award lapses or the rights of its holder terminate, any shares of common stock subject to such award will again be available for the grant of an award. From and after the date upon which we become a publicly held corporation, the limitation set forth in the preceding sentences will be applied in a manner that will permit compensation generated under the plan to constitute "performance-based" compensation for purposes of section 162(m) of the Code, including, without limitation, counting against such maximum number of shares, to the extent required under section 162(m) of the Code and applicable interpretative authority under the Code, any shares subject to options that are canceled or re-priced.

Eligibility

Awards may be granted only to persons who, at the time of grant, are employees, consultants, or directors.

Stock Options

The term of each option will be as specified by the committee at the date of grant.

An option will be vested or exercisable in whole or in part and at such times as determined by the committee and set forth in the notice of grant and option agreement. The holder will be entitled to all the privileges and rights of a stockholder only with respect to such shares of common stock as have been purchased under the option and for which certificates of stock have been registered in the holder's name. The committee in its discretion may provide that an option will be vested or exercisable upon the attainment of one or more performance goals or targets established by the committee, which are based on:

- the price of a share of common stock,
- our earnings per share,
- our market share,
- the market share of a business unit designated by the committee,
- our sales,
- the sales of a business unit designated by the committee,
- our net income or the net income of a business unit designated by the committee,
- our cash flow return on investment or of any business unit designated by the committee,
- our earnings before or after interest, taxes, depreciation, or amortization or of any business unit designated by the committee,
- the economic value added, or
- the return on stockholders' equity;
- the holder's continued employment as an employee with us or continued service as a consultant or director for a specified period of time;
- the occurrence of any event or the satisfaction of any other condition specified by the committee in its sole discretion; or
- a combination of any of the foregoing.

Each option may, in the discretion of the committee, have different provisions with respect to vesting or exercise of the option. An incentive stock option may be granted only to an individual who is an employee at the time the option is granted. No incentive stock option will be granted to an individual if, at the time the option is granted, such individual owns stock possessing more than 10% of the total combined voting power of all classes of our stock or of our parent or subsidiary corporation, within the meaning of section 422(b)(6) of the Code, unless (1) at the time such option is granted the option price is at least 110% of the fair market value of the common stock subject to the option and (2) such option by its terms is not exercisable after the expiration of five years from the date of grant.

If an option is designated as an incentive stock option in the notice of grant, to the extent that such option (together with all incentive stock options granted to the optionee under the plan and all other of our stock option plans and our parent and subsidiaries) becomes exercisable for the first time during any calendar year for shares having a fair market value greater than $100,000, the portion of each such incentive stock option that exceeds such amount will be treated as a non-statutory stock option. If the Code is amended to provide for a different limitation from that described in this paragraph, the different limitation will be deemed incorporated in the plan effective as of the date required or permitted by such amendment to the Code. If the option is treated as an incentive stock option in part and as a non-statutory stock option in part by reason of the limitation described in this paragraph, the optionee may designate which portion of such option the optionee is exercising. In the absence of such designation, the optionee will be deemed to have exercised the incentive stock option portion of the option first. An incentive stock option will not be transferable otherwise than by will or the laws of descent and distribution and will be exercisable during the holder's lifetime only by such holder or his guardian or legal representative. The price at which a share of common stock may be purchased upon exercise of an incentive stock option will not be less than 100% of the fair market value of a share of common stock on the date such option is granted.

Except with respect to limitations on incentive stock options described above, the price at which a share of common stock may be purchased upon exercise of an option will be determined by the committee, but in no event will the price be less than 100% of the fair market value of a share of common stock on the date such option is granted.

Restricted Stock Awards

Shares of common stock that are the subject of a restricted stock award will be subject to restrictions on disposition by the holder and an obligation of the holder to forfeit and surrender the shares to us under certain circumstances. The committee will determine the forfeiture restrictions in its sole discretion, and the committee may provide that the forfeiture restrictions will lapse upon the attainment of one or more performance goals or targets established by the committee, which are based on:

- the price of a share of common stock,
- our earnings per share,
- our market share,
- the market share of a business unit designated by the committee,
- our sales,
- the sales of a business unit designated by the committee,
- our net income or the net income of a business unit designated by the committee,
- our cash flow return on investment or of any business unit designated by the committee,
- our earnings before or after interest, taxes, depreciation, or amortization or of any business unit designated by the committee,
- the economic value added, or
- the return on stockholders' equity;
- the holder's continued employment as an employee with us or continued service as a consultant or director for a specified period of time;
- the occurrence of any event or the satisfaction of any other condition specified by the committee in its sole discretion; or
- a combination of any of the foregoing.

Each restricted stock award may, in the discretion of the committee, have different forfeiture restrictions.

The committee may, in its discretion and as of a date determined by the committee, fully vest any or all common stock awarded to a holder pursuant to a restricted stock award, and, upon such vesting, all restrictions applicable to such restricted stock award will lapse as of such date. Any action by the committee pursuant to this Section may vary among individual holders and may vary among the restricted stock awards held by any individual holder. However, from and after the date upon which we become a "publicly held corporation," the committee may not take any such action with respect to a restricted stock award that has been granted after such date to a "covered employee" (within the meaning of Treasury Regulation section 1.162-27(c)(2)) if such award has been designed to meet the exception for performance-based compensation under section 162(m) of the Code.

The committee will determine the amount and form of any payment for common stock received pursuant to a restricted stock award, provided that, in the absence of such a determination, a holder will not be required to make any payment for common stock received pursuant to a restricted stock award, except to the extent otherwise required by law.

Recapitalization or Reorganization

The existence of the plan and the awards granted under the plan will not affect in any way the right or power of our board of directors or stockholders to make or authorize:

- any adjustment, recapitalization, reorganization, or other change in our capital structure or business,

- any merger, share exchange, or consolidation of us or any subsidiary,
- any issue of debt or equity securities ranking senior to or affecting common stock or the rights of common stock,
- the dissolution or liquidation of us or of any subsidiary,
- any sale, lease, exchange, or other disposition of all or any part of our assets or business, or
- any other corporate act or proceeding.

If we recapitalize, reclassify our capital stock, or otherwise change our capital structure, the number and class of shares of common stock covered by an outstanding option will be adjusted so that the option will thereafter cover the number and class of shares of stock and securities to which the holder would have been entitled pursuant to the terms of the recapitalization if, immediately prior to the recapitalization, the holder had been the holder of record of the number of shares of common stock then covered by such option.

The shares with respect to which options may be granted are shares of common stock as presently constituted, but if, and whenever, prior to the expiration of an option theretofore granted, we effect a subdivision or consolidation of shares of common stock or the payment of a stock dividend on common stock without receipt of consideration by us, the number of shares of common stock with respect to which such option may thereafter be exercised:

- in the event of an increase in the number of outstanding shares, will be proportionately increased, and the purchase price per share will be proportionately reduced, and
- in the event of a reduction in the number of outstanding shares, will be proportionately reduced, and the purchase price per share will be proportionately increased, without changing the aggregate purchase price or value as to which outstanding awards remain exercisable or subject to restrictions.

If a "corporate change," as defined below, occurs, then no later than:

- 10 days after the approval by our stockholders of the corporate change, other than a corporate change resulting from a person or entity acquiring or gaining ownership or control of more than 50% of the outstanding shares of our voting stock, or
- 30 days after a corporate change resulting from a person or entity acquiring or gaining ownership or control of more than 50% of the outstanding shares of our voting stock,

the committee, acting in its sole discretion and without the consent or approval of any holder, will effect one or more of the following alternatives, which may vary among individual holders and which may vary among options held by any individual holder:

- accelerate the vesting of any options then outstanding;
- accelerate the time at which some or all of the options then outstanding may be exercised so that such options, or any portion of such options, may be exercised for a limited period of time on or before a specified date, after which specified date all unexercised options and all rights of holders under such options will terminate;
- require the mandatory surrender to us by selected holders of some or all of the outstanding options held by such holders;
- make such adjustments to options then outstanding as the committee deems appropriate to reflect such corporate change; or
- provide that the number and class of shares of common stock covered by an outstanding option will be adjusted so that such option will thereafter cover the number and class of shares of stock or other securities or property to which the holder would have been entitled pursuant to the terms of the agreement of merger, consolidation, or sale of assets or dissolution if, immediately prior to such merger, consolidation, or sale of assets or dissolution, the holder had been the holder of record of the number of shares of common stock then covered by such option.

A "corporate change" means either:

- we will not be the surviving entity in any merger, share exchange, or consolidation or survive only as a subsidiary of an entity;
- we sell, lease, or exchange, or agree to sell, lease, or exchange, all or substantially all of our assets to any other person or entity;
- we are to be dissolved and liquidated;
- any person or entity, including a "group" as contemplated by Section 13(d)(3) of the Exchange Act, acquires or gains ownership or control of more than 50% of the outstanding shares of our voting stock; or
- at such time as we become a reporting Company under the Exchange Act as a result of or in connection with a contested election of directors, the persons who were directors before such election will cease to constitute a majority of our board of directors.

Amendment and Termination

Our board of directors in its discretion may terminate the plan at any time with respect to any shares of common stock for which awards have not theretofore been granted.

Our board of directors has the right to alter or amend the plan or any part of the plan from time to time; provided that no change in any award theretofore granted may be made that would impair the rights of the holder without the consent of the holder. However, our board of directors may not, without approval of the stockholders, amend the plan to increase the maximum aggregate number of shares that may be issued under the plan, change the class of individuals eligible to receive awards under the plan, or otherwise modify the plan in a manner that would require shareholder approval under applicable exchange rules.

2015 Director Compensation

The following table sets forth the compensation awarded to, earned by, or paid to each person who served as a director during the year ended October 31, 2015, other than a director who also served as an executive officer.

Name and Principal Position	Fees Earned or Paid in Cash ($)	Option Awards ($)(5)	Total ($)
Jeffrey E. Eberwein (1)	25,000	43,000	68,000
Robert Pearse (2)	25,000	37,000	62,000
Don Pearce (3)	25,000	37,000	62,000
Galen Vetter (4)	25,000	35,000	60,000

(1) Mr. Eberwein became a board member in April of 2013. He receives quarterly payments of $6,250 in cash and $10,750 worth of options quarterly in accordance with his individual Chairman and committee dutes. These grants are based on the Black-Scholes value of our options to purchase common stock on the last day of the quarter. We granted options to purchase 9,098 shares of common stock on January 31, 2015 at a grant date fair value of $1.28 per share and an exercise price of $1.94. We granted options to purchase 8,910 shares of common stock on April 30, 2015 at a grant date fair value of $1.34 per share and an exercise price of $2.04. We granted options to purchase 15,994 shares of common stock on July 31, 2015 at a grant date fair value of $0.72 per share and an exercise price of $1.10. We granted options to purchase 12,678 shares of common stock on October 31, 2015 at a grant date fair value of $0.93 per share and an exercise price of $1.41.

(2) Mr. Pearse became a board member in July of 2013. He receives quarterly payments of $6,250 in cash and $9,250 worth of options quarterly in accordance with his individual committee dutes. These grants are based on the Black-Scholes value of our options to purchase common stock on the last day of the quarter. We granted options to purchase 7,829 shares of common stock on January 31, 2015 at a grant date fair value of $1.28 per share and an exercise price of $1.94. We granted options to purchase 7,666 shares of common stock on April 30, 2015 at a grant date fair value of $1.34 per share and an exercise price of $2.04. We granted options to purchase 13,762 shares of common stock on July 31, 2015 at a grant date fair value of $0.72 per share and an exercise price of $1.10. We granted options to purchase 10,909 shares of common stock on October 31, 2015 at a grant date fair value of $0.93 per share and an exercise price of $1.41.

(3) Mr. Pearce became a board member in May of 2009. He receives quarterly payments of $6,250 in cash and $9,250 worth of options quarterly in accordance with his individual committee dutes. These grants are based on the Black-Scholes value of our options to purchase common stock on the last day of the quarter. We granted options to purchase 7,829 shares of common stock on January 31, 2015 at a grant date fair value of $1.28 per share and an exercise price of $1.94. We granted options to purchase 7,666 shares of common stock on April 30, 2015 at a grant date fair value of $1.34 per share and an exercise price of $2.04. We granted options to purchase 13,762 shares of common stock on July 31, 2015 at a grant date fair value of $0.72 per share and an exercise price of $1.10. We granted options to purchase 10,909 shares of common stock on October 31, 2015 at a grant date fair value of $0.93 per share and an exercise price of $1.41.

(4) Mr. Vetter became a board member in May of 2014. He receives quarterly payments of $6,250 in cash and $8,750 worth of options quarterly in accordance with his individual committee dutes. These grants are based on the Black-Scholes value of our options to purchase common stock on the last day of the quarter. We granted options to purchase 9,521 shares of common stock on January 31, 2015 at a grant date fair value of $1.28 per share and an exercise price of $1.94. We granted options to purchase 7,253 shares of common stock on April 30, 2015 at a grant date fair value of $1.34 per share and an exercise price of $2.04. We granted options to purchase 13,018 shares of common stock on July 31, 2015 at a grant date fair value of $0.72 per share and an exercise price of $1.10. We granted options to purchase 10,319 shares of common stock on October 31, 2015 at a grant date fair value of $0.93 per share and an exercise price of $1.41.

(5) The amounts shown in the table above are based on the Black-Scholes valuation for GAAP purposes.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table provides information concerning beneficial ownership of our capital stock as of January 7, 2016 by:

- each stockholder, or group of affiliated stockholders, that we know owns more than 5% of our outstanding capital stock;
- each of our named executive officers;
- each of our directors; and
- all of our directors and executive officers as a group.

The following table lists the applicable percentage beneficial ownership based on 24,509,435 shares of common stock outstanding as of January 7, 2016. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and generally includes voting power or investment power with respect to the securities held. Shares of common stock subject to options currently exercisable or exercisable within 60 days of January 7, 2016 are deemed outstanding and beneficially owned by the person holding such options for purposes of computing the number of shares and percentage beneficially owned by such person, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person. Except as indicated in the footnotes to this table, and subject to applicable community property laws, the persons or entities named have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

Unless otherwise indicated, the principal address of each of the stockholders below is c/o Crossroads Systems, Inc., 11000 North Mo-Pac Expressway, Austin, Texas 78759.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent
5% Stockholders		
Lone Star Value Management, LLC	5,764,145(1)	19.9%(1)
ACT Capital Management, LLLP	2,051,273(2)	8.0%(2)
Diker Management, LLC and Affiliates	1,664,815(3)	6.6%(3)
Fortress Investment Group, LLC	1,748,217(4)	6.7%
Piton Capital Partners LLC	1,319,951(5)	5.4%
Named Executive Officers and Directors		
Richard K. Coleman, Jr.	865,272(6)	3.4%
David Cerf	773,679(7)	3.1%
Brian Bianchi	598,598(8)	2.4%
Jeffrey E. Eberwein	5,818,999(9)	19.9%(9)
Don Pearce	147,763(10)	*
Robert G. Pearse	57,538(11)	*
Galen Vetter	19,752(12)	*
All current directors and executive officers as a group (9 persons)	8,687,425(13)	31.2%

* Less than 1%.

(1) According to Schedule 13D/A filed on September 14, 2015 and updated information based on Form 4 filings. Consists of 4,779,578 shares of our common stock beneficially owned directly by Lone Star Value Investors, LP ("Lone Star Value LP"). Also includes warrants to purchase 644,176 shares of our common stock issued in connection with our March 2014 private placement, warrants to purchase 175,000 shares of our common stock issued in connection with our January 2015 secondary offering, and warrants to purchase 165,391 shares of our common stock issued by the Company in consideration of the common stock outstanding increasing. These warrants are subject to a 19.99% blocking provision, meaning that they can be exercised only to the extent that such exercise would not cause the holder's beneficial ownership of our common stock to exceed 19.99%. Lone Star Value Investors GP, LLC ("Lone Star Value GP") is the general partner of, and controls, Lone Star Value LP. Lone Star Value Management, LLC ("Lone Star Value Management") exercises contractual voting and investment control over securities held by Lone Star Value LP. Jeffrey E. Eberwein, the Chairman of our Board of Directors, is the managing member of Lone Star Value Management and exercises indirect voting and investment control over these securities. By reason of these relationships, each of Lone Star Value LP, Lone Star Value GP, Lone Star Value Management and Mr. Eberwein may be deemed to share the power to vote or direct the vote and to dispose or direct the disposition of the shares directly beneficially owned by Lone Share Value LP as indicated above. The address for each of the Lone Star Value entities is 53 Forest Avenue, 1st Floor, Old Greenwich, Connecticut 06870.

(2) According to Schedule 13G/A filed February 4, 2015 and updated information based upon the Company's issuance of additional warrants and common stock dividends. Consists of (a) 909,980 shares of common stock, and (b) 6,195 shares of common stock issuable upon exercise of warrants. Also includes warrants to purchase 72,746 shares of our common stock issued by the Company in consideration of the common stock outstanding increasing. Also includes 708,235 shares of Series F Convertible Preferred Stock and warrants to purchase 354,117 shares of common stock issued in our March 2013 private placement. The convertible preferred stock and associated warrants are subject to a 9.99% blocking provision, meaning that they can be exercised only to the extent that such exercise would not cause the holder's beneficial ownership of our common stock to exceed 9.99%. Amir L. Ecker and Carol G. Frankenfield are the General Partners of ACT Capital Management, LLLP. Investment decisions made on behalf of ACT Capital Management, LLLP are made primarily by its General Partners. The address for ACT Capital Management, LLLP is 2 Radnor Corporate Center, Suite 111, Radnor, Pennsylvania 19087.

(3) According to Schedule 13G filed April 9, 2015 and updated information from the Company. Includes 1,134,554 shares of common stock owned by Diker Management, LLC, a Delaware limited liability company ("Diker Management"), over which Diker GP, LLC, a Delaware limited liability company ("Diker GP") shares beneficial ownership. Also includes warrants to purchase 363,635 shares of common stock purchased in our March 2013 private placement. These warrants are subject to a 9.99% blocking provision, meaning that they can be exercised only to the extent that such exercise would not cause the holder's beneficial ownership of our common stock to exceed 9.99%. Also includes warrants to purchase 77,553 shares of our common stock issued in connection with our March 2014 private placement and warrants to purchase 89,073 shares of our common stock issued by the Company in consideration of the common stock outstanding increasing. Diker GP, is the general partner to the Delaware limited partnerships Diker Value Tech Fund, LP ("VT"), Diker Value Tech QP Fund, LP ("VTQP"), Diker Small Cap Fund, LP ("SC"), the Diker Small Cap QP Fund, LP ("SCQP") and Diker Micro Cap Fund LP ("MC") with respect to the Stock directly owned by VT, VTQP, SC, SCQP and MC (collectively, the "Diker Funds"). Diker Management is the investment manager of the Diker Funds, with respect to the shares of common stock held by the Diker Funds. As the sole general partner of the Diker Funds, Diker GP, has the power to vote and dispose of the shares of the common stock owned by the Diker Funds and, accordingly, may be deemed the beneficial owner of such shares. Pursuant to investment advisory agreements, Diker Management serves as the investment manager of the Diker Funds. Accordingly, Diker Management may be deemed the beneficial owner of shares held by the Diker Funds. Charles M. Diker and Mark N. Diker are the managing members of each of Diker GP and Diker Management, and in that capacity direct their operations. Therefore, Charles M. Diker and Mark N. Diker may be beneficial owners of shares beneficially owned by Diker GP and Diker Management. The Diker parties disclaim all beneficial ownership, however, as affiliates of a registered investment adviser, and in any case disclaim beneficial ownership except to the extent of their pecuniary interest in the shares. The address for the Diker parties is 730 Fifth Avenue, 15th Floor, New York, NY 10019.

(4) According to Schedule 13G filed August 2, 2013 and updated information based upon the Company's issuance of additional warrants. Consists of 1,454,545 shares subject to warrants held by CF DB EZ LLC and warrants to purchase 293,672 shares of our common stock. Drawbridge Special Opportunities Fund LP owns 95% of CF DB EZ LLC. Drawbridge Special Opportunities GP LLC is the general partner of Drawbridge Special Opportunities Fund LP. Fortress Principal Investment Holdings IV LLC ("FPIH IV") is the sole managing member of Drawbridge Special Opportunities GP LLC. Drawbridge Special Opportunities Advisors LLC ("DSOA") is the investment advisor of Drawbridge Special Opportunities Fund LP. FIG LLC is the sole managing member of DSOA, and Fortress Operating Entity I LP ("FOE I") is the sole managing member of FIG LLC and FPIH IV. FIG Corp. is the general partner of FOE I, and FIG Corp. is wholly-owned by Fortress Investment Group LLC. Peter L. Briger, Jr. and Constantine M. Dakolias are co-Chief Investment Officers of Fortress Investment Group LLC's Credit business, which includes CF DB EZ LLC, and have the power to vote and dispose of these shares. The address for each of the Fortress persons and entities is c/o Fortress Investment Group LLC, 1345 Avenue of the Americas, 46th Floor, New York, New York 10105, Attention: Chief Compliance Officer.

(5) According to Schedule 13G filed August 7, 2015. Consists of 1,319,951 shares of common stock held by Piton Capital Partners LLC ("Piton"), a Delaware limited liability company and investment entity that is a family client of Kokino LLC. The address for Piton is c/o North Bay Associates, 14000 Quail Springs Parkway, Suite 2200, Oklahoma City, Oklahoma 73134.

(6) Consists of 16,303 shares of common stock and 848,969 shares of common stock issuable upon exercise of options exercisable within 60 days of January 7, 2016. The shares of common stock are held of record by RKC Investments, LLC. Mr. Coleman may be deemed to exercise indirect voting and investment control over these securities. Mr. Coleman disclaims beneficial ownership of the shares of common stock held by RKC Investments, LLC except to the extent of any pecuniary interest therein.

(7) Consists of 143,308 shares of common stock, 3,640 shares of Series F Preferred Stock, 624,544 shares of common stock issuable upon exercise of options exercisable within 60 days of January 7, 2016 and 2,187 shares of common stock issuable upon exercise of warrants exercisable within 60 days of January 7, 2016.

(8) Consists of 110,544 shares of common stock and 488,054 shares of common stock issuable upon exercise of options exercisable within 60 days of January 7, 2016.

(9) Consists of 4,779,578 shares of common stock and warrants to purchase 984,567 shares of our common stock held directly by Lone Star Value LP and 34,144 shares of common stock held and options to purchase 20,710 shares of common stock held directly by Mr. Eberwein. The warrants are subject to a 19.99% blocking provision, meaning that they can be exercised only to the extent that such exercise would not cause the holder's beneficial ownership of our common stock to exceed 19.99%. See footnote (1) above for a description of the shares held by Lone Star Value LP. Mr. Eberwein disclaims beneficial ownership of the shares of common stock held by Lone Star Value LP except to the extent of any pecuniary interest therein.

(10) Consists of 37,500 shares of common stock and 110,263 shares of common stock issuable upon exercise of options exercisable within 60 days of January 7, 2016.

(11) Consists of 10,100 shares of common stock and 47,438 shares of common stock issuable upon exercise of options exercisable within 60 days of January 7, 2016.

(12) Consists of 19,752 shares of common stock issuable upon exercise of options exercisable within 60 days of January 7, 2016.

(13) Consists of 5,253,853 shares of common stock, 5,100 shares of Series F Preferred Stock, 2,434,309 shares of common stock issuable upon exercise of options exercisable within 60 days of January 7, 2016 and 994,163 shares of common stock issuable upon exercise of warrants exercisable within 60 days of January 7, 2016.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Except as described below, since November 1, 2014, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded or exceeds the lesser of $120,000 or 1% of our total assets and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest, other than compensation arrangements with directors and executive officers, which are described in Item 11 of this annual report and the transactions described or referred to below. The audit committee of our board of directors is responsible for reviewing and approving any related person transactions.

On March 31, 2014, we completed a private placement of 1,886,622 units at a purchase price of $2.2565 per unit for net proceeds of approximately $4.3 million before expenses. Affiliates of Lone Star Value Management, LLC, of which our Chairman Jeffrey E. Eberwein serves as a managing member, purchased approximately $2.9 million of units. Additionally, affiliates of Diker Management, LLC, a holder of greater than 5% of our common stock, purchased $350,000 of units. We also entered into a registration rights agreement with the purchasers obligating us to register the resale of these securities.

Each unit consisted of one share of the Company's common stock, and warrants to purchase one-half of a share of common stock, at an exercise price of $2.46 per whole share.

The terms of the private placement were negotiated and approved on our behalf by a Special Committee of our board of directors consisting of Messrs. Pearce and Pearse.

On January 27, 2015, we entered into placement agency agreements with certain accredited investors for the issuance and sale in a private placement of an aggregate of 3,071,739 units, at a purchase price of $2.30 per unit for net aggregate proceeds of approximately $7.1 million before expenses. Each unit consisted of one share of common stock and warrants to purchase one-half of a share of common stock at an exercise price of $2.76 per whole share. Lone Star Value LP, controlled by Jeffrey E. Eberwein, our Chairman of the Board of Directors, acquired 350,000 units in the placement for approximately $0.8 million.

On July 29, 2015, we closed a subscription rights offering for the Company's common stock, selling 3,933,879 shares of common stock, at $1.25 per share, for aggregate gross proceeds of approximately $4.9 million. Lone Star Value LP, controlled by Jeffrey E. Eberwein, our Chairman of the board of directors, acquired 1,537,907 shares in the offering for approximately $1.9 million.

Information regarding director independence is contained in Item 10 of this Annual Report on Form 10-K.

Item 14. Principal Accountant Fees and Services

Audit Fees

All services rendered by our registered public accounting firm, PMB Helin Donovan, LLP, are pre-approved by the Audit Committee. PMB Helin Donovan, LLP has provided or is expected to provide services to us in the following categories and amounts:

	October 31,	
	2015	2014
Audit fees (1)	$ 75,000	$ 64,700
Audit related fees(2)	$ 48,570	$ 119,200
Tax fees(3)	$ 30,565	$ 43,880
All other fees(4)	$ 2,000	$ 6,970

(1) Audit fees – These are fees for professional services performed by PMB Helin Donovan, LLP for the audit of our annual consolidated financial statements and review of interim financial statements included in our Form 10-Q filings, and services that are normally provided in connection with statutory regulatory filings or engagements.

(2) Audit-related fees – These are fees for assurance and related services performed by PMB Helin Donovan, LLP that are reasonably related to the performance of the audit or review of our financial statements. For 2015 and 2014, this amount primarily includes a review of our reports on Form 10-Q and Form 10-K, and our registration statements on Form S-1, Form S-3, and S-8.

(3) Tax fees – These are fees for professional services performed by PMB Helin Donovan, LLP with respect to tax compliance, tax advice and tax planning. This includes preparation or review of original and amended tax returns for the Company and the Company's consolidated subsidiaries; refund claims; payment planning; tax audit assistance; and tax work stemming from "Audit-Related" items.

(4) All other fees – These are fees for other permissible work performed by PMB Helin Donovan, LLP that does not meet the above category descriptions.

Pre-Approval Policy

Our Audit Committee must provide advance approval for all audit and non-audit services, other than de minimis non-audit services.

PART IV

Item 15. Financial Statements, Financial Statement Schedules and Exhibits

1. Financial Statements.

   The response to this portion of Item 15 is submitted as a separate section of this report. See "Index to Financial Statements and Schedules" at page F-1.

2. Financial Statement Schedules.

   Schedule II - Valuation and Qualifying Accounts

3. Exhibits.

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference: Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Sixth Amended and Restated Certificate of Incorporation of Crossroads Systems, Inc.	S-1	333-172792	3.1	3/11/11	
3.1.1	Certificate of Amendment to the Sixth Amended and Restated Certificate of Incorporation of Crossroads Systems, Inc.	S-1	333-172792	3.1.1	8/30/11	
3.1.2	Certificate of Amendment to the Sixth Amended and Restated Certificate of Incorporation of Crossroads Systems, Inc.	8-K	001-15331	3.1	4/28/15	
3.1.3	Certificate of Designation of 5.0% Series F Convertible Preferred Stock	8-K/A	001-15331	3.1	4/2/13	
3.1.4	Certificate of Amendment to Certificate of Designation of 5.0% Series F Convertible Preferred Stock	8-K	001-15331	3.1	3/14/14	
3.1.5	Certificate of Designation, Rights, Preferences and Privileges of Series G Participating Preferred Stock	8-K	001-15331	3.1	5/23/14	
3.2	Amended and Restated Bylaws of Crossroads Systems, Inc.	8-K	001-15331	3.1	11/7/13	
4.1	Form of Warrant by Crossroads Systems, Inc. in favor of the purchasers in the October 2010 private placement	S-1	333-172792	3.1	3/11/11	
4.2	Form of Warrant by Crossroads Systems, Inc. in favor of the purchasers in the March 2013 private placement	8-K	001-15331	4.1	3/25/13	
4.3	Common Stock Purchase Warrant, dated July 22, 2013, by Crossroads Systems, Inc. in favor of CF DB EZ LLC	8-K	001-15331	4.1	7/24/13	
4.4	Amendment to Common Stock Purchase Warrant, dated January 23, 2014, by and between Crossroads Systems. Inc. and CF DB EZ LLC	8-K	001-15331	4.1	1/24/14	
4.5	Form of Warrant by Crossroads Systems, Inc. in favor of the purchasers in the March 2014 private placement	8-K	001-15331	4.1	3/31/14	
4.6	Form of Warrant by Crossroads Systems, Inc. in favor of the holders in the January 2015 registered direct offering	8-K	001-15331	4.1	1/30/15	
4.7	Form of Warrant by Crossroads Systems, Inc. in favor of the placement agents in the January 2015 registered direct offering	8-K	001-15331	4.2	1/30/15	
4.8	Tax Benefit Preservation Plan, dated as of May 23, 2014, by and between Crossroads Systems, Inc. and American Stock Transfer & Trust Company, LLC	8-K	001-15331	4.1	5/23/14	
10.1	Crossroads Systems, Inc. 2010 Stock Incentive Plan	S-1	333-172792	10.1	3/11/11	
10.1.1	Amended Crossroads Systems, Inc. 2010 Stock Incentive Plan	8-K	001-15331	10.1	4/28/15	
10.2	Employment Agreement, dated as of October 13, 2003, by and between Crossroads Systems, Inc. and Robert Sims	S-1	333-172792	10.2	3/11/11	

10.3	Severance Benefit Plan, dated February 11, 2002, between Crossroads Systems, Inc. and Robert Sims	S-1	333-172792	10.3	3/11/11
10.4	Severance Benefit Plan, dated October 21, 2004, between Crossroads Systems, Inc. and Brian Bianchi	S-1	333-172792	10.4	3/11/11
10.5	Severance Benefit Plan, dated April 15, 2009, between Crossroads Systems, Inc. and David Cerf	S-1	333-172792	10.5	3/11/11
10.6	Severance Benefit Plan, dated April 15, 2009, between Crossroads Systems, Inc. and Jennifer Crane	S-1	333-172792	10.6	3/11/11
10.7	Severance Benefit Plan, dated January 9, 2013, between Crossroads Systems, Inc. and Mark Hood	S-1	333-204094	10.7	5/12/15
10.8	Form of Indemnity Agreement between Crossroads Systems, Inc. and each of the directors and executive officers thereof	8-K	001-15331	10.1	7/16/13
10.9	Amended and Restated Employment Agreement, dated November 21, 2013, by and between Crossroads Systems, Inc. and Richard K. Coleman, Jr.	8-K	001-15331	10.1	11/25/13
10.10	Securities Purchase Agreement, dated as of October 23, 2010, by and between Crossroads Systems, Inc. and the purchasers party thereto	S-1	333-172792	10.9	3/11/11
10.11	Registration Rights Agreement, dated as of October 23, 2010, by and between Crossroads Systems, Inc. and the purchasers party thereto	S-1	333-172792	10.10	3/11/11
10.12†	Software License and Distribution Agreement, dated January 20, 2009, by and between Hewlett-Packard Company and Crossroads Systems, Inc.	S-1	333-172792	10.11	5/18/11
10.13.1	Commercial Industrial Lease Agreement, dated October 31, 2005, by Principal Life Insurance Company and Crossroads Systems, Inc.	S-1	333-172792	10.12.1	5/18/11
10.13.2	First Amendment to Lease, dated December 15, 2009, by and between Principal Life Insurance Company and Crossroads Systems, Inc.	S-1	333-172792	10.12.2	5/18/11
10.14	Professional Agreement, dated July 31, 2012, between Crossroads Systems, Inc. and Iron Mountain Information Management, Inc.	8-K	001-15331	10.1	8/2/12
10.15	Securities Purchase Agreement, dated July 31, 2012, by and between Crossroads Systems, Inc. and Iron Mountain Incorporated	8-K	001-15331	10.2	8/2/12
10.16	Registration Rights Agreement, dated July 31, 2012, by and between Crossroads Systems, Inc. and Iron Mountain Incorporated	8-K	001-15331	10.2	8/2/12
10.17	Securities Purchase Agreement, dated March 22, 2013, by and among Crossroads Systems, Inc. and the Buyers party thereto	8-K	001-15331	10.1	3/25/13
10.18	Registration Rights Agreement, dated as of March 28, 2013, by and among Crossroads Systems, Inc. and the Investors party thereto	8-K	001-15331	10.1	3/25/13
10.18.1	Amendment to Registration Rights Agreement, dated July 3, 2013, by and among Crossroads Systems, Inc. and the Investors party thereto	S-1/A	333-188549	10.17.1	7/8/13
10.19	Separation Offer and Release, effective as of May 8, 2013, between Robert C. Sims and Crossroads Systems, Inc.	8-K	001-15331	10.1	5/14/13
10.20	Retention Agreement dated June 4, 2013, by and between Crossroads Systems, Inc. and Brian Bianchi	8-K	001-15331	10.1	6/10/13
10.21	Retention Agreement dated June 4, 2013, by and between Crossroads Systems, Inc. and David Cerf	8-K	001-15331	10.2	6/10/13
10.22	Amended and Restated Agreement of Limited Partnership of KIP CR P1 LP	8-K	001-15331	10.1	7/24/13
10.23	Credit Agreement, dated July 22, 2013, by and between Crossroads Systems, Inc. and Fortress Credit Co LLC	8-K	001-15331	10.2	7/24/13
10.23.1	Amendment to Credit Agreement, dated June 22, 2015, by and between Crossroads Systems, Inc. and CF DB EZ LLC	8-K	001-15331	10.1	6/23/15

10.24	Guaranty and Security Agreement, dated July 22, 2013, by KIP CR P1 LP in favor of Fortress Credit Co LLC	8-K	001-15331	10.3	7/24/13	
10.25	Guaranty and Security Agreement, dated July 22, 2013, by Crossroads Systems (Texas), Inc. in favor of Fortress Credit Co LLC	8-K	001-15331	10.4	7/24/13	
10.26	Pledge and Security Agreement, dated July 22, 2013, between Crossroads Systems, Inc. and Fortress Credit Co LLC relating to KIP CR P1 LP	8-K	001-15331	10.5	7/24/13	
10.27	Pledge and Security Agreement, dated July 22, 2013, between Crossroads Systems, Inc. and Fortress Credit Co LLC relating to Crossroads Systems (Texas), Inc.	8-K	001-15331	10.6	7/24/13	
10.28	Assignment of Patent Rights, dated July 22, 2013, by Crossroads Systems, Inc. in favor of KIP CR P1 LP	8-K	001-15331	10.7	7/24/13	
10.29	Non-Exclusive License Agreement, dated July 22, 2013, by and between Crossroads Systems, Inc. and KIP CR P1 LP	8-K	001-15331	10.8	7/24/13	
10.30	Registration Rights Agreement, dated July 22, 2013, by and between Crossroads Systems, Inc. and Fortress Credit Co LLC	8-K	001-15331	10.9	7/24/13	
10.31	Agreement Regarding Issue Price dated July 22, 2013, by and between Crossroads Systems, Inc. and Fortress Credit Co LLC	S-1/A	333-188549	10.30	8/22/13	
10.32	Compromise, Settlement and Mutual Release Agreement, effective as of December 19, 2013, by and between Crossroads Systems, Inc. and Iron Mountain Information Management, LLC.	8-K	001-15331	10.1	12/20/13	
10.33	Securities Purchase Agreement, dated March 31, 2014, by and between Crossroads Systems, Inc. and the purchasers party thereto	8-K	001-15331	10.1	3/31/14	
10.34	Securities Purchase Agreement, dated April 4, 2014, by and between Crossroads Systems, Inc. and the purchasers party thereto	8-K	001-15331	10.1	4/8/14	
10.35	Amended and Restated Registration Rights Agreement, dated April 4, 2014, by and between Crossroads Systems, Inc. and the purchasers party thereto	8-K	001-15331	10.2	4/8/14	
10.36	Form of Unit Subscription Agreement, by and among Crossroads Systems, Inc. and the investors party thereto	8-K	001-15331	10.1	1/30/15	
10.37†	Investment Agreement, by and among Crossroads Systems, Inc., TQ Zeta LLC and the investors party thereto					X
21.1	List of Subsidiaries					X
23.1	Consent of PMB Helin Donovan, LLP.					X
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended					X
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended					X
32.1	Certification of Principal Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350					X
32.2	Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Schema Linkbase Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Labels Linkbase Document					X
101.PRE	XBRL Taxonomy Presentation Linkbase Document					X

† Confidential materials redacted and filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CROSSROADS SYSTEMS, INC.

By: /s/ Richard K. Coleman, Jr.
Richard K. Coleman, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Dated: January 13, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jeffrey E. Eberwein (Jeffrey E. Eberwein)	Director and Chairman of the Board of Directors	January 13, 2016
/s/ Richard K. Coleman, Jr. (Richard K. Coleman, Jr.)	President, Chief Executive Officer and Director (Principal Executive Officer)	January 13, 2016
/s/ Jennifer Ray Crane (Jennifer Ray Crane)	Chief Financial Officer (Principal Financial and Accounting Officer)	January 13, 2016
/s/ Robert G. Pearse (Robert G. Pearse)	Director	January 13, 2016
/s/ Galen Vetter (Galen Vetter)	Director	January 13, 2016
/s/ Don Pearce (Don Pearce)	Director	January 13, 2016

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Financial Statements:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of
Crossroads Systems, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Crossroads Systems, Inc. and subsidiaries (the "Company") as of October 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity (deficit), and cash flows for the fiscal years then ended. Our audits also included the financial statement schedule listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of October 31, 2015 and 2014, and the results of its operations and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule presents fairly, in all material respects, the information set forth therein when considered in relation to the basic consolidated financial statements.

/s/ PMB HELIN DONOVAN, LLP

Austin , Texas
January 13, 2016

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	October 31, 2015	October 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,314	$ 4,676
Restricted cash	6,478	270
Total cash, cash equivalents and restricted cash	11,792	4,946
Accounts receivable, net of allowance for doubtful accounts of $5 and $151, respectively	1,632	2,252
Inventory	437	357
Prepaid expenses and other current assets	348	798
Total current assets	14,209	8,353
Property and equipment, net	533	440
Other assets	171	63
Total assets	$ 14,913	$ 8,856
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,224	$ 1,443
Accrued expenses	1,799	1,397
Deferred revenue, current portion	7,234	1,032
Current portion of long term debt, net of debt discount	-	3,160
Total current liabilities	11,257	7,032
Long term debt, net of current portion and debt discount	-	1,651
Long term portion of deferred revenue, net of current portion	595	423
Total liabilities	11,852	9,106
Commitments and contingencies (See Note 8)		
Stockholders' equity (deficit):		
Convertible preferred stock, $0.001 par value, 25,000,000 shares authorized, 2,791,257 and 3,318,197 shares issued and outstanding, respectively	3	3
Common stock, $0.001 par value, 75,000,000 shares authorized, 24,182,524 and 15,831,810 shares issued and outstanding, respectively	24	16
Additional paid-in capital	238,881	226,208
Accumulated other comprehensive loss	(90)	(60)
Accumulated deficit	(235,757)	(226,417)
Total stockholders' equity (deficit)	3,061	(250)
Total liabilities and stockholders' equity	$ 14,913	$ 8,856

See accompanying notes to the condensed consolidated financial statements.

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Year Ended October 31, 2015	Year Ended October 31, 2014
Revenue:		
Product	$ 2,535	$ 4,048
IP license, royalty and other	5,286	7,101
Total revenue	7,821	11,149
Cost of revenue:		
Product	749	945
IP license, royalty and other	1,276	1,120
Total cost of revenue	2,025	2,065
Gross profit	5,796	9,084
Operating expenses:		
Sales and marketing	3,183	3,668
Research and development	4,784	5,675
General and administrative	9,299	5,247
Total operating expenses	17,266	14,590
Loss from operations	(11,470)	(5,506)
Gain on settlement	-	1,050
Loss before other expenses	(11,470)	(4,456)
Other expense:		
Interest expense	(384)	(815)
Amortization of debt discount and issuance costs	(1,001)	(1,231)
Change in value of derivative liability	-	(2,765)
Other income	3,811	40
Net loss	$ (9,044)	$ (9,227)
Dividends attributable to preferred stock	$ (280)	$ (484)
Net loss available to common stockholders, basic and diluted	$ (9,324)	$ (9,711)
Net loss per share available to common stockholders, basic and diluted	$ (0.48)	$ (0.69)
Weighted average number of common shares outstanding, basic and diluted	19,573,832	14,164,069

See accompanying notes to the condensed consolidated financial statements.

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Year Ended October 31,	
	2015	**2014**
Net loss	$ (9,044)	$ (9,227)
Other comprehensive income:		
Foreign currency translation adjustments	(30)	(9)
Comprehensive loss	$ (9,074)	$ (9,236)

See accompanying notes to the condensed consolidated financial statements.

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Loss	Deficit
Balance at October 31, 2013	**-**	**$ -**	**11,949,937**	**$ 12**	**$ 208,702**	**$ (216,578)**	**$ (51)**	**$ (7,915)**
Transfer from temporary equity	4,231,154	4	-	-	6,390	-	-	6,394
Stock options exercised	-	-	390,073	1	591	-	-	592
Stock-based compensation	-	-	66,081	-	1,435	-	-	1,435
Warrants exercised	-	-	302,041	-	822	-	-	822
Preferred shares converted to common	(912,957)	(1)	912,957	1	-	-	-	-
Ratchet expiration	-	-	-	-	3,322	-	-	3,322
Common stock dividends issued to preferred shareholders	-	-	224,099	-	612	(612)	-	-
Private Placement	-	-	1,986,622	2	4,334	-	-	4,336
Foreign currency translation adjustment	-	-	-	-	-	-	(9)	(9)
Net loss	-	-	-	-	-	(9,227)	-	(9,227)
Balance at October 31, 2014	**3,318,197**	**$ 3**	**15,831,810**	**$ 16**	**$ 226,208**	**$ (226,417)**	**$ (60)**	**$ (250)**
Stock options exercised	-	-	125,147	-	146	-	-	146
Stock-based compensation	-	-	117,577	-	1,215	-	-	1,215
Warrants exercised	-	-	423,386	1	530	-	-	531
Preferred shares converted to common	(526,940)	-	526,940	-	-	-	-	-
Common stock dividends issued to preferred shareholders	-	-	152,046	-	296	(296)	-	-
CS Rights Offering	-	-	3,933,879	4	4,528	-	-	4,532
Private Placement	-	-	3,071,739	3	5,958	-	-	5,961
Foreign currency translation adjustment	-	-	-	-	-	-	(30)	(30)
Net loss	-	-	-	-	-	(9,044)	-	(9,044)
Balance at October 31, 2015	**2,791,257**	**$ 3**	**24,182,524**	**$ 24**	**$ 238,881**	**$ (235,757)**	**$ (90)**	**$ 3,061**

See accompanying notes to the condensed consolidated financial statements.

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended October 31, 2015	2014
Cash flows from operating activities:		
Net loss	$ (9,044)	$ (9,227)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	374	631
Loss on change in value of derivative liability	-	2,765
Amortization of debt discount	1,001	1,231
Gain on disposal of property and equipment	-	(40)
Stock-based compensation	1,032	1,589
Provision for doubtful accounts receivable	62	57
Changes in assets and liabilities:		
Accounts receivable	522	(22)
Inventory	(82)	(44)
Prepaid expenses and other assets	165	(262)
Accounts payable	477	363
Accrued expenses	324	(832)
Deferred revenue	6,433	97
Net cash provided by (used in) operating activities	1,264	(3,694)
Cash flows from investing activities:		
Purchase of property and equipment	(226)	(81)
Proceeds from sale of property and equipment	-	76
Net cash used in investing activities	(226)	(5)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of expenses	11,169	5,534
Repayment of debt	(5,328)	(4,672)
Net cash provided by financing activities	5,841	862
Effect of foreign exchange rate on cash and cash equivalents	(33)	(12)
Change in cash and cash equivalents	6,846	(2,849)
Cash and cash equivalents, beginning of period	4,946	7,795
Cash, cash equivalents, and restricted cash end of period	$ 11,792	$ 4,946
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 377	$ 830
Cash paid for income taxes	$ 1	$ -
Supplemental disclosure of non cash financing activities:		
Conversion of preferred stock to common stock	$ 795	$ 1,378
Common stock dividends issued to preferred shareholders	$ 296	$ 612
Warrants issued with private placement stock	$ 1,893	$ -
Conversion of derivative liability to equity	$ -	$ 3,537
Lease incentive received, non-cash addition to fixed assets	$ 243	$ -

See accompanying notes to the consolidated financial statements.

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Crossroads Systems, Inc. and its wholly-owned subsidiaries ("Crossroads" or the "Company"). Headquartered in Austin, Texas, Crossroads Systems, a Delaware corporation, is a global provider of data archive solutions. Through the innovative use of new technologies, Crossroads delivers customer-driven solutions that enable proactive data security, advanced data archiving, optimized performance and significant cost-savings.

Principles of Consolidation and presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has accumulated significant losses as it has been developing its current and next generation products. The Company believes that cash flow from operations, customer reimbursed expenses, and proceeds from the sale of common and preferred stock will be sufficient to fund the anticipated operations for fiscal 2016. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern for a reasonable period of time.

KIP CR P1 LP (which we refer to as the "partnership" (see Note 9)), of which the Company is a limited partner and of which an affiliate of Fortress is the general partner, the investment in KIP CR P1 LP is accounted for using the equity method. The current investment balance is nominal at October 31, 2015.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates, and such differences may be material to the consolidated financial statements.

Cash and Cash Equivalents, Restricted Cash

Cash and cash equivalents consist of cash on deposit and highly liquid investments with original maturities of 90 days or less at date of purchase. While the Company's cash and cash equivalents are on deposit with high quality FDIC and Association of German Banks insured financial institutions, at times such deposits exceed insured limits. As of October 31, 2015, total uninsured deposits were $11.1 million. The Company has not experienced any losses in such accounts.

Restricted cash amounted to $6.5 million. The balance consists of $6.2 million in cash held from the sale of a portion of the Company's IP revenue stream, and $0.3 million in connection with a letter of credit on the lease of the Company headquarters.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company evaluates the adequacy of its allowance on a regular basis by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. The Company makes adjustments to the allowance balance if the evaluation of allowance requirements differs from the actual aggregate reserve. This evaluation is inherently subjective and estimates may be revised as more information becomes available.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined using standard cost, which approximates the first-in, first-out method. Adjustments to reduce the carrying value of inventory to its net realizable value are made for estimated excess, obsolete or impaired balances. These adjustments are measured as the excess of the cost of the inventory over its market value based upon assumptions about future demand and charged to cost of revenue. At the point of the loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration of the original cost basis or increases in the newly established cost basis.

Property and Equipment

Property and equipment are stated at historical cost, net of accumulated depreciation. Depreciation is recognized using the straight-line method over the estimated useful lives of the respective assets (Note 4). Expenditures for repairs and maintenance are charged to expense when incurred; major replacements and betterments are capitalized at cost. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the related asset or the remaining life of the lease. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations.

Impairment of Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of its carrying amount to future undiscounted cash flows the assets are expected to generate. The Company considers historical performance and future estimated results in its evaluation of impairment.

The Company measures the amount of impairment by comparing the carrying amount of the asset to its fair value, generally measured by discounting expected future cash flows at the rate it utilizes to evaluate potential investments. Because the Company operates as a single reporting unit, the Company is considered as a whole when evaluating long-lived assets for impairment.

Derivative Liabilities

In accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing Liabilities from Equity, convertible preferred shares are accounted for net, outside of stockholder’s equity and warrants are accounted for as liabilities at their fair value during periods where the full ratchet anti-dilution provision is in effect.

The Series F warrants are accounted for as a liability at their fair value at each reporting period. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded as earnings. To derive an estimate of the fair value of these warrants, a dynamic Black Scholes Merton formula is utilized that computes the impact of share dilution upon the exercise of the warrant shares. This process relies upon inputs such as shares outstanding, estimated stock prices, strike price and volatility assumptions to dynamically adjust the payoff of the warrants in the presence of the dilution effect. In the event the convertible preferred shares are redeemed, any redemption price in excess of the carrying amount of the convertible preferred stock will be treated as a dividend.

Revenue Recognition

Revenue consists of sales of hardware, software and services, as well as royalties the Company earns for products and the license of certain intellectual property as detailed below. Revenue is recognized when it is realizable and earned. Revenue is considered realizable and earned when: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price to the buyer is fixed or determinable; and when collectability is reasonably assured.

Product Revenue

Product revenue includes software licenses delivered via license key and software solutions delivered via a hardware appliance. Product sales include a perpetual license to the Company’s software that is essential to the functionality of the hardware. Revenue for products sold to strategic partners, including value added resellers (“VARs”) and original equipment manufacturers (“OEMs”), and to end users is generally recognized upon shipment. When significant post-delivery obligations exist, the related revenue is deferred until such obligations are fulfilled. If there are customer acceptance criteria in the contract, the Company recognizes revenue upon end user acceptance, which typically occurs after delivery and installation are completed.

The Company licenses certain software to OEM customers under licensing agreements that allow those customers to embed this software into specific products they offer. Licensees pay a fee based on the amount of sales of their products that incorporate the licensed software. On a periodic and timely basis, the licensees provide reports listing sales to end users for which a license fee is owed to the Company. This report is cross-referenced to the license keys electronically delivered by the Company. As the license keys substantiate delivery, and the customer reports substantiate acceptance, the Company recognizes revenue based on the information in these reports.

Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of product revenue.

In the period revenue is recognized, allowances are provided for future product returns. These allowances are based on programs in existence at the time revenue is recognized and historical product return rates. Since the Company has historically been able to reliably estimate the amount of returns, revenue is recognized, net of allowances for future returns, upon shipment to customers.

Out-of-warranty repairs are included in product revenue and recognized upon completion of the repair. On occasion, installation and professional services may also be delivered with the product as part of a bundled solution. Revenue related to installation and professional services is recognized upon completion.

IP License, Royalty and Other Revenue

IP license, royalty and other revenue consists of revenue from the licensing of intellectual property ("IP"), royalty payments from Hewlett Packard ("HP"), and sales of post-contract support ("PCS") service.

IP License Revenue

The Company licenses patented technology to customers under licensing agreements that allow those customers to utilize the technology in specific products they offer. The timing and amount of revenue recognized from IP license agreements depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Such agreements are reviewed for multiple elements. Multiple elements can include amounts related to initial non-refundable license fees for the use of the Company's patents in the customer's past shipments, patent licensing royalties on covered products sold going forward, cross-licensing terms between the Company and other parties, and settlement of patent litigation. Through October 31, 2015, no amounts have been allocated to the cross-licensing or the settlement of patent litigation elements.

Revenue is only recognized after all of the following criteria are met: (1) written agreements have been executed; (2) delivery of technology or intellectual property rights has occurred; (3) fees are fixed or determinable; and (4) collectability of fees is reasonably assured.

Under these IP license agreements, one or a combination of the following forms of payment is received as consideration for permitting customers to use the Company's patents in their applications and products:

Consideration for Past Sales : Consideration related to a customer's product sales from prior periods results from a negotiated agreement with a customer that utilized the Company's patented technologies prior to signing an IP license agreement with the Company. The Company negotiates an amount with the customer based on a report provided by the customer detailing their past shipments utilizing the Company's patented technology. The Company may use publicly filed financial statements, research reports and other sources to determine the reasonableness of this shipment report. To determine the amount of consideration owed to the Company, the amount of past shipments is then multiplied by a standard royalty rate historically received by the Company in similar arrangements. The consideration is recorded as revenue when a signed agreement has been obtained, a determinable price has been identified based on past shipments, and payment is determined to be collectable and reasonably assured.

Recurring Royalty Payments : These are royalty payments covering a customer's obligations to pay royalties relating to its sales of covered products shipped in the current reporting period. The rate used for recurring royalty payments is the same as that used to determine the consideration for past shipments. Customers that owe the Company recurring royalty payments are obligated to provide quarterly royalty reports that summarize their sales of covered products and their related royalty obligations. These royalty reports are typically received subsequent to the period in which the customers' underlying sales occurred. Upon initially signing an agreement, the Company recognizes revenue during the period in which the royalty report and payment are received. Once history has been established with a customer, the Company estimates revenue based on prior quarterly royalty reports received. When the actual results are received, the recorded revenue is adjusted to actual results, if necessary. To date, such adjustments have not been material.

Royalty Revenue

Royalty revenue consists of revenue from royalty payments from HP for product and PCS services. Revenue from royalty payments from HP is recognized when earned or when amounts can be reasonably estimated based on monthly product shipping reports received from HP.

Other Revenue

Other revenue consists of revenue from the sales of PCS services to customers other than HP. Most product sales include PCS services which consist of software updates and customer support. Software updates provide customers access to maintenance releases and patches released during the term of the support period. Support includes telephone and internet access to technical support personnel and hardware support. For PCS services, revenue equal to the separately stated price of these service contracts is initially deferred and recognized as revenue ratably over the contract period.

Multiple Element Arrangements

When elements such as hardware, software and PCS service are contained in a single arrangement, or in related arrangements with the same customer, the Company allocates revenue to each element in an arrangement based on relative selling price using a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE"), if available. Third party evidence ("TPE") is used only if VSOE is not available, and the Company's best estimate of selling price ("ESP") is used if neither VSOE nor TPE is available. The maximum revenue recognized on a delivered element is limited to the amount that is not contingent upon the delivery of additional items.

For established products, the Company uses VSOE. For new products, installation and professional services for which the Company is unable to establish selling price using VSOE or TPE, the Company uses ESP. The objective of ESP is to determine the price at which the Company would transact a sale if these items were sold on a standalone basis. In determining ESP, the Company uses the cost to provide the new product, installation or professional service plus a margin. When using cost plus a margin, the Company considers the total cost of the item to establish strategic partner pricing. The Company also considers the historical margins for established products and other factors, including any changes to pricing methodologies, competitiveness of new products, installation and professional services, pricing pressures due to entering a new market, and cost drivers that could cause future margins to differ from historical margins.

The Company determines VSOE for established products and PCS service based on the price charged to customers when sold separately. PCS service revenue is recognized under a proportional performance method, ratably over the life of the contract.

Contracts to Modify or Customize Products

The Company periodically enters into contracts with certain customers to significantly modify or customize products. In accounting for such arrangements, the Company first looks to the guidance in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Subtopic 985-605, *Software - Revenue Recognition* (“ASC 985-605”), and then ASC Subtopic 605-25, *Revenue Recognition – Multiple-Element Arrangements,* to determine the appropriate accounting elements in the arrangement. The Company then considers the appropriate recognition model for each accounting element based on the nature of the element and applies the guidance in ASC Subtopic 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts,* ASC Subtopic 985-60, ASC Subtopic 605-15, *Revenue Recognition – Products,* or ASC Subtopic 605-20, *Revenue Recognition – Services,* as applicable. Amounts allocated to the modification/customization service element are evaluated for classification in the consolidated statement of operations as either revenue or reduction of research and development expense based on the following considerations: whether and in what circumstances the consideration received is refundable, ownership of the final product and intellectual property rights to develop the product, and exclusivity of the final product.

IP Revenue Stream Sale

October 30, 2015, we entered into an agreement with TQ Zeta LLC, an affiliate of Techquity, and Intrepidus Holdings LLC (collectively, “Techquity”), in which Techquity will share in the revenue generated from the ‘972 patent litigation. For consideration of $10.0 million received by the Company, Techquity received the rights to 52% of the first $20 million in licenses, settlements or other awards related to the ‘972 patents, 40% of the amounts between $20 and $100 million, and 12% of all amounts above the $100 million in aggregate licensing, settlements or other awards. Crossroads is restricted to making only payments of the Fortress debt, and approved legal expenditures with the consideration received. During fiscal year 2015, the Company paid $2.7 million to Fortress to relieve all remaining obligations of the Company, and $1.1 million in legal expenses. $3.8 million was recognized as other income, and $6.2 million is held in deferred revenue and restricted cash. The Company will recognize other income from this transaction as the authorized expenditures are made with the unspent balance being reflected as deferred revenue.

Warranty

Generally, the Company indemnifies, under pre-determined conditions and limitations, its customers for infringement of third-party intellectual property rights by its products or services. The Company seeks to limit its liability for such indemnity to an amount not to exceed the sales price of the products or services. The Company does not believe, based on information available, that it is probable that any material amounts will be paid under these guarantees.

The Company provides for the estimated cost to repair or replace products under warranty and technical support costs when the related product revenue is recognized. The Company warrants products for a period from 12 to 39 months following the sale of its products. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management’s estimate of future costs.

Income Taxes

The Company accounts for income taxes in accordance with the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates that are expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The Company has provided a full valuation allowance against its deferred tax assets because the realization of the related tax benefits is not considered more likely than not.

The Company recognizes the tax benefit from an uncertain tax position only if it meets the “more likely than not” threshold that the position will be sustained upon examination by the taxing authority, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company includes interest and penalties related to its uncertain tax positions, if any, as part of income tax expense within its consolidated statement of operations (Note 11).

Computation of Net Loss Per Share

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by giving effect to all dilutive potential common shares that were outstanding during the period. Basic earnings per share excludes the dilutive effect of common stock equivalents such as stock options and warrants, while earnings per share, assuming dilution, includes such dilutive effects. Future weighted-average shares outstanding calculations will be impacted by the following factors, among others: (i) the ongoing issuance of common stock associated with stock option and warrant exercises; (ii) any fluctuations in the Company's stock price, which could cause changes in the number of common stock equivalents included in the earnings per share, assuming dilution computation; and (iii) the issuance of common stock to effect business combinations should the Company enter into such transactions.

The Company has excluded all outstanding common stock equivalents from the calculation of diluted net loss per share because all such common stock equivalents are antidilutive for all periods presented. The total number of common stock equivalents excluded from the diluted net loss per common share calculation was 14,278,480 and 11,848,928 for the years ended October 31, 2015 and 2014, respectively. The dilutive common stock equivalents for the year ended October 31, 2015 include warrants to purchase 7,375,327 shares of common stock, 2,791,257 shares of preferred stock, which are excluded until converted to common shares (Note 9), and stock options to purchase 4,111,896 shares of common stock.

Net loss available to common stockholders is calculated by deducting from net income, preferred dividends paid and accrued of $ 0.5 million.

Advertising Costs

The Company expenses all advertising costs as incurred. Advertising costs for the years ended October 31, 2015 and 2014 were not material.

Research and Development Costs

Expenditures relating to the development of new products are expensed as incurred. These costs include expenditures for employee compensation, materials used in the development effort, other internal costs, as well as expenditures for third party professional services. Software development costs incurred after a product has reached marketability have not been material to date.

Stock-based Compensation

Stock-based compensation expense is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period), net of estimated forfeitures. The Company estimates the fair value of stock-based payments using the Black-Scholes option-pricing model, which requires a number of assumptions to determine the model inputs. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class and historical experience. Additionally, the fair value of stock-based awards to non-employees are expensed over the period in which the related services are rendered. All stock-based awards are expected to be fulfilled with new shares of common stock.

Foreign Currency Translation

The Company's wholly-owned subsidiary outside the United States ("U.S."), Crossroads Europe, GmbH, has a functional currency other than the U.S. dollar. Accordingly, all balance sheet accounts of this subsidiary are translated into U.S. dollars using the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated using the average exchange rate in effect during the period. The gains and losses from foreign currency translation of this subsidiary's financial statements are recorded directly as a separate component of stockholders' equity and represent all of the balance under the caption "Accumulated other comprehensive loss."

Net income recorded by Crossroads Europe, GmbH, was approximately $0.1 million during both fiscal years 2015 and 2014. Assets of Crossroads Europe, GmbH account for approximately 5% and 7% of the consolidated net assets for fiscal years 2015 and 2014, respectively.

Recently Issued Accounting Pronouncements

During November 2014, the FASB issued ASU 2014-16 Derivatives and Hedging (Topic 815) Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity ("ASU 2014-16"). ASU 2014-16 does not change the current criteria in GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. That is, an entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria. The amendments clarify how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features—including the embedded derivative feature being evaluated for bifurcation—in evaluating the nature of the host contract. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. These changes are not expected to have a material impact on the consolidated financial statements. This could impact the accounting for future hybrid financial instruments issued by the Company.

The Company has implemented all new accounting pronouncements that are in effect and that may impact its consolidated financial statements. The Company does not believe that there are any new accounting pronouncements that have been issued that might have a material impact on

2. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is applied as follows:

Level 1 – Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 – Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Valuations based on unobservable inputs reflecting management's assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

As of October 31, 2015, the fair value of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximates book value due to the short maturity of these instruments. Based upon borrowing rates currently available to the Company for loans with similar terms, the carrying value of its debt obligations approximates fair value. As of October 31, 2015 and October 31, 2014, the Company held no investments.

3. INVENTORY

Inventory, net consists of the following (in thousands):

	October 31, 2015	October 31, 2014
Raw materials	$ 200	$ 186
Finished goods	237	171
	$ 437	$ 357

4. PROPERTY AND EQUIPMENT

Property and equipment, net consist of the following (in thousands, except number of years):

	Life (years)	October 31, 2015	October 31, 2014
Equipment	1-3	$ 16,737	$ 16,635
Furniture and fixtures	5	633	634
Leasehold improvements	5	934	576
		18,304	17,845
Less: Accumulated depreciation		(17,771)	(17,405)
		$ 533	$ 440

Depreciation expense was approximately $0.4 and $0.6 million for the years ended October 31, 2015 and 2014, respectively.

5. ACCRUED EXPENSES AND DEFERRED REVENUE

Accrued expenses consist of the following (in thousands):

	October 31, 2015	October 31, 2014
Professional services	$ 837	$ 394
Payroll related	657	846
Deferred rent	184	-
Warranty reserve	5	48
Other	116	109
	$ 1,799	$ 1,397

Included in payroll related accrued expenses as of October 31, 2014 was $451,000 related to bonus compensation, $301,000 of which was settled with 117,577 shares of common stock in the first quarter of 2015. Included in payroll related accrued expenses as of October 31, 2015 was $415,000 related to bonus compensation, $133,000 of which will be settled with shares of common stock in the first quarter of 2016, and will vest in one year from the grant date.

Warranty reserve activity, included in accrued expenses, during the years ended October 31, 2014 and 2015 was as follows (in thousands):

	Balance at Beginning of Period	Charged to Costs and Expenses	Reserve Usage	Balance at End of Period
Year ended October 31, 2014				
Warranty reserve	$ 41	$ 31	$ (24)	$ 48
Year ended October 31, 2015				
Warranty reserve	$ 48	$ 44	$ (87)	$ 5

Deferred revenue, current portion, consists of the following (in thousands):

	October 31, 2015	October 31, 2014
Product	$ 135	$ -
Services	891	1,032
Deferred revenue stream sale	6,208	-
	$ 7,234	$ 1,032

Other deferred revenue consists of the remaining amount of consideration received from the sale of a portion of the Company's IP revenue stream. The deferred revenue will be recognized upon the expenditure of approved legal costs related to the ongoing IP litigation described in Note 8.

6. CONCENTRATIONS

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

The Company's sales are primarily concentrated in the United States and are primarily derived from sales to VAR's in the computer storage and server industry. Revenue is concentrated with several major customers. The loss of a major customer, a change of suppliers or a significant technological change in the industry could adversely affect operating results. The Company performs credit evaluations of its customers and generally does not require collateral on accounts receivable balances and provides allowances for potential credit losses and product sales returns. The Company has not experienced material credit losses in any of the periods presented.

The Company relies on a limited number of suppliers for its products. The inability of any supplier to fulfill supply requirements could materially impact future operating results.

The percentage of sales to significant customers was as follows:

	October 31,	
	2015	**2014**
Customer A	37.2%	36.6%
Customer B	9.0%	7.7%
Customer C	7.9%	8.4%

The percentage of accounts receivable, net from significant customers was as follows:

	October 31,	
	2015	**2014**
Customer A	42.1%	47.6%
Customer B	37.1%	4.2%
Customer C	0.0%	13.0%

The level of sales to any customer may vary from quarter to quarter. However, the Company expects that significant customer concentrations will continue for the foreseeable future. The loss of any one of these customers, or a decrease in the level of sales to any one of these customers could have a material adverse impact on the Company's financial condition or results of operations.

7. LINE OF CREDIT AND LONG TERM LIABILITIES

Effective July 22, 2013, the Company entered into a credit agreement (the "Credit Agreement") with Fortress Credit Co. LLC, an affiliate of Fortress Investment Group LLC (collectively referred to as "Fortress") that provided for aggregate term loan commitments of up to $10.0 million. The Credit Agreement consisted of a Term Loan A in the principal amount of $5.0 million, maturing on July 22, 2016 and bearing no interest for the first 12 months, and a Term Loan B in the principal amount of $5.0 million, maturing on February 1, 2016 and bearing no interest for the first six months. The Company drew down the full $10.0 on Term Loan A and Term Loan B (collectively referred to as the Fortress Term Loans) on July 24, 2013. The Fortress Term Loans accrue interest at 10% annually after the interest free period and interest is due monthly in arrears. The Company began making principal payments on Term Loan A in July 2014. The proceeds from the Fortress Term Loans were used to pay off the Company's outstanding revolving credit and term loan with Silicon Valley Bank. All obligations under the Fortress Credit Agreement were fully repaid on October 30, 2015.

Debt issuance costs associated with the Fortress Term Loans totaling $1.7 million were recorded as a deferred charge and were fully recognized as expense as of October 31, 2015.

In connection with the Credit Agreement, the Company issued warrants to Fortress to purchase 1,454,545 shares of the Company's common stock at an exercise price of $2.0625 per share (the "Fortress Warrants"). See Note 9 for discussion of the Fortress Warrants.

In addition, the Company also transferred substantially all of its patents, other than its '972 patent family, to a limited partnership KIP CR P1 LP of which the Company is a limited partner and of which an affiliate of Fortress is the general partner. The partnership now controls 132 pending or granted non-'972 patents. There was no licensing activity associated with these patents. The general partner cannot be removed without the consent of Fortress. The Company accounts for the investment in the partnership on a consolidated basis using the equity method of accounting.

The Fortress Warrants also previously contained what is commonly known as a "full-ratchet" anti-dilution provision, which provided that if the Company issued or were deemed to have issued additional shares of common stock without consideration or for a consideration per share less than the applicable exercise price of the Fortress Warrants, which is initially $2.0625 per share, then the exercise price of the Fortress Warrants will be reduced on a "full ratchet" basis, concurrently with the new issue, to the consideration per share the Company received for the new issue or deemed issue of the additional shares of common stock. In January 2014, the Company and the warrant holder agreed to amend the Fortress Warrant to remove this full-ratchet anti-dilution provision.

On June 23, 2015, the Company entered into an amendment (the "Amendment") to its Credit Agreement, dated July 22, 2013, with CF DB EZ LLC, as assignee of Fortress, to amend certain payment terms of the Credit Agreement as it relates to Term Loan B to effectuate a 12-month deferral of approximately $1.5 million in principal payments.

As of October 30, 2015, the obligation created by the Credit Agreement was fully satisfied, with a payment to Fortress as follows:

Principal paydown	$	2,402
Accrued Interest		24
Agreement termination fee		280
	$	2,706

The principal balance and carrying value to Fortress is as follows (in thousands):

		October 31, 2015		October 31, 2014
Principal balance Fortress Term Loans	$	-	$	5,327
Unaccreted debt discount		-		(516)
Net carrying value due Fortress		-		4,811
Less current portion		-		(3,160)
Long term portion	$	-	$	1,651

8. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office space and equipment under long-term operating lease agreements that expire on various dates through March 31, 2020. Rental expense under these agreements was approximately $0.3 million and $0.4 million for the years ended October 31, 2015 and 2014, respectively. Crossroads leases approximately 37,800 square feet of general office, laboratory, data center and administrative space at its headquarters in Austin, Texas. The original lease was effective October 31, 2005 and was extended in accordance with an extension agreement through February 28, 2015. On May 2, 2014, the lease was amended, extending the lease through March 31, 2020, and reducing the space leased to 16,200 square feet. The minimum lease commitments represent approximately $245,000 per year through the lease term.

Legal Proceedings

Intellectual Property Litigation

The Company has a number of ongoing lawsuits and related proceedings as described below. In discussing these patent litigation proceedings, the following terms will be used:

A "Markman hearing" in a patent infringement case is a pre-trial hearing in U.S. District Court, in which the court hears arguments regarding the meanings of key words used in a disputed patent claim. The outcome of a Markman hearing can play a significant role in whether findings of infringement and validity are made by the Court or by the jury at trial. Depending on the Court, a ruling could be received quickly or could take months after the Markman hearing.

An " *Inter Partes* Review" or "IPR", is a post-grant review of an issued patent in which the petitioner attempts to challenge the validity of a patent on certain grounds (e.g. novelty and obviousness). If successful during i *nter partes* review, a petitioner could potentially invalidate some or all of the claims in the patents asserted against that petitioner in related litigation, and an adverse ruling in any of these proceedings would result in invalidation or other limitations on the Company's patent rights. *inter partes* review, if granted, is typically a twelve- to eighteen-month process from institution.

Crossroads v. Dot Hill

The Company filed a lawsuit on September 11, 2013 against Dot Hill Systems Corp. ("Dot Hill") styled Crossroads Systems, Inc. v. Dot Hill Systems Corp., Civil Action No. 1:13-CV-800-SS alleging patent infringement of U.S. Patent No. 6,425,035 and breach of the Amended Settlement and License Agreement dated June 27, 2006 between Crossroads and Dot Hill. The action is pending. The Markman hearing was conducted October 6-7, 2014. Dot Hill moved to join two existing IPR proceedings previously filed against Crossroads by other defendants (one filed by NetApp/Oracle/Huawei and one filed by Cisco/Quantum, each as defined below) and to stay the pending litigation based on those IPR proceedings. On June 16, 2015, Judge Sparks entered the Markman order (the “Markman Order”) construing the claims in a manner favorable to Crossroads and issued an order staying the case pending resolution of the IPR proceedings. If the patents are found partially or entirely invalid during the IPR proceedings, Crossroads might be adversely impacted in the litigation proceeding against Dot Hill, including potentially losing the ability to continue with its claims of infringement.

Crossroads v. Oracle, Huawei, Cisco, NetApp, and Quantum

These related cases were filed on October 7, 2013, November 26, 2013, and February 18, 2014 in the United States District Court for the Western District of Texas alleging infringement by these parties of one or more patents in the ‘972 patent family. The asserted patents (6,425,035, 7,934,041, 7,987,311 and 7,051,147) were subject to a re-examination of the patents conducted in 2005-2006 by the United States Patent and Trademark Office (the “U.S. Patent Office”) or were issued after the re-examination. On May 7, 2014, these cases and the Dot Hill case were consolidated for purposes of discovery and a Markman hearing occurred on October 6 and 7, 2014. On June 16, 2015, Judge Sparks entered the Markman Order construing the claims in a manner favorable to Crossroads and entered an order staying these actions in light of various pending IPR proceedings.

During the time Crossroads was pursuing the potential infringers of the ‘972 patent family, the Company gave companies with potentially infringing products the opportunity to license the Company’s proprietary technology. For example, NetApp was first given notice of potential infringement in 2004. Cisco was first given notice of potential infringement in 2002. Quantum has been on notice of its potential infringement since 2006. Oracle acquired several companies that were given notice of potential infringement at least as early as 2009 and Oracle itself has been on notice since then. Despite repeated attempts by Crossroads throughout the years to negotiate licenses to the ‘972 patent family, these companies refused and left Crossroads with no alternatives but litigation. Crossroads believes these companies (and companies they have acquired) have been illegally using Crossroads’ proprietary technology and that the potential compensatory damages could be in excess of $200 million, which does not include enhanced damages or attorney fees. While the uncertainties and expense of litigation are great and the Company can provide no guarantees of success, the Company believes the infringement by most of these companies has been prolonged and potentially willful.

In response to the lawsuits brought by Crossroads, collectively these defendants filed nineteen *inter partes* review petitions with the U.S. Patent Office to challenge the validity of the patents asserted by the Company in these lawsuits. The U.S. Patent Office instituted review of six of the petitions, granted joinder in four of the petitions and denied review of the remaining nine petitions. The first of the petitions were filed only months after Crossroads filed lawsuits against these parties and years after they were made aware of their potential infringement. If the patents are found partially or entirely invalid during these *inter partes* review proceedings, Crossroads might be adversely impacted in the litigation proceedings against these companies, including potentially losing the ability to continue with its claims of infringement. Crossroads believes it has meritorious factual and legal defenses to the challenges presented in these petitions and will vigorously defend the validity of the patents. In accordance with the schedule set by the U.S. Patent Office, the Oral Hearings for the IPRs were conducted on October 30, 2015 and the final decisions for the instituted IPRs are expected to be completed by April 8, 2016, if not sooner.

The Company filed a lawsuit on November 26, 2013 against Huawei Technologies Co. Ltd., Huawei Enterprise USA, Inc. & Huawei Technologies USA, Inc. (collectively, “Huawei”) alleging infringement of U.S. Patent Nos. 6,425,035, 7,051,147 and 7,934,041 (the case is styled Crossroads Systems, Inc. v. Huawei Technologies Co., Ltd. et al; Civil Action No. 1:13-cv-01025-SS (W.D. Tex., Austin Division)). On July 17, 2015, the parties settled the case.

The Company filed a lawsuit on October 7, 2013 against Oracle Corporation (“Oracle”) alleging infringement of U.S. Patent Nos. 6,425,035, 7,051,147 and 7,934,041 (the case is styled Crossroads Systems, Inc. v. Oracle Corporation; Civil Action No. 1:13-cv-0895-SS (W.D. Tex., Austin Division)). The action is pending. The Markman hearing was conducted October 6-7, 2014 and on June 16, 2015, Judge Sparks entered the Markman Order construing the claims in a manner favorable to Crossroads. Oracle filed nine petitions for IPR at the U.S. Patent Office challenging the validity of each of the patents Crossroads asserted in the lawsuit against Oracle. The U.S. Patent Office granted four of those petitions. Based on the IPRs, Oracle filed a motion to stay the litigation pending the outcome of the IPR proceedings, which was granted by the Court. If the patents are found partially or entirely invalid during the IPR proceedings, Crossroads might be adversely impacted in the litigation proceeding against Oracle, including potentially losing the ability to continue with its claims of infringement.

The Company filed a lawsuit on February 18, 2014 against Cisco Systems, Inc. (“Cisco”) alleging infringement of U.S. Patent Nos. 6,425,035 and 7,934,041 (the case is styled Crossroads Systems, Inc. v. Cisco Systems, Inc.; Civil Action No. 1:14-cv-00148-SS (W.D. Tex., Austin Division)). The action is pending. The Markman hearing was conducted October 6-7, 2014 and on June 16, 2015, Judge Sparks entered the Markman Order construing the claims in a manner favorable to Crossroads. Cisco is a party to three petitions for IPR filed at the U.S. Patent Office challenging the validity of each of the patents Crossroads asserted in the lawsuit against Cisco. The U.S. Patent Office granted those petitions. Based on the IPRs, Cisco filed a motion to stay the litigation pending the outcome of the IPR proceedings, which was granted by the Court. If the patents are found partially or entirely invalid during the IPR proceedings, Crossroads might be adversely impacted in the litigation proceeding against Cisco, including potentially losing the ability to continue with its claims of infringement.

The Company filed a lawsuit on February 18, 2014 against NetApp, Inc. (“NetApp”) alleging infringement of U.S. Patent Nos. 6,425,035, 7,934,041, 7,987,311 and 7,051,147 (the case is styled Crossroads Systems, Inc. v. Net App, Inc.; Civil Action No. 1:14-cv-00149-SS (W.D. Tex., Austin Division)). The action is pending. The Markman hearing was conducted October 6-7, 2014 and on June 16, 2015, Judge Sparks entered the Markman Order construing the claims in a manner favorable to Crossroads. NetApp filed seven petitions for IPR filed at the U.S. Patent Office challenging the validity of each of the patents Crossroads asserted in the lawsuit against NetApp. The U.S. Patent Office granted three of those petitions. Based on the IPRs, NetApp filed a motion to stay the litigation pending the outcome of the IPR proceedings, which was granted by the Court. If the patents are found partially or entirely invalid during the IPR proceedings, Crossroads might be adversely impacted in the litigation proceeding against NetApp, including potentially losing the ability to continue with its claims of infringement.

The Company filed a lawsuit on February 18, 2014 against Quantum Corporation (“Quantum”) alleging infringement of U.S. Patent Nos. 6,425,035 and 7,934,041 (the case is styled Crossroads Systems, Inc. v. Quantum Corporation; Civil Action No. 1:14-cv-00150-SS (W.D. Tex., Austin Division)). The action is pending. The Markman hearing was conducted October 6-7, 2014 and on June 16, 2015, Judge Sparks entered the Markman Order construing the claims in a manner favorable to Crossroads. Quantum filed three petitions for IPR filed at the U.S. Patent Office challenging the validity of each of the patents Crossroads asserted in the lawsuit against Quantum. The U.S. Patent Office granted those petitions. Based on the IPRs, Quantum filed a motion to stay the litigation pending the outcome of the IPR proceedings, which was granted by the Court. If the patents are found partially or entirely invalid during the IPR proceedings, Crossroads might be adversely impacted in the litigation proceeding against Quantum, including potentially losing the ability to continue with its claims of infringement.

Quantum v. Crossroads

On September 23, 2014, Quantum filed a lawsuit in the U.S. District Court for the Northern District of California alleging that the Company’s StrongBox product infringes a patent owned by Quantum. On November 23, 2015, the parties settled the case.

Dot Hill v. Crossroads

On June 29, 2015, Dot Hill filed a lawsuit in the U.S. District Court for the District of Colorado alleging that the Company’s StrongBox product infringes a patent owned by Dot Hill. The Company believes it has meritorious legal positions and will defend its interests vigorously in this matter. If Dot Hill is successful in this lawsuit, it could result in the Company not having all of the patent rights necessary to conduct the Company’s business. The case is on-going and the Court has proposed the Markman Hearing be conducted July 20, 2016. The Court has not yet set a trial date.

9. STOCKHOLDERS’ EQUITY

2013 Private Placement

On March 22, 2013, the Company entered into a securities purchase agreement with certain accredited investors for the issuance and sale in a private placement of 4,231,154 units at a purchase price of $2.0625 per unit, valued at $8.6 million, for net proceeds of approximately $7.9 million after related expenses. Each unit consists of one share of cumulative 5.0% Series F convertible preferred stock (“Series F Preferred Stock”), par value $0.001 per share and a warrant to purchase one-half of a share of common stock per share of Series F Preferred Stock purchased, at an exercise price of $2.00 per whole share, subject to certain adjustments, resulting in the issuance of warrants to purchase an additional 2,282,754 shares of common stock with an exercise price of $2.00 per share. The Series F Preferred Stock ranks senior to the common stock and each other class or series of the Company’s capital stock, whether common, preferred or otherwise, with respect to distributions of dividends and distributions upon liquidation, dissolution or winding up of the Company. The warrants were initially valued using the Black-Scholes pricing model at approximately $2,284,000. The relative fair value of these warrants totaling $1,543,000 was initially allocated to additional paid in capital. The Black-Scholes inputs used were: expected dividend rate of 0 %, expected volatility of 63%, risk free interest rate of 0.82%, and expected term of 5 years. This valuation resulted in a beneficial conversion feature on the Series F Preferred Stock of approximately $1,090,000, of which was recorded as a deemed dividend. Fees in the amount of $0.7 million relating to the stock placement were netted against proceeds. The warrants were exercisable immediately upon issue, and expire March 22, 2018. During the year ended October 31, 2015, the Company issued 152,046 dividend common shares valued at approximately $296,000. During the year ended October 31, 2014, the Company issued 224,099 dividend common shares valued at approximately $612,000. Accrued and unpaid dividends were valued at approximately $0.1 million as of October 31, 2015.

The Series F Preferred Stock has the rights, qualifications, limitations and restrictions set forth in the Certificate of Designation (the “Certificate of Designation”) filed with the Secretary of State of the State of Delaware on March 28, 2013. The Certificate of Designation authorizes issuance of up to 4,500,000 shares of Series F Preferred Stock, with 3,750,000 shares designated as “Sub-Series F-1” and 750,000 shares designated as “Sub-Series F-2.” The right of holders of Series F Preferred Stock to convert the Series F Preferred Stock is subject to a 9.99% beneficial ownership limitation for holders of Sub-Series F-1 and a 4.99% beneficial ownership limitation for holders of Sub-Series F-2. Such beneficial ownership limitations may be increased or decreased by a holder of Sub-Series F-1 to any percentage not in excess of 19.99% after providing notice of such increase or decrease to the Company. For as long as at least 90% of the aggregate number of shares of Sub-Series F-1 issued on the Original issue date are outstanding, the holders of such Sub-Series F-1, voting as a single class, will be entitled to elect two directors of the Company. If less than 90%, but at least 20%, of such shares of Sub-Series F-1 are outstanding, such holders, voting as a single class, will be entitled to elect one director of the Company. As of the date hereof, less than 78% of the aggregate number of shares of Sub-Series F-1 are outstanding, as the remainder have been voluntarily converted into common stock at the option of the holders. Therefore, the holders of the Sub-Series F-1 shares are entitled to elect one director to the board of directors. The holders of Sub-Series F-2 will not be entitled to vote on the directors elected by the holders of Sub-Series F-1. The holders of shares of the Series F Preferred Stock are entitled to a liquidation preference equal to the original issuance price plus any unpaid dividends.

The Certificate of Designation contains customary anti-dilution protection for proportional adjustments (e.g. stock splits). The Series F Preferred Stock previously included an anti-dilution provision that would adjust the conversion price of the Series F Preferred Stock to the issue price of any equity securities the Company issued at a price less than $2.0625 per share, subject to certain exceptions. This type of provision is commonly referred to as a “full-ratchet” anti-dilution provision.

Upon approval of the full ratchet anti-dilution provisions on June 21, 2013, the warrants were reclassified as a derivative liability and recorded at fair value. This created a scenario for which the shares of Series F Preferred Stock was potentially convertible into more shares of common stock than authorized. Therefore, the Series F Preferred Stock was classified in temporary equity. Upon the expiration of the full ratchet anti-dilution provisions in March 2014, the Company reclassified the Series F Preferred Stock and warrants to permanent stockholders' equity following the stockholders vote.

During the year ended October 31, 2015, there were 526,940 shares of Series F Preferred Stock shares converted to common shares.

Dividends on the Series F Preferred Stock accrue at an annual rate of 5.0% of the original issue price and are payable on a semi-annual basis. The Series F Preferred Stock ranks senior to the common stock and each other class or series of the Company’s capital stock, whether common, preferred or otherwise, with respect to distributions of dividends and distributions upon liquidation, dissolution or winding up of the Company. The Company may elect to satisfy the obligation to pay semi-annual dividends in cash, by distribution of common stock or a combination thereof, in the Company’s discretion.

2013 Fortress Credit Agreement

On July 22, 2013 the Company issued warrants to purchase 1,454,545 shares of its common stock to Fortress at $2.0625 per share. To derive an estimate of the fair value of these warrants, the Company utilized a dynamic Black Scholes formula that computes the impact of share dilution upon the exercise of the warrant shares. This process relies upon inputs such as shares outstanding, estimated stock prices, strike price and volatility assumptions to dynamically adjust the payoff of the warrants in the presence of the dilution effect. The Fortress Warrants were recorded at a fair value of $1,374,000 or $1.0625 per underlying warrant share. In connection to the 2015 Common Stock Rights Offering, as described below, an additional 0.2019 warrants were granted for every outstanding warrant on August 31, 2015, with the strike price remaining $2.0625. As of October 31, 2015, there were 1,748,218 warrants outstanding.

The Fortress Warrants will expire on the seventh anniversary of the effective date of the Fortress transactions.

2014 Private Placement

On March 31, 2014, the Company sold 1,986,622 units at $2.2565 per unit for gross proceeds to the Company of $4.5 million. Each unit consists of one share of common stock and a warrant to purchase one-half of a share of common stock. The warrants to purchase 993,311 shares of common stock have a weighted average exercise price of $2.45 per share. Fees in the amount of $0.2 million relating to the stock placement were netted against proceeds. The warrants were valued at $1.1 million using the Black-Scholes model. The Black-Scholes inputs used were: expected dividend rate of 0%, expected volatility of 74%, risk free interest rate of 1.64%, and expected term of 2.5 years. The warrants were exercisable upon the six-month anniversary of issue, and expire March 31, 2019. In connection to the 2015 Common Stock Rights Offering, an additional 0.2019 warrants were granted for every outstanding warrant on August 31, 2015, with the strike price remaining $2.45. As of October 31, 2015, there were 1,193,860 warrants outstanding.

2015 Common Stock Offering

On January 27, 2015, the Company sold 3,071,739 units at $2.30 per unit for gross proceeds to the Company of $7.1 million. Each unit consists of one share of common stock and a warrant to purchase one-half of a share of common stock. The warrants to purchase 1,658,760 shares of common stock have an exercise price of $2.76 per share. Fees in the amount of $1.1 million relating to the stock placement were netted against proceeds. The warrants were valued at $1.9 million using the Black-Scholes model. The Black-Scholes inputs used were: expected dividend rate of 0%, expected volatility of 75%, risk free interest rate of 1.55%, and expected term of 4.0 years. The warrants will be exercisable upon the six-month anniversary of issue, and expire January 31, 2020. In connection to the 2015 Common Stock Rights Offering an additional 0.2019 warrants were granted for every outstanding warrant on August 31, 2015, with the strike price remaining $2.76. As of October 31, 2015, there were 1,993,664 warrants outstanding.

2015 Common Stock Rights Offering

On July 28, 2015, the company closed a subscription rights offering for the Company's common stock. The Company completed the rights offering through the distribution to its common and preferred stock holders, who subscribed, to purchase shares of the Company's common stock at $1.25 per share, subject to certain protection mechanics in place to preserve the Company's ability to utilize its net operating loss carryforwards ("NOLs").

The offering allowed each holder to buy 1/2 of a common share, for each common and preferred share owned on the record date. The Company sold 3,933,879 shares for aggregate gross proceeds of approximately $4.9 million. Expenses incurred to complete the offering amounted to approximately $0.4 million.

In connection with the Rights Offering and the resulting increase in the number of shares of common stock outstanding, the Board of Directors of the Company determined to make an equitable adjustment to all warrants and options. Warrants were increased by a rate of 20.19%, with the strike price remaining the same and all of the outstanding options under the 1999 Plan and the 2010 Plan are effectively split 1.2019:1, with the strike prices being proportionately adjusted. These adjustments were effective as of August 31, 2015.

The Company has the following common stock warrants outstanding at October 31, 2015:

Warrant Transaction	Warrants Outstanding	Weighted Average Exercise Price
2013 Private Placement	2,439,585	$ 2.00
2013 Fortress Credit Agreement	1,748,218	$ 2.06
2014 Private Placement	1,193,860	$ 2.45
2015 Common Stock Offering	1,993,664	$ 2.76
Total Warrants	7,375,327	

10. STOCK OPTIONS AND STOCK BASED COMPENSATION

The Company has a stock-based compensation plan available to grant incentive stock options, non-qualified stock options and restricted stock to employees and non-employee members of the board of directors and advisors.

The Company's 2010 Stock Incentive Plan (the "2010 Plan"), succeeded the 1999 Stock Option/Stock Issuance Plan (the "1999 Plan"). As of October 31, 2015, options to purchase 366,425 shares of common stock were outstanding under the 1999 Plan, and no further grants can be made under the 1999 Plan.

The 2010 Plan was approved by the board of directors on May 26, 2010 and became effective on August 13, 2010, upon approval by shareholders. A maximum of 5,250,000 shares of Crossroads common stock may be awarded. As of October 31, 2015, options to purchase 5,304,943 shares of common stock were granted from the 2010 Plan, of which 3,745,471 were outstanding. During the years ended October 31, 2015 and 2014, common stock share grants of 117,577 and 66,081, respectively, were granted from the 2010 Plan.

As of October 31, 2015, options to purchase an aggregate of 4,111,896 shares of common stock were outstanding under the 1999 Plan and the 2010 Plan, of which 3,289,979 were vested. Under the 2010 Plan, 563,616 shares of common stock were available for future grants as of October 31, 2015. The shares of common stock reserved for future grant are reduced by 526,741 options previously exercised under the 2010 Plan, and 414,172 shares of stock granted under the 2010 Plan. The Compensation Committee of the board of directors determines the exercise price, term and other conditions applicable to each stock option granted under the 2010 Plan. The exercise price of stock options is set on the grant date and may not be less than the fair market value per share of the Company's stock on that date (at market close). The 2010 Plan options generally become exercisable over a four-year period (vesting 25% after one year, the remaining 75% vesting quarterly thereafter) and expire after ten years. During 2015, the majority of the employee incentive stock option grants vest on a schedule of 25% at the end of six months and 12.5% quarterly thereafter until fully vested. Stock option exercises are fulfilled with new shares of common stock.

The Company realized stock-based compensation expense for all awards issued under the Company's stock plans in the following line items in the consolidated statements of operations:

	Year ended October 31,	
	2015	2014
Cost of revenue	$ 16	$ 36
Sales and marketing	128	369
Research and development	184	541
General and administrative	704	643
Total stock-based compensation	$ 1,032	$ 1,589

During the year ended October 31, 2014, share based compensation expense of approximately $301,000 was accrued for 67% of the total estimated management bonus for the fiscal year ended October 31, 2014. Accordingly, 117,577 shares of common stock were granted in January 2015 to satisfy this liability. Included in payroll related accrued expenses as of October 31, 2015 was $415,000 related to bonus compensation, $133,000 of which will be settled with shares of common stock in the first quarter of 2016.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility is based on historical volatility of the Company's stock. The expected term represents an estimate of the time options are expected to remain outstanding based upon historical analysis. The risk-free rate for periods within the contractual life of the option is based on the U.S. treasury yield curve in effect at the time of grant. The variables used in the Black-Scholes calculation are listed below for the respective periods:

	Year ended October 31,	
	2015	2014
Expected dividend yield	0%	0%
Expected volatility	74 - 76%	73 - 79%
Risk-free interest rate	1.4 - 1.6%	1.4 - 1.7%
Expected term (years)	4 - 5	4 - 5

The following table summarizes information about stock option activity for the years ended October 31, 2015 and 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($M)
Outstanding at October 31, 2013	3,320,910	$ 2.71	6.43	$ -
Granted	775,889	$ 1.98		
Forfeited	(602,659)	$ 4.52		
Exercised	(390,073)	$ 1.52		
Outstanding and expected to vest at October 31, 2014	3,104,067	$ 2.32	7.54	$ 2.4
Granted	1,313,406	$ 1.68		
Forfeited	(180,430)	$ 3.08		
Exercised	(125,147)	$ 1.08		
Outstanding and expected to vest at October 31, 2015	4,111,896	$ 1.86	7.26	$ 0.2
Exercisable at October 31, 2015	3,289,979	$ 1.88	6.7	$ 0.2

The weighted average fair value per option granted during the years ended October 31, 2015 and 2014 was $1.10 and $1.28, respectively. The total intrinsic value of options exercised (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) during the years ended October 31, 2015 and 2014 was $51,000 and $413,000, respectively. During the years ended October 31, 2015 and 2014, the amount of cash received from the exercise of stock options was $143,000 and $591,000, respectively.

The Company granted no options to non-employees during the year ended October 31, 2015 and 10,000 options to non-employees with a fair value of approximately $14,000 during the year ended October 31, 2014.

At October 31, 2015, there was approximately $0.9 million of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 1.3 years. There were 1,442,016 and 1,236,776 options that became vested during the years ended October 31, 2015 and 2014, respectively, with the total fair value of these awards of approximately $1.7 million and $1.6 million, respectively.

The following table shows information about outstanding stock options at October 31, 2015:

Range of Exercise Prices		Options Outstanding			Options Exercisable	
		Shares Outstanding	Weighted Average Remaining Contractual Term	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 0.53	$ 1.10	553,766	7.76	$ 0.95	497,230	$ 0.93
$ 1.23	$ 1.28	544,625	8.03	$ 1.28	544,625	$ 1.28
$ 1.28	$ 1.34	556,013	7.41	$ 1.32	275,513	$ 1.30
$ 1.34	$ 1.70	153,436	5.53	$ 1.48	101,544	$ 1.51
$ 1.70	$ 1.75	981,752	7.62	$ 1.75	981,752	$ 1.75
$ 1.75	$ 2.28	561,142	8.57	$ 2.08	220,304	$ 2.07
$ 2.28	$ 5.99	761,162	5.13	$ 3.37	669,011	$ 3.52
$ 0.53	$ 5.99	4,111,896	7.26	$ 1.86	3,289,979	$ 1.88

11. INCOME TAXES

There was no recorded income tax benefit related to the losses of fiscal years 2015 or 2014 due to the uncertainty of the Company generating taxable income to utilize its net operating loss carry-forwards. The provision for income taxes due to continuing operations differs from the amount computed by applying the federal statutory rate of 35% to the loss before income taxes as follows (in thousands):

	Years Ended October 31, 2015	2014
Federal tax benefit at statutory rate	$ (3,164)	$ (3,229)
State income tax, net of federal tax benefit	(116)	(119)
Effect of foreign operations	(3)	(4)
Research and experimentation credit	(19)	(19)
Stock based compensation	255	2,532
Derivative Liability	-	1,003
Expiration of tax attributes	105	1,169
Permanent differences and other	(54)	(43)
Change in valuation allowance	2,996	(1,290)
Tax benefit	$ -	$ -

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. Significant components of the Company's deferred taxes at October 31, 2015 and 2014 are as follows (in thousands):

	Years Ended October 31, 2015	2014
Deferred Tax Assets:		
Short term:		
Inventory and other reserves	$ 2,827	$ 709
Long term:		
Net operating losses	48,991	47,823
Research and experimentation credits	5,172	5,198
Basis of property and equipment	336	237
Deferred stock compensation	611	561
Other	(67)	345
Long term deferred tax assets	55,043	54,164
Total deferred tax assets	57,870	54,873
Deferred Tax Liabilities:		
Basis of property and equipment	-	-
Deferred tax liabilities	-	-
Valuation allowance	(57,870)	(54,873)
Net deferred tax asset	$ -	$ -

In assessing the usefulness of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. At the end of the fiscal years ended October 31, 2015 and 2014, a full valuation allowance has been provided due to uncertainties regarding the future realization of the net deferred tax assets.

The Company had federal net operating loss carry-forwards available to reduce future taxable income of approximately $132 million and $ 128.5 million for the fiscal years ended October 31, 2015 and 2014, respectively. The Company had federal research and experimentation credits available to reduce future tax of approximately $ 5.2 million and $ 5.2 million for the fiscal years ended October 31, 2015 and 2014, respectively. The valuation allowance increased by approximately $ 3.0 million during the fiscal year ended October 31, 2015 as a result of changes in the net operating losses and decreased by $ 1.3 million during the fiscal year ended October 31, 2014, primarily as a result of updates to the stock compensation deferred tax asset and changes in the net operating losses. A portion of the valuation allowance relates to tax benefits for stock option deductions included in the net operating loss carry-forward which, when realized, will be allocated directly to contributed capital to the extent the benefits exceed amounts attributable to deferred stock compensation expense. The Company also had foreign net operating loss carry-forwards available to reduce future foreign income of approximately $ 3.8 million and $ 3.9 million for fiscal years ended October 31, 2015 and 2014, respectively.

The federal net operating loss carry-forwards and research and experimentation credit carry-forwards expire from 2018 to 2035, if not utilized prior to that time. Utilization of the federal net operating losses and tax credits may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986. Any annual limitation may result in the expiration of net operating losses and research and experimentation credits before utilization.

The Company does not foresee any recognition of any unrecognized tax benefits during the next twelve months. The Company has recorded no liabilities related to uncertain tax benefits. The major jurisdictions in which the Company files income tax returns include the U.S. and Germany. The Company's income tax returns are not currently under examination by the Internal Revenue Service or other tax authorities. As of October 31, 2015, the earliest year that the Company was subject to examination in these jurisdictions was 2010. The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense, if any.

12. EMPLOYEE BENEFITS

In 1996, the Company established the Crossroads Systems, Inc. 401(k) Savings Plan (the "Savings Plan"), which is a qualified plan under section 401(k) of the Internal Revenue Code. All employees who have attained 18 years of age are eligible to enroll in the Savings Plan. The Company may make matching contributions to those employees participating in the Savings Plan based upon Company productivity and profitability. Company contributions vest over a period of six years. In October 2000, the Company adopted a new 401(k) Savings Plan that meets all of the criteria set forth above in the Savings Plan. The Company made matching contributions of $184,000 and $184,000 during the years ended October 31, 2015 and 2014, respectively.

13. RELATED PARTY TRANSACTIONS

Iron Mountain
On December 19, 2013, the Company and Iron Mountain ("IRM") mutually agreed to end their contract involving the development of a co-branded product. The Company received $1.6 million in connection with the terminated contract in the first quarter of fiscal year 2014. The Company bifurcated the payment between amounts received for work performed on the development of the product of $550,000, and a gain from settlement of $1,050,000. The Company recorded the amounts attributable to development as services revenue, and the gain on settlement was reflected as a reduction in operating expenses. IRM also agreed that it would not transfer the shares without the Company's prior written consent until the two-year anniversary date of the settlement, and that it would vote the shares consistent with the recommendation of Crossroads' board of directors.

2014 Private Placement
On March 31, 2014 and April 4, 2014, the Company entered into securities purchase agreements with certain accredited investors for the issuance and sale in a private placement (the "2014 Private Placement") of an aggregate of 1,986,622 units, at a purchase price of $2.2565 per unit for net aggregate proceeds of approximately $4.5 million before expenses. Each unit consisted of one share of common stock and a warrant to purchase one-half of a share of common stock at an exercise price of $2.46 per whole share. The lead investor of the 2014 Private Placement was Lone Star Value Investors, LP ("Lone Star Value, LP"). Lone Star Value LP is controlled by Jeffrey E. Eberwein, Crossroads' Chairman of the board of directors. Lone Star Value LP acquired 1,288,352 units in the placement for approximately $2.9 million.

2015 Private Placement
On January 27, 2015, the Company entered into placement agency agreements with certain accredited investors for the issuance and sale in a private placement (the "2015 Private Placement") of an aggregate of 3,071,739 units, at a purchase price of $2.30 per unit for net aggregate proceeds of approximately $7.1 million before expenses. Each unit consisted of one share of common stock and a warrant to purchase one-half of a share of common stock at an exercise price of $2.76 per whole share. Lone Star Value LP, controlled by Jeffrey E. Eberwein, Crossroads' Chairman of the board of directors, acquired 350,000 units in the placement for approximately $0.8 million.

2015 Common Stock Rights Offering
On July 29, 2015, the Company closed a subscription rights offering for the Company's common stock, selling 3,933,879 shares of common stock, at $1.25 per share, for aggregate gross proceeds of approximately $4.9 million. Lone Star Value LP, controlled by Jeffrey E. Eberwein, Crossroads' Chairman of the board of directors, acquired 1,537,907 shares in the offering for approximately $1.9 million.

14. PREFERRED STOCK RIGHTS

On May 23, 2014, the Company's board of directors adopted a tax benefit preservation plan (the "Plan"). The Plan is intended to diminish the risk that the Company's ability to use net operating loss carryforwards to reduce future federal income tax obligations may become substantially limited due to an "ownership change," as defined in Section 382 of the Internal Revenue Code. The board of directors authorized and declared a dividend distribution of one right for each outstanding share of common stock, par value $0.001 per share, and Series F Preferred Stock, par value $0.001 per share, of the Company to stockholders of record as of the close of business on June 4, 2014. Each right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series G Participating Preferred Stock, par value $0.001 per share, of the Company at an exercise price of $14.00 per one one-thousandth of a share of Series G Participating Preferred Stock, subject to adjustment.

The rights will become exercisable following (i) the 10th business day (or such later date as may be determined by the board of directors) after the public announcement that an acquiring person has acquired beneficial ownership of 4.99% or more of the common stock (calculated pursuant to the Plan) or (ii) the 10th business day (or such later date as may be determined by the board) after a person or group announces a tender or exchange offer that would result in ownership by a person or group of 4.99% or more of the common stock (calculated pursuant to the Plan).

In addition, upon the occurrence of certain events, the exercise price of the rights would be adjusted and holders of the rights (other than rights owned by an acquiring person or group) would be entitled to purchase common stock at approximately half of market value. Given the potential adjustment of the exercise price of the rights, the rights could cause substantial dilution to a person or group that acquires 4.99% or more of the Company's common stock on terms not approved by the Company's board of directors.

No rights were exercisable at October 31, 2015. There is no impact to the Company's financial results as a result of the adoption of the rights plan for the years ended October 31, 2015 or 2014.

15. SUBSEQUENT EVENTS

On September 23, 2014, Quantum filed a lawsuit in the U.S. District Court for the Northern District of California alleging that our StrongBox product infringes a patent owned by Quantum. On November 23, 2015, the parties settled the case.

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended October 31, 2014				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 94	$ 57	$ -	$ 151
Year ended October 31, 2015				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 151	$ 63	$ (210)	$ 4

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference: Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Sixth Amended and Restated Certificate of Incorporation of Crossroads Systems, Inc.	S-1	333-172792	3.1	3/11/11	
3.1.1	Certificate of Amendment to the Sixth Amended and Restated Certificate of Incorporation of Crossroads Systems, Inc.	S-1	333-172792	3.1.1	8/30/11	
3.1.2	Certificate of Amendment to the Sixth Amended and Restated Certificate of Incorporation of Crossroads Systems, Inc.	8-K	001-15331	3.1	4/28/15	
3.1.3	Certificate of Designation of 5.0% Series F Convertible Preferred Stock	8-K/A	001-15331	3.1	4/2/13	
3.1.4	Certificate of Amendment to Certificate of Designation of 5.0% Series F Convertible Preferred Stock	8-K	001-15331	3.1	3/14/14	
3.1.5	Certificate of Designation, Rights, Preferences and Privileges of Series G Participating Preferred Stock	8-K	001-15331	3.1	5/23/14	
3.2	Amended and Restated Bylaws of Crossroads Systems, Inc.	8-K	001-15331	3.1	11/7/13	
4.1	Form of Warrant by Crossroads Systems, Inc. in favor of the purchasers in the October 2010 private placement	S-1	333-172792	3.1	3/11/11	
4.2	Form of Warrant by Crossroads Systems, Inc. in favor of the purchasers in the March 2013 private placement	8-K	001-15331	4.1	3/25/13	
4.3	Common Stock Purchase Warrant, dated July 22, 2013, by Crossroads Systems, Inc. in favor of CF DB EZ LLC	8-K	001-15331	4.1	7/24/13	
4.4	Amendment to Common Stock Purchase Warrant, dated January 23, 2014, by and between Crossroads Systems. Inc. and CF DB EZ LLC	8-K	001-15331	4.1	1/24/14	
4.5	Form of Warrant by Crossroads Systems, Inc. in favor of the purchasers in the March 2014 private placement	8-K	001-15331	4.1	3/31/14	
4.6	Form of Warrant by Crossroads Systems, Inc. in favor of the holders in the January 2015 registered direct offering	8-K	001-15331	4.1	1/30/15	
4.7	Form of Warrant by Crossroads Systems, Inc. in favor of the placement agents in the January 2015 registered direct offering	8-K	001-15331	4.2	1/30/15	
4.8	Tax Benefit Preservation Plan, dated as of May 23, 2014, by and between Crossroads Systems, Inc. and American Stock Transfer & Trust Company, LLC	8-K	001-15331	4.1	5/23/14	
10.1	Crossroads Systems, Inc. 2010 Stock Incentive Plan	S-1	333-172792	10.1	3/11/11	
10.1.1	Amended Crossroads Systems, Inc. 2010 Stock Incentive Plan	8-K	001-15331	10.1	4/28/15	
10.2	Employment Agreement, dated as of October 13, 2003, by and between Crossroads Systems, Inc. and Robert Sims	S-1	333-172792	10.2	3/11/11	
10.3	Severance Benefit Plan, dated February 11, 2002, between Crossroads Systems, Inc. and Robert Sims	S-1	333-172792	10.3	3/11/11	
10.4	Severance Benefit Plan, dated October 21, 2004, between Crossroads Systems, Inc. and Brian Bianchi	S-1	333-172792	10.4	3/11/11	
10.5	Severance Benefit Plan, dated April 15, 2009, between Crossroads Systems, Inc. and David Cerf	S-1	333-172792	10.5	3/11/11	
10.6	Severance Benefit Plan, dated April 15, 2009, between Crossroads Systems, Inc. and Jennifer Crane	S-1	333-172792	10.6	3/11/11	
10.7	Severance Benefit Plan, dated January 9, 2013, between Crossroads Systems, Inc. and Mark Hood	S-1	333-204094	10.7	5/12/15	
10.8	Form of Indemnity Agreement between Crossroads Systems, Inc. and each of the directors and executive officers thereof	8-K	001-15331	10.1	7/16/13	

10.9	Amended and Restated Employment Agreement, dated November 21, 2013, by and between Crossroads Systems, Inc. and Richard K. Coleman, Jr.	8-K	001-15331	10.1	11/25/13
10.10	Securities Purchase Agreement, dated as of October 23, 2010, by and between Crossroads Systems, Inc. and the purchasers party thereto	S-1	333-172792	10.9	3/11/11
10.11	Registration Rights Agreement, dated as of October 23, 2010, by and between Crossroads Systems, Inc. and the purchasers party thereto	S-1	333-172792	10.10	3/11/11
10.12†	Software License and Distribution Agreement, dated January 20, 2009, by and between Hewlett-Packard Company and Crossroads Systems, Inc.	S-1	333-172792	10.11	5/18/11
10.13.1	Commercial Industrial Lease Agreement, dated October 31, 2005, by Principal Life Insurance Company and Crossroads Systems, Inc.	S-1	333-172792	10.12.1	5/18/11
10.13.2	First Amendment to Lease, dated December 15, 2009, by and between Principal Life Insurance Company and Crossroads Systems, Inc.	S-1	333-172792	10.12.2	5/18/11
10.14	Professional Agreement, dated July 31, 2012, between Crossroads Systems, Inc. and Iron Mountain Information Management, Inc.	8-K	001-15331	10.1	8/2/12
10.15	Securities Purchase Agreement, dated July 31, 2012, by and between Crossroads Systems, Inc. and Iron Mountain Incorporated	8-K	001-15331	10.2	8/2/12
10.16	Registration Rights Agreement, dated July 31, 2012, by and between Crossroads Systems, Inc. and Iron Mountain Incorporated	8-K	001-15331	10.2	8/2/12
10.17	Securities Purchase Agreement, dated March 22, 2013, by and among Crossroads Systems, Inc. and the Buyers party thereto	8-K	001-15331	10.1	3/25/13
10.18	Registration Rights Agreement, dated as of March 28, 2013, by and among Crossroads Systems, Inc. and the Investors party thereto	8-K	001-15331	10.1	3/25/13
10.18.1	Amendment to Registration Rights Agreement, dated July 3, 2013, by and among Crossroads Systems, Inc. and the Investors party thereto	S-1/A	333-188549	10.17.1	7/8/13
10.19	Separation Offer and Release, effective as of May 8, 2013, between Robert C. Sims and Crossroads Systems, Inc.	8-K	001-15331	10.1	5/14/13
10.20	Retention Agreement dated June 4, 2013, by and between Crossroads Systems, Inc. and Brian Bianchi	8-K	001-15331	10.1	6/10/13
10.21	Retention Agreement dated June 4, 2013, by and between Crossroads Systems, Inc. and David Cerf	8-K	001-15331	10.2	6/10/13
10.22	Amended and Restated Agreement of Limited Partnership of KIP CR P1 LP	8-K	001-15331	10.1	7/24/13
10.23	Credit Agreement, dated July 22, 2013, by and between Crossroads Systems, Inc. and Fortress Credit Co LLC	8-K	001-15331	10.2	7/24/13
10.23.1	Amendment to Credit Agreement, dated June 22, 2015, by and between Crossroads Systems, Inc. and CF DB EZ LLC	8-K	001-15331	10.1	6/23/15
10.24	Guaranty and Security Agreement, dated July 22, 2013, by KIP CR P1 LP in favor of Fortress Credit Co LLC	8-K	001-15331	10.3	7/24/13
10.25	Guaranty and Security Agreement, dated July 22, 2013, by Crossroads Systems (Texas), Inc. in favor of Fortress Credit Co LLC	8-K	001-15331	10.4	7/24/13
10.26	Pledge and Security Agreement, dated July 22, 2013, between Crossroads Systems, Inc. and Fortress Credit Co LLC relating to KIP CR P1 LP	8-K	001-15331	10.5	7/24/13
10.27	Pledge and Security Agreement, dated July 22, 2013, between Crossroads Systems, Inc. and Fortress Credit Co LLC relating to Crossroads Systems (Texas), Inc.	8-K	001-15331	10.6	7/24/13
10.28	Assignment of Patent Rights, dated July 22, 2013, by Crossroads Systems, Inc. in favor of KIP CR P1 LP	8-K	001-15331	10.7	7/24/13
10.29	Non-Exclusive License Agreement, dated July 22, 2013, by and between Crossroads Systems, Inc. and KIP CR P1 LP	8-K	001-15331	10.8	7/24/13

10.30	Registration Rights Agreement, dated July 22, 2013, by and between Crossroads Systems, Inc. and Fortress Credit Co LLC	8-K	001-15331	10.9	7/24/13	
10.31	Agreement Regarding Issue Price dated July 22, 2013, by and between Crossroads Systems, Inc. and Fortress Credit Co LLC	S-1/A	333-188549	10.30	8/22/13	
10.32	Compromise, Settlement and Mutual Release Agreement, effective as of December 19, 2013, by and between Crossroads Systems, Inc. and Iron Mountain Information Management, LLC.	8-K	001-15331	10.1	12/20/13	
10.33	Securities Purchase Agreement, dated March 31, 2014, by and between Crossroads Systems, Inc. and the purchasers party thereto	8-K	001-15331	10.1	3/31/14	
10.34	Securities Purchase Agreement, dated April 4, 2014, by and between Crossroads Systems, Inc. and the purchasers party thereto	8-K	001-15331	10.1	4/8/14	
10.35	Amended and Restated Registration Rights Agreement, dated April 4, 2014, by and between Crossroads Systems, Inc. and the purchasers party thereto	8-K	001-15331	10.2	4/8/14	
10.36	Form of Unit Subscription Agreement, by and among Crossroads Systems, Inc. and the investors party thereto	8-K	001-15331	10.1	1/30/15	
10.37†	Investment Agreement, by and among Crossroads Systems, Inc., TQ Zeta LLC and the investors party thereto					X
21.1	List of Subsidiaries					X
23.1	Consent of PMB Helin Donovan, LLP.					X
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended					X
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended					X
32.1	Certification of Principal Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350					X
32.2	Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Schema Linkbase Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Labels Linkbase Document					X
101.PRE	XBRL Taxonomy Presentation Linkbase Document					X

† Confidential materials redacted and filed separately with the Securities and Exchange Commission.

Exhibit 10.37

INVESTMENT AGREEMENT

THIS INVESTMENT AGREEMENT (the " ***Agreement*** ") is entered into as of October 27, 2015, by and among Crossroads Systems, Inc., a Delaware corporation (the " ***Company*** "), TQ Zeta LLC a Delaware limited liability company (" ***TQ Zeta*** ") and the investors listed on the signature pages hereto.

RECITALS

WHEREAS, the Company desires funding for its Patent Litigation (as defined below); and

WHEREAS, the Investors (as defined below) are willing to provide such funding in exchange for consideration.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, agreements, representations, warranties and covenants contained herein, the parties hereto agree as follows:

1. Definitions.

1.1 " ***AAA*** " has the meaning set forth in Section 8.7(b) .

1.2 " ***Affiliate*** " means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified. The term " *control* " (including the terms " *controlling,* " " *controlled by* " and " *under common control with* ") means possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

1.3 " ***Allocation Percentage*** " means, with respect to an Investor, the percentage assigned to that Investor on Schedule A in the column entitled "Allocation Percentage."

1.4 " ***Allocable Portion*** " means the amount of any Specified Transaction Proceeds payable to an Investor following a Specified Transaction described in Section 2.5(b) .

1.5 " ***Allocation Schedule*** " has the meaning set forth in Section 2.5(b)(ii) .

1.6 " ***Arbitrators*** " has the meaning set forth in Section 8.7(b) .

1.7 " ***Audit Dispute Notice*** " has the meaning set forth in Section 5.5 .

1.8 " ***Audit Statement*** " has the meaning set forth in Section 5.5 .

1.9 " ***Business Day*** " means any day except a Saturday, a Sunday or any other day on which commercial banks are not required by law to be open in New York, New York.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.10 " ***Closing*** " has the meaning set forth in Section 2.6(b) .

1.11 " ***Closing Date*** " has the meaning set forth in Section 2.6(b) .

1.12 " ***Commercial Rules*** " has the meaning set forth in Section 8.7(b) .

1.13 " ***Company SEC Documents*** " has the meaning set forth in Section 3.9 .

1.14 " ***Dispute Notice*** " has the meaning set forth in Section 2.5(b)(iii) .

1.15 " ***Early Termination Election*** " has the meaning set forth in Section 2.4(b) .

1.16 " ***Election Notice*** " has the meaning set forth in Section 2.4(b) .

1.17 " ***Encumbrances*** " means any mortgages, pledges, liens, charges, hypothecations, right of set-off, covenants, non-assertions, immunities, releases, rights of first refusal, options, claims, security interests or other encumbrances and restrictions having a similar or analogous effect.

1.18 " ***Excluded Payments*** " means (i) all payments due to the Company under the Amended Settlement and License Agreement between the Company and Dot Hill Systems Corp. or its successor having an effective date of June 27, 2006 (" ***Dot Hill License Agreement*** "), including any unpaid quarterly payments that Dot Hill Systems Corp. or its successor has withheld or will withhold from the Company based on the pending IPR proceedings against the Company, but excluding any payments due to the Company under the Dot Hill License Agreement that are the subject of or related to the action filed by the Company in the United States District Court for the Western District of Texas in Austin, Texas on September 11, 2013 styled Crossroads Systems, Inc. v. Dot Hill Systems Corp., Civil Action No. 1:13-CV-800-SS, and (ii) revenue from Patent licenses with third parties in effect prior to the date of this Agreement, which licenses are listed on Schedule 1.18 , but only to the extent that such revenue does not exceed $10,000, in the aggregate, per calendar quarter.

1.19 " ***Expenses Cash Amount*** " has the meaning set forth in Section 2.2(a) .

1.20 " ***IPR*** " means an *inter partes* review proceeding, a post-grant proceeding conducted by the Patent Trial and Appeal Board to review one or more claims of an issued patent, in which the petitioner attempts to challenge the validity of a patent on certain defined grounds.

1.21 " ***IPR Termination Date*** " has the meaning set forth in Section 2.4(b) .

1.22 " ***IPR Termination Notice*** " has the meaning set forth in Section 2.4(b) .

1.23 " ***Investment Amount*** " has the meaning set forth in Section 2.1 .

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.24 " ***Investor(s)*** " means TQ Zeta and the other investors listed on the signature pages hereto, along with their respective successors and assigns.

1.25 " ***Litigation Defendant(s)*** " means, collectively, Cisco Systems, Inc., Dot Hill Systems Corp. or its successor, NetApp, Inc., Oracle Corporation and Quantum Corporation, any other Person added as a party to the Patent Litigation, any Affiliates of any of the foregoing and their respective successors and assigns.

1.26 " ***Net Cash Proceeds*** " means (i) any cash or other property (excluding licenses or assignments of patents to the Company or similar such arrangements in connection with settlements of the Patent Litigation, but including any cash subsequently derived therefrom) received by the Company from the licensing of any Patent, settlement or judicial awards of or arising from the Patent Litigation or any other monetization of the Patents (except any Excluded Payments), less legal contingency fees and related legal expenses incurred by Company's legal counsel and related to the Patent Litigation or any sale or other monetization of the Patents, plus (ii) 80% of any Specified Transaction Proceeds described in the first sentence of Section 2.5(a) , plus (iii) the Allocable Portion from a Specified Transaction consummated following the final resolution of the Patent Litigation as determined by Section 2.5 .

1.27 " ***Patent Litigation*** " means, collectively, (i) the action filed by the Company in the United States District Court for the Western District of Texas in Austin, Texas on September 11, 2013 styled Crossroads Systems, Inc. v. Dot Hill Systems Corp., Civil Action No. 1:13-CV-800-SS; (ii) the action filed by the Company in the United States District Court for the Western District of Texas in Austin, Texas on October 7, 2013 styled Crossroads Systems, Inc. v. Oracle Corporation; Civil Action No. 1:13-cv-0895-SS; (iii) the action filed by the Company in the United States District Court for the Western District of Texas in Austin, Texas on February 18, 2014 styled Crossroads Systems, Inc. v. Cisco Systems, Inc.; Civil Action No. 1:14-cv-00148-SS; (iv) the action filed by the Company in the United States District Court for the Western District of Texas in Austin, Texas on February 18, 2014 styled Crossroads Systems, Inc. v. NetApp, Inc.; Civil Action No. 1:14-cv-00149-SS; (v) the action filed by the Company in the United States District Court for the Western District of Texas in Austin, Texas on February 18, 2014 styled Crossroads Systems, Inc. v. Quantum Corporation; Civil Action No. 1:14-cv-00150-SS; (vi) any other litigation in connection with the monetization of the Patents that is ongoing as of the date hereof or that may commence hereafter; and (vii) any amendments, refilings, substitute actions or other successor proceedings to the foregoing.

1.28 " ***Patents*** " means the patents and patent applications described on Exhibit A attached hereto and any patents and patent applications that claim priority to such patents and patent applications, including any divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same, and including any patent rights associated with the foregoing.

1.29 " ***Percentage*** " has the meaning set forth in Section 2.3 .

1.30 " ***Percentage Payment*** " has the meaning set forth in Section 2.3 .

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.31 “ ***Permitted Expenses*** ” means the expenses set forth on Exhibit C hereto.

1.32 “ ***Person*** ” means any natural person, firm, partnership, association, corporation, company, trust, business trust, governmental entity or other entity.

1.33 “ ***Qualifying Financial Institution*** ” has the meaning set forth in Section 2.2(a) .

1.34 “ ***Securities Act*** ” means the Securities Act of 1933, as amended.

1.35 “ ***Segregated Account*** ” has the meaning set forth in Section 2.2(a) .

1.36 “ ***Specified Transaction*** ” means (i) an acquisition by any Litigation Defendant or its Affiliates of more than 50% of the then outstanding voting power of the Company; (ii) the merger, consolidation or other business combination transaction of the Company with any Litigation Defendant or any of its Affiliates pursuant to which the stockholders of the Company immediately prior to such transaction own less than a majority of the aggregate voting power of the Company or the successor entity of such transaction, or (iii) sale or transfer of any of the Patents or all or any substantial portion of the Company’s assets to any Litigation Defendant or any of its Affiliates.

1.37 “ ***Specified Transaction Proceeds*** ” means the consideration paid or payable, as well as the value of any liabilities of the Company assumed, by any Litigation Defendant to the Company or its stockholders in connection with a Specified Transaction.

1.38 “ ***Taxes*** ” means any non-U.S., U.S. federal, state, local, municipal, or other governmental taxes, duties, levies, fees, excises, or tariffs, arising as a result of or in connection with any amounts of cash or other property received or paid under this Agreement.

1.32 “ ***TQ Zeta*** ” has the meaning set forth in the introductory paragraph.

2. Litigation Funding.

2.1 Investment Amount . Subject to the terms and conditions herein, the Investors shall make a payment to the Company of $10,000,000 (the “ ***Investment Amount*** ”) in the respective amounts set forth on Schedule A hereto on the Closing Date by wire transfer of immediately available funds in consideration for a portion of the Net Cash Proceeds and the other terms and conditions as provided herein.

2.2 Application of Investment Amount . The Investment Amount paid by the Investors to the Company pursuant to Section 2.1 above shall be applied as follows:

(a) No later than ten (10) days following the Closing, the Company shall provide the Investors with evidence that $7,030,000 (the “ ***Expenses Cash Amount*** ”) has been deposited into a separate account (the “ ***Segregated Account*** ”) established and maintained by the Company at a financial institution rated “A” or higher by a nationally recognized credit rating agency (a “ ***Qualifying Financial Institution*** ”). The Company may move the Segregated Account to another Qualifying Financial Institution upon five (5) Business Days’ advance written notice to the Investors. The Segregated Account shall have no other funds in it other than the Expenses Cash Amount and any withdrawals from the Segregated Account shall be made solely for the purpose of paying any Permitted Expenses.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(b) The remainder of the Investment Amount shall be deposited into the Company's corporate account and used by the Company for (i) within ten (10) days following the Closing, the payment of the existing loan balance owed to CF DB EZ LLC (as assignee of Fortress Credit Co. LLC) at Closing or promptly thereafter, and (ii) working capital and general corporate purposes.

2.3 Share of Net Cash Proceeds . The Company agrees to pay to the Investors a percentage of the Net Cash Proceeds equal to the aggregate amount of the Net Cash Proceeds multiplied by the percentage under the heading Investors (the " ***Percentage*** ") set forth on Exhibit B hereto across from such aggregate amount (the " ***Percentage Payment*** "). Such payment shall be made as provided in Section 2.4 and shall be allocated among the Investors according to their respective Allocation Percentages. In determining the correct Percentage to apply, in the event of more than one receipt of Net Cash Proceeds, any receipt of Net Cash Proceeds shall be added to all prior receipts to determine the proper Percentage, and then such Percentage shall be multiplied by the most recent Net Cash Proceeds. Solely by way of example, if in April 2016 the Company receives Net Cash Proceeds of $40 million, and then in August 2016 the Company receives Net Cash Proceeds of an additional $70 million, then following the receipt of the April 2016 Net Cash Proceeds the Company would pay an aggregate of $18.4 million ($20,000,000 x 52% + $20,000,000 x 40%) to the Investors, and then following the receipt of the August 2016 Net Cash Proceeds the Company would pay in addition to the April 2016 payment, an aggregate of $25.2 million ($60,000,000 x 40% + $10,000,000 x 12%).

2.4 Payments to Investors . The Company shall make payments to the Investors in accordance with their respective Allocation Percentages upon the occurrence of any of the following events:

(a) Receipt of Net Cash Proceeds . Promptly following receipt by the Company of any Net Cash Proceeds, the Company shall notify and promptly pay to the Investors their Percentage Payment with respect to such Net Cash Proceeds, allocated to each Investor in accordance with its Allocation Percentage. All cash payments pursuant to this Section 2.4(a) shall be made by wire transfer of immediately available funds within five (5) Business Days of receipt by the Company of the Net Cash Proceeds pursuant to wire instructions provided by each Investor to the Company in writing. Any receipt by the Company of property included as part of the Net Cash Proceeds shall be distributed to the Investors pursuant to the provisions hereof in kind as soon as practicable.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(b) IPR Termination . In the event that, by the latest termination date of the Company's current IPR proceedings (the " ***IPR Termination Date*** "), there is not at least one lawsuit with assertable patent claims remaining, the Company shall promptly provide written notice to the Investors of such event (the " ***IPR Termination Notice*** "). Following the IPR Termination Date, the Company shall cease to make any withdrawals from the Segregated Account pending a decision by each Investor on whether it chooses to have its Allocation Percentage of the remaining funds in the Segregated Account returned to it (each, an " ***Early Termination Election*** "). To make its Early Termination Election, an Investor must deliver a notice as provided herein. If an Investor does not deliver a notice as provided herein, then the Early Termination Election is deemed to not be made by such Investor. Each Investor shall have fourteen (14) days following the delivery by the Company of the IPR Termination Notice to make its Early Termination Election by delivery of a notice by such Investor to the Company (the " ***Election Notice*** "). Upon the Company's receipt of an Investor's Election Notice, the Company shall promptly return any portion of the Expenses Cash Amount remaining in the Segregated Account to such Investor in accordance with its Allocation Percentage, but in any event within five (5) Business Days from the date of receipt of the Investor's Election Notice. The Company shall have no further obligation to return any portions of the Investment Amount used to that date. If each Investor does not deliver an Election Notice within such fourteen (14) day period, or earlier notify the Company in writing that they do not intend to make the Early Termination Election, then any remaining portion of the Expenses Cash Amount shall remain in the Segregated Account and continue to be available to be used by the Company for Permitted Expenses as provided herein. If an Investor does not deliver the Election Notice to the Company within the fourteen (14) day period, the Investors acknowledge and hereby agree that such Investor shall have waived its rights to make an Early Termination Election. Upon payment to the electing Investors in accordance with their respective Allocation Percentages of the remaining funds in the Segregated Account following a valid Early Termination Election, then (i) Section 5 (including Sections 5.1 , 5.2 , 5.3 , 5.4 , 5.5 and 5.6) hereof shall terminate and be of no further force and effect and (ii) the provisions for payment of Net Cash Proceeds in Sections 2.3 and 2.4(a) and following a Specified Transaction as set forth in Section 2.5 hereof shall terminate and be of no further force and effect, in each case with respect to such Investor(s) providing a valid Early Termination Election. In the event of an Early Termination Election by one Investor, then future payments under this Agreement of Net Cash Proceeds that would have been paid to such electing Investor if the Early Termination Election had not been made shall be retained by the Company.

2.5 Specified Transactions.

(a) If, at any time prior to or simultaneously with the final resolution of the Patent Litigation and payment of the Percentage Payment to the Investors, the Company proposes to enter or enters into a Specified Transaction, the Company agrees that it shall not enter into such Specified Transaction unless provision is made to secure that 80% of the Specified Transaction Proceeds will constitute Net Cash Proceeds and be paid to the Investors pursuant to this Agreement. The other 20% of the Specified Transaction Proceeds will be exempt from inclusion as Net Cash Proceeds.

(b) If, at any time after the final resolution of the Patent Litigation and payment of the Percentage Payment to the Investors, the Company proposes to enter into or enters into a Specified Transaction, the Company agrees that the Allocable Portion of the Specified Transaction Proceeds shall be treated as Net Cash Proceeds and paid to the Investors pursuant to this Agreement.

(i) Determination of Allocable Portion . To determine the Allocable Portion amount, the Company shall consider the portion of the Specified Transaction Proceeds directly attributable to the monetization of the Patents. Any other amounts of the Specified Transaction Proceeds not so directly attributable, such as relating to the Company's other assets, operations, businesses, good will, exchange listing, public entity status, or otherwise, shall not be included in the Allocable Portion.

(ii) No less than ten (10) days prior to the anticipated closing date of the Specified Transaction, the Company shall deliver to the Investors the Company's good faith estimate of the Allocable Portion of the Specified Transaction Proceeds, which the Company shall update and deliver to the Investors within five (5) days following the closing of the transactions contemplated by the Specified Transaction (the " ***Allocation Statement*** ").

(iii) The Allocation Statement shall be final and binding on the parties unless either Investor delivers to the Company a written notice of disagreement with the Allocation Statement within ten (10) days following the receipt thereof. In the event that either Investor disputes any portion of the Allocation Statement, such Investor shall provide notice describing the nature of any such disagreement in reasonable detail, identifying the specific items as to which the Investor disagrees and such notice shall provide reasonable supporting documentation (the " ***Dispute Notice*** "). Within five (5) days following the Company's receipt of such Dispute Notice, the Company shall provide the Investors with reasonable access to the Company's books and records to the extent necessary to review the matters and information used to prepare and to support the Allocation Statement, all in a manner not unreasonably interfering with the business of the Company. Thereafter, the Investors and the Company shall attempt to resolve all such matters identified in the Dispute Notice. If the Investors and the Company are unable to resolve all such disagreements within ten (10) days after the receipt by the Company of the Dispute Notice (or such longer period as may be agreed by the Company and the Investors), then the remaining disputed matters shall be promptly submitted to the Arbitrators for binding resolution. The Arbitrators will consider only those items and amounts set forth in the Allocation Statement as to which the Company and the Investors have disagreed, shall resolve such disagreements in accordance with the terms and provisions of this Agreement and shall not resolve any particular amount in dispute to be an amount less than the lowest amount claimed by one of the parties or an amount higher than the highest amount claimed by one of the parties. The Arbitrators shall issue a written report containing a final Allocation Statement setting forth their determination of the Allocable Portion, which determination shall be final and binding upon the Company and the Investors. The fees and expenses of the Arbitrators incurred in connection with the determination of the disputed items shall be paid by the Investors and by the Company based on the relative amounts of their positions as compared to the final determination of the Arbitrators; [1] *provided* , however, that any fees incurred by the Company shall not be deducted from the Specified Transaction Proceeds. The Company and the Investors shall cooperate fully with the Arbitrators and respond on a timely basis to all requests for information or access to documents or personnel made by the Arbitrators, all with the intent to fairly and in good faith resolve all disputes relating to the Allocation Statement as promptly as reasonably practicable.

---

[1] Solely by way of example, if there occurs a Specified Transaction valued at $100 million, and the Company provides in the Allocation Statement that $40 million of the proceeds are the Allocable Portion to be included as Net Cash Proceeds and the Investors believe the Allocable Portion is $60 million, and the Arbitrators determine that the Allocable Portion is $45 million, then the Company would pay 25% (5/(60 – 40)) of the fees and expenses and the Investors would pay 75% (15/(60 – 40)) of the fees and expenses.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(iv) Unless otherwise provided herein, all disputes under this Section 2.5(b) shall be settled by arbitration pursuant to Section 8.7(b) .

2.6 The Closing .

(a) The Investors' obligations under this Agreement shall not be effective unless and until, on the Closing Date, the Investors have received an officer's certificate executed by the President and Chief Executive Officer of the Company, dated as of the Closing Date, certifying that the representations and warranties of the Company contained in Section 3 of this Agreement are true and accurate in all material respects on and as of the Closing Date.

(b) The closing of the transactions contemplated by this Agreement (the " ***Closing*** ") shall take place at the offices of Olshan Frome Wolosky LLP upon the satisfaction or waiver of all of the conditions set forth in this Agreement (including Section 2.6(a)) on such date as is mutually agreeable to the parties (the " ***Closing Date*** ").

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

3. Representations and Warranties of the Company . The Company represents and warrants to the Investors as follows as of the date hereof:

3.1 Organization, Authority and Enforceability . The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. The Company has all requisite power and authority to enter into this Agreement and carry out the transactions contemplated hereby. This Agreement has been duly and validly executed by the Company, and constitutes the valid and binding agreement of the Company enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors and general principles of equity. No other corporate proceedings on the part of the Company are necessary to authorize the execution and performance by the Company of the transactions contemplated herein.

3.2 No Conflict . The execution and delivery of this Agreement by the Company does not and the consummation of the transactions contemplated hereby by the Company will not (i) violate any provision of the certificate of incorporation, bylaws or similar governance documents of or applicable to the Company, (ii) result in a breach (or in any event which, with notice or lapse of time or both, would constitute a breach) of any term or provision of, or constitute a default under, any agreement or arrangement to which the Company or any of its Affiliates is a party or any agreement or arrangement concerning the Patents, (iii) result in the creation of any Encumbrance on the Patents, or (iv) violate any applicable law or any judgment, decree, order, regulation or rule of any governmental authority by which the Company (or any of its subsidiaries, if applicable) is bound or subject.

3.3 Consents . No consent, waiver, approval, order or authorization of, or registration, declaration or filing with, or notice to any governmental authority is required by, or with respect to, the Company or the Patents in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for filings and disclosures required under any applicable securities laws. The Company has received the approval of the holders of a majority in interest of the Company's 5.0% Series F Convertible Preferred Stock outstanding to enter into this Agreement and carry out the transactions contemplated hereby.

3.4 Title and Contest . Except for the obligations to CF DB EZ LLC (as assignee of Fortress Credit Co. LLC) which shall be eliminated upon repayment of the current loan balance as set forth in Section 2.2(b) herein, the Company owns all right, title, and interest to the Patents, free and clear of all Encumbrances and there are neither existing contracts, agreements, options, commitments, or rights with, to, or in any person to assign, acquire or pledge any of the same, including, without limitation, all right, title, and interest to sue for infringement of the Patents and seek past and future damages from a third party. The Company has obtained and properly recorded previously executed assignments, if any, for the Patents as necessary to fully perfect its rights and title therein in accordance with governing law and regulations in each respective jurisdiction.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

3.5 Litigations and Proceedings . Except as set forth on Schedule 3.5 , other than the pending Patent Litigation there are no actions, suits, investigations, claims, or proceedings threatened, pending, or in progress relating in any way to the Company or the Patents. The Company has not received any notice and is not otherwise aware of any claim of a right or interest of any third party, the effect of which if determined adversely, is or would be to reduce, impair or otherwise materially and prejudicially affect the Patent Litigation. The Company is not in default with respect to any judgment, decree, injunction or order of any court, administrative agency or other instrumentality.

3.6 Validity and Enforceability . None of the Patents has ever been found invalid, unpatentable, or unenforceable for any reason in any final administrative, arbitration, judicial or other proceeding.

3.7 Fees . All maintenance fees, annuities, and the like due or payable on the Patents have been timely paid on the Patents being enforced in the Patent Litigation.

3.8 No Impairment . Except for the obligations to CF DB EZ LLC (as assignee of Fortress Credit Co. LLC) which shall be eliminated upon repayment of the current loan balance as set forth in Section 2.2(b) herein, the Company has not taken any action (including executing documents) or failed to take any action, which as a result would give any person or entity other than Investors an interest in the Patents, Patent Litigation or Net Cash Proceeds.

3.9 SEC Reports . From January 1, 2015 through the date of this Agreement, the Company has filed or furnished all forms, documents and reports required to be filed or furnished prior to the date hereof by it with the Securities and Exchange Commission (such forms, documents and reports, the " ***Company SEC Documents*** "). As of their respective dates, or, if amended, as of the date of (and giving effect to) the last such amendment made prior to the date hereof, the Company SEC Documents complied in all material respects with the requirements of the Sarbanes-Oxley Act, the Securities Act and the Securities Exchange Act of 1934, as the case may be, and the applicable rules and regulations promulgated thereunder, and none of the Company SEC Documents contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Crossroads acknowledges and agrees that the representations and warranties in this Section 3 shall not be affected, diminished or deemed qualified by reason of any statement or information contained in the Company SEC Documents.

3.10 Counsel . The Company has consulted independent legal counsel regarding the use of third-party investments in connection with the Patents and has determined that this Agreement is in compliance with all applicable laws and regulations.

4. Representations and Warranties of Investors . Each Investor, severally and not jointly, represents and warrants to the Company as follows as of the date hereof:

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

4.1 Authority; Enforceability. Such Investor has the requisite power to enter into this Agreement and to perform its obligations hereunder. This Agreement has been duly and validly executed by such Investor, and constitutes the valid and binding agreement of such Investor enforceable against such Investor in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors. No other proceedings are necessary to authorize the execution of this Agreement by such Investor or the performance by such Investor of its obligations hereunder.

4.2 No Conflicts. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not result in a breach of any provision of the organizational documents of such Investor.

4.3 No Broker. Such Investor has not engaged any corporation, firm or other entity that is entitled to any fee or commission as a finder or a broker in connection with the negotiation of this Agreement or the consummation of the transactions contemplated hereby. Such Investor shall be responsible for all liabilities and claims (including costs and expenses of defending against same) arising in connection with any claim by a finder or broker that it acted on behalf of such Investor in connection with the transactions contemplated hereby.

4.4 Investment Representations.

(a) Such Investor has received all information that it considers necessary or appropriate for deciding whether to invest in the Company. Such Investor and/or his advisors, who are not affiliated with and not compensated directly or indirectly by the Company or an Affiliate thereof, have such knowledge and experience in business and financial matters as will enable them to utilize the information which they have received in connection with the Company and its business to evaluate the merits and risks of an investment, to make an informed investment decision and to protect such Investor's own interests in connection with the investment of the Investment Amount.

(b) Such Investor understands that the investment of the Investment Amount is a speculative investment that involves a substantial degree of risk of loss of such Investor's entire investment in the Company, and the Investor understands and is fully cognizant of the risk factors related to the investment of the Investment Amount.

(c) Such Investor understands that any forecasts or predictions as to the Company's performance are based on estimates, assumptions and forecasts which, at the time when made, the Company believed to be reasonable but which may prove to be materially incorrect, and no assurance is given that actual results will correspond with the results contemplated by the various forecasts.

(d) Such Investor is able to bear the economic risk of this investment and, without limiting the generality of the foregoing, is able to hold this investment for an indefinite period of time. Such Investor has adequate means to provide for the Investor's current needs and personal contingencies and has a sufficient net worth to sustain the loss of the Investor's entire investment in the Company.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(e) Such Investor has had an opportunity to ask questions of the Company and anyone acting on its behalf and to receive answers concerning the terms of this Agreement, as well as about the Company and its business generally, and to obtain any additional information which the Company possesses or can acquire without unreasonable effort or expense, that is necessary to verify the accuracy of the information contained in this Agreement.

(f) Such Investor is an “accredited investor” as that term is defined in Rule 501 under Regulation D promulgated under the Securities Act.

(g) If an entity, such Investor represents and warrants the following: (1) the holders of equity or other beneficial interests in the Investor are not able to decide individually whether to participate, or the extent of their participation in Investor’s investment in the Company and (2) no persons other than the Investor will have a beneficial interest in the Percentage Payment to be received hereunder (other than as a shareholder, partner or other beneficial owner of an equity interest in the Investor). Such Investor agrees that at all times prior to ceasing to be an investor in the Company, the Investor will notify the Company of any change that would make the representations set forth in the prior sentence inaccurate or untrue or any change in the information provided to the Company by the Investor.

5. Additional Agreements of the Parties.

5.1 Conduct of the Patent Litigation; Settlement .

(a) The Company shall use its commercially reasonable efforts to (i) monetize the Patents (including to prosecute the Patent Litigation to a final and non-appealable judgment or to a final, definitive settlement) as promptly as practicable and (ii) collect and enforce any such settlement or judgment. The Investors are not and do not by virtue of entering into this Agreement become, a party to the Patent Litigation. The parties hereto acknowledge and agree that the Company shall have the right, in its sole discretion, to determine whether to settle, resolve or abandon the Patent Litigation, to determine the terms and conditions of any such settlement, resolution or abandonment and to determine which parties to pursue in the Patent Litigation.

(b) The Company shall comply with all laws and regulations in all material respects if the failure to do so could materially impair the Patent Litigation or the monetization thereof.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

5.2 Additional Covenants of the Company . During the term of this Agreement the Company shall:

(a) Not grant an Encumbrance over or affecting the Patents;

(b) Not enter into any financing that subordinates, dilutes or modifies the Investors' receipt of their Percentage Payment as provided herein;

(c) Subject to Section 5.4, not grant any person with the power to direct the monetization of the Patents or the Patent Litigation, whether by contract or other similar means;

(d) Use its best efforts to do all that is necessary to remain solvent and carry on its business;

(e) Cause all patent maintenance fees and expenses necessary to maintain the Patents in good standing to be timely paid; and

(f) If requested by an Investor, promptly identify to such Investor information in the Company SEC Documents that the Company believes is material to the Patents and Patent Litigation.

5.3 Reports . The Company will provide TQ Zeta a report indicating any amounts paid during a calendar month out of the Investment Amount and the remaining balance of the Expenses Cash Amount and including a copy of the account statement for the Segregated Account, in each case within thirty (30) days following the close of each calendar month. TQ Zeta agrees that all non-public information disclosed to such Investor pursuant to this Section 5.3 shall be deemed " ***Confidential Information*** " pursuant to Section 8.8 and, accordingly, shall not be divulged to any third party except as provided therein. Additionally, the Company will provide any other Investor with the same information provided to TQ Zeta if requested by such Investor.

5.4 Disposition of Patents . The parties acknowledge and agree that the Company may sell, assign or license any of the Patents. Any such proceeds therefrom shall be Net Cash Proceeds.

5.5 Right to Audit . The Company shall maintain complete and accurate records of the expenses charged to the Company with respect to the Net Cash Proceeds and Specified Transaction Proceeds. During the term of this Agreement and for a period of three (3) years thereafter, upon reasonable notice to the Company, each Investor shall be provided access for auditing purposes and to determine the Company's compliance with this Agreement and activities contemplated hereunder. Such audits shall be performed by the Investor or its designee and there shall be no charge to the Investor from the Company. In the event that any audit determines that the Company has failed to pay any amount due to an Investor hereunder then the Investor shall deliver to the Company a statement of the amount due to the Investors within twenty (20) Business Days following the audit determination (the " ***Audit Statement*** "). The Audit Statement shall be final and binding on the Company unless the Company delivers to the Investors an audit dispute notice (the " ***Audit Dispute Notice*** ") within ten (10) Business Days following the receipt thereof. Within five (5) Business Days following the Investors' receipt of such Audit Dispute Notice, the Investors shall provide the Company with reasonable access to the information used to prepare and to support the Audit Statement, all in a manner not unreasonably interfering with the business of each Investor. Thereafter, the Investors and the Company shall attempt to resolve all such matters identified in the Audit Dispute Notice. If the Investors and the Company are unable to resolve all such disagreements within ten (10) Business Days after the receipt by the Investors of the Audit Dispute Notice (or such longer period as may be agreed by the Company and the Investors), then the remaining disputed matters shall be promptly submitted to the Arbitrators for binding resolution. The Arbitrators will consider only those items and amounts set forth in the Audit Statement as to which the Company and the Investors have disagreed, shall resolve such disagreements in accordance with the terms and provisions of this Agreement and shall not resolve any particular amount in dispute to be an amount less than the lowest amount claimed by one of the parties or an amount higher than the highest amount claimed by one of the parties. The Arbitrators shall issue a written report containing a final Audit Statement setting forth their determination of the amount due to the Investors, which determination shall be final and binding upon the Company and the Investors. The fees and expenses of the Arbitrators incurred in connection with the determination of the disputed items shall be paid by the Investors and by the Company based on the relative success of their positions as compared to the final determination of the Arbitrators; provided, however, that any fees incurred by the Company shall not be deducted from the Net Cash Proceeds. The Company and the Investors shall cooperate fully with the Arbitrators and respond on a timely basis to all requests for information or access to documents or personnel made by the Arbitrators, all with the intent to fairly and in good faith resolve all disputes relating to the Audit Statement as promptly as reasonably practicable. Unless otherwise provided herein, all disputes under this Section 5.5 shall be settled by arbitration pursuant to Section 8.7(b) .

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

5.6 Acknowledgement of No Future Funding . Company acknowledges and agrees that the Investors have not made any representation, undertaking, commitment or agreement to provide or assist Company in obtaining any financing, investment or other assistance, other than the funding as expressly and unambiguously set forth herein and subject to the conditions set forth herein. In addition, Company acknowledges and agrees that (i) no statements, whether written or oral, made by an Investor or its Representatives on or after the date of this Agreement shall create an obligation, commitment or agreement to provide or assist Company in obtaining any financing or investment, (ii) Company shall not rely on any such statement by an Investor or its Representatives and (iii) an obligation, commitment or agreement to provide or assist Company in obtaining any financing or investment may only be created by a written agreement, signed by an Investor and Company, setting forth the terms and conditions of such financing or investment and stating that the parties intend for such writing to be a binding obligation or agreement.

6. **Term** . This Agreement shall commence as of the date hereof and shall continue until the full payment by the Company to the Investors pursuant to Sections 2.4 and 2.5 herein.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

7. **Notices** . All notices and other communications provided for herein shall be made in writing and delivered by hand or overnight courier service (which term includes a courier delivery service such as FedEx or United Parcel Service), or sent by e-mail, as follows:

If to the Company:	Crossroads Systems, Inc. 11000 North Mo-Pac Expressway #150 Austin, Texas 78759 Attention: Richard K. Coleman, Jr. Telephone: (512) 928-7333 Email: rcoleman@crossroads.com
With a copy to:	Olshan Frome Wolosky LLP 65 East 55 th Street New York, New York 10022 Attention: Adam W. Finerman, Esq. Telephone: (212) 451-2289 Email: afinerman@olshanlaw.com
If to TQ Zeta:	TQ Zeta LLC Attn: Techquity Capital Management 805 Las Cimas Parkway Suite 240 Austin, TX 78746 Attention: Mark Roche, Managing Director Email: mroche@techquitycap.com
With a copy to:	Nixon Peabody LLP Key Towers at Fountain Plaza 40 Fountain Plaza, Suite 500 Buffalo, NY 14202-2224 Attention: John Koeppel, Esq. Telephone: (716) 853-8137 Email: JKoeppel@nixonpeabody.com
If to Intrepidus Holdings LLC (provided, that Intrepidus Holdings LLC may notify the Company of additional persons to be notified on its behalf by the Company):	Chadbourne & Parke LLP 1301 Avenue of the Americas New York, New York, 10019-6022 Attention: Frank S. Vellucci Telephone: (212) 408-1127 Email: fvellucci@chadbourne.com

Any notices and other communication sent by hand shall be deemed received upon delivery. Any notices and other communication sent by overnight courier service shall be deemed received one (1) Business Day after it is sent by overnight mail. Any notices and other communications sent by e-mail shall be deemed received upon the sender's receipt of an acknowledgment from the intended recipient (such as by the "return receipt requested" function, return e-mail or other written acknowledgment).

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

8. Miscellaneous.

8.1 Exculpation and Indemnification; Obligations of the Investors.

(a) The Company agrees that there shall be no liability of an Investor and each of its Representatives under this Agreement, the Patents or the Patent Litigation, or related to its acts or omissions in connection with this Agreement, except in the case of a material breach of this Agreement by such person that has a material adverse effect on the Company.

(b) The Company agrees to promptly indemnify, defend, and hold harmless each Investor and its Representatives from and against all liabilities, losses, diminution in value, claims, judgments, charges, sanctions, penalties, damages, expenses and costs (including, without limitation, reasonable attorneys', accounting and expert fees, legal costs and expenses) such person may incur relating to, or arising out of, breaches by the Company under this Agreement and from and against all claims by third parties relating to, or arising out of, this Agreement. The Company also agrees to advance to each Investor and its Representatives all defense costs, including reasonable attorneys' fees and expenses, relating to, or arising out of, breaches by the Company under this Agreement and for any third-party claim relating to, or arising out of, this Agreement.

(c) In no event shall one Investor have any liability or obligation to the Company or any of its Affiliates with respect to the acts or omissions of any other Investor.

8.2 Taxes. All Taxes shall be the financial responsibility of the party obligated to pay such Taxes as determined by applicable law and neither party is or shall be liable at any time for any of the other party's Taxes incurred in connection with or related to amounts paid under this Agreement. No Tax shall be withheld by the Company on any Net Cash Proceeds payable to the Investors hereunder unless required by law.

8.3 Specific Waivers. To the greatest extent permissible by law, the Company releases, discharges and quitclaims any claims, counterclaims, defenses, causes of action, remedies, or rights it or its successors in interest has or may in the future have arising from any doctrine, rule, or principle of law or equity that this Agreement, or the relationships or transactions contemplated by this Agreement (i) are against the public policy of any jurisdiction with which the Company has a connection or (ii) constitute maintenance or any impermissible transfers, assignments or splitting of property, fees or causes of action.

8.4 Relationships of the Parties. The Company and each Investor are independent actors. This Agreement does not create any joint venture, partnership, agency relationship or any other type of affiliation among any of the parties.

8.5 Assignment . This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors and permitted assigns. This Agreement shall not be assignable (whether voluntarily or involuntarily, directly or indirectly or by operation of law) by any party without (i) in the case of a proposed assignment by an Investor, the written consent of the Company and (ii) in the case of a proposed assignment by the Company, the written consent of the Investors; *provided* , that no party shall unreasonably withhold its consent to a proposed transfer by another party. Any such purported assignment without such consent shall be void.

8.6 Third Party Rights . Except as provided by Section 8.1 , this Agreement shall not create benefits on behalf of any other Person, and this Agreement shall be effective only as between the parties hereto, their successors and permitted assigns.

8.7 Governing Law; Arbitration .

(a) This Agreement shall be construed, and the legal relations between the parties hereto shall be determined, in accordance with the laws of the United States of America and the State of Delaware, as such laws apply to contracts signed and fully performed in such state without regard to the principles of conflicts of laws thereof.

(b) Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, which cannot be settled amicably shall be determined by final and binding arbitration administered by the American Arbitration Association (" ***AAA*** ") under its Commercial Arbitration Rules and Mediation Procedures then in effect (**"** ***Commercial Rules*** "). The award rendered by the Arbitrators shall be final, non-reviewable, non-appealable and binding on the parties and may be entered and enforced in any court having jurisdiction; *provided* , however, that any such determination shall be accompanied by a written opinion of the Arbitrators giving the reasons for the determination. There shall be three arbitrators (the " ***Arbitrators*** "). The parties agree that one Arbitrator shall be jointly appointed by the Investors and one Arbitrator by the Company within ten (10) days of receipt by the applicable respondent of a request for arbitration (or, in default thereof, appointed by the AAA in accordance with its Commercial Rules), and the third presiding Arbitrator shall be appointed by agreement of the two party-appointed Arbitrators within fifteen (15) days of the appointment of the second Arbitrator or, in default of such agreement, by the AAA. If more than one arbitration is commenced under this Agreement and any party contends that two or more arbitrations are substantially related and that the issues should be heard in one proceeding, the Arbitrators selected in the first-filed proceeding shall determine whether, in the interests of justice and efficiency, the proceedings should be consolidated before those Arbitrators. The seat or place of arbitration shall be New York, New York. Except as may be required by law, neither a party nor the Arbitrators may disclose the existence, content or results of any arbitration without the prior written consent of the parties to this Agreement, unless to protect or pursue a legal right.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

8.8 Confidential Information .

(a) Each party hereto will keep the terms and existence of this Agreement, the identities of the parties hereto and their Affiliates, and any non-public information concerning or relating to the Patent Litigation confidential and will not now or hereafter divulge any of this information (collectively, " ***Confidential Information*** ") to any third party except (i) with the prior written consent of the other parties, (ii) as may be required by applicable law, rule, regulation or legal process (including, without limitation, the rules and regulations of the Securities Exchange Commission), (iii) during the course of litigation, so long as the disclosure of such information is restricted in the same manner as is the confidential information of other litigating parties, and (iv) in confidence to its Affiliates and its and their respective officers, directors, managers, employees, legal counsel, accountants, financial advisors, partners, investors, clients, members, shareholders, lenders, agents, potential financing sources, successors, assigns and other representatives (collectively, " ***Representatives*** "), who, in the reasonable judgment of the disclosing party, need to know the Confidential Information, are informed of its confidential nature, and are subject to confidentiality duties or other obligations that are no less restrictive than the terms and conditions of this Section 8.8 . Each party hereto agrees that it shall be responsible for any breach of this Section 8.8 by its Representatives.

(b) Notwithstanding anything to the contrary herein:

(i) Except as may be required by applicable law or legal process, no Investor shall discuss, correspond or otherwise communicate with any defendant in the Patent Litigation or its representatives regarding any matters pertaining to the Patent Litigation, including, without limitation, the terms and conditions of any settlement offers made or proposed to be made.

(ii) The parties agree that the Company may make such filings and disclosures of Confidential Information as it determines, upon advice of counsel, are required by applicable law (including applicable securities laws) or court order, *provided* , that the Company will first use its commercially reasonable efforts to seek confidential treatment for any information regarding the identities of the Investors and their respective Representatives (including their contact information and the names of their signatories), each Investor's individual investment amount and Allocation Percentage on Schedule A , and any other Confidential Information that the Company determines, upon advice of counsel, is permitted to be kept confidential under applicable law. If the Company's counsel advises that disclosure of Confidential Information is required under applicable law, then the Company shall only disclose such Confidential Information to the extent advised by counsel.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

8.9 Headings and Interpretation. The headings of the sections are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement. All parties hereto have been represented by counsel in connection with the drafting and negotiation of this Agreement. Accordingly, in any legal proceeding involving this Agreement, no rule of strict construction shall be applied in favor of or against any party by virtue of it having drafted any particular clause or section.

8.10 Counterparts. This Agreement may be executed by the parties in one or more counterparts, including facsimile counterparts, each of which shall be an original and all of which shall constitute one and the same instrument. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

8.11 Severability. If any section of this Agreement is found by competent authority to be invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such section in every other respect and the remainder of this Agreement shall continue in effect so long as the Agreement still expresses the intent of the parties. If the intent of the parties cannot be preserved, this Agreement shall be either renegotiated or terminated.

8.12 Amendment. This Agreement may not be amended except by an instrument in writing signed by the parties.

8.13 No Waiver. No waiver by any party of any breach of any terms or conditions contained herein shall be construed as a waiver of any other breach of the same or other terms or conditions herein. No delay or failure by any party in enforcing against the other any term or condition of this Agreement shall be deemed a waiver of any right under this Agreement.

8.14 Entire Agreement. This Agreement and its Exhibits embody the entire understanding of the parties with respect to the subject matter hereof and merges all prior discussions between them (including but not limited to that certain Confidential Summary of Terms dated as of October 11, 2015), and none of the parties shall be bound by any conditions, definitions, warranties, understandings or representations with respect to the subject matter hereof other than as expressly provided herein.

8.15 Each Party Bears its Own Costs. Except as expressly set forth herein, each Investor and the Company shall bear its own legal, accountancy and other costs and expenses incurred by them in connection with this Agreement.

8.16 No Practice of Law. The Investors and their Affiliates are engaged in an investment business that, among other things, invests with patent holders to commercialize patents in exchange for a share of the awards of such commercialization. The Investors and their Affiliates are not engaged in the practice of law with respect to the Patent Litigation and Company agrees that it shall not rely upon the Investors and its Affiliates for legal or other professional advice.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

8.17 Survival after Termination . The provisions of Section 1 (with respect to applicable defined terms) and this Section 8 shall survive the termination of this Agreement.

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, effective as of the date first written above.

COMPANY:

CROSSROADS SYSTEMS, INC.

By: /s/ Richard K. Coleman, Jr.
Name: Richard K. Coleman, Jr.
Title: President and CEO

INVESTORS:

TQ ZETA LLC

By: /s/ Mark Roche
Name: Mark Roche
Title: Managing Director

INTREPIDUS HOLDINGS LLC

By: /s/ Frank S. Vellucci
Name: Frank S. Vellucci
Title: Authorized Person

Exhibit A

'972 Patents

Title	Application No	Application Date	Grant No	Grant Date
Storage Router and Method for Providing Virtual Local Storage	09/001,799	12/31/97	5,941,972	08/24/99
Storage Router and Method for Providing Virtual Local Storage	09/354,682	07/15/99	6,421,753	07/16/02
Storage Router and Method for Providing Virtual Local Storage	09/965,339	09/27/01	6,425,036	07/23/02
Storage Router and Method for Providing Virtual Local Storage	09/965,335	09/27/01	6,425,035	07/23/02
Storage Router and Method for Providing Virtual Local Storage	10/081,110	02/22/02	6,789,152	09/07/04
Storage Router and Method for Providing Virtual Local Storage	10/174,720	06/19/02	6,738,854	05/18/04
Storage Router and Method for Providing Virtual Local Storage	10/361,283	02/10/03	6,763,419	07/13/04
Storage Router and Method for Providing Virtual Local Storage	10/658,163	09/09/03	7,051,147	05/23/06
Storage Router and Method for Providing Virtual Local Storage	11/851,724	09/07/07	7,689,754	03/30/10
Storage Router and Method for Providing Virtual Local Storage	11/851,775	09/07/07	7,552,266	06/23/09
Storage Router and Method for Providing Virtual Local Storage	11/851,837	09/07/07	7,694,058	04/06/10
Storage Router and Method for Providing Virtual Local Storage	11/980,909	10/31/07	8,046,515	10/25/11
Storage Router and Method for Providing Virtual Local Storage	11/947,499	11/29/07	7,984,221	07/19/11
Storage Router and Method for Providing Virtual Local Storage	12/220,431	07/24/08	US RE42,761	09/27/11
Storage Router and Method for Providing Virtual Local Storage	12/552,807	09/02/09	7,937,517	05/03/11
Storage Router and Method for Providing Virtual Local Storage	12/552,885	09/02/09	7,934,040	04/26/11
Storage Router and Method for Providing Virtual Local Storage	12/552,913	09/02/09	8,015,339	09/06/11
Storage Router and Method for Providing Virtual Local Storage	12/690,592	01/20/10	7,934,041	04/26/11
Storage Router and Method for Providing Virtual Local Storage	12/910,431	10/22/10	7,984,224	07/19/11
Storage Router and Method for Providing Virtual Local Storage	12/910,375	10/22/10	8,028,117	09/27/11
Storage Router and Method for Providing Virtual Local Storage	12/910,476	10/22/10	8,402,193	03/19/13

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

Title	Application No	Application Date	Grant No	Grant Date
Storage Router and Method for Providing Virtual Local Storage	12/910,515	10/22/10	7,987,311	07/26/11
Storage Router and Method for Providing Virtual Local Storage	13/197,534	08/03/11	8,402,194	03/19/13
Storage Router and Method for Providing Virtual Local Storage	13/766,301	02/13/13		
Storage Router and Method for Providing Virtual Local Storage	2,315,199	12/28/98	2,315,199	01/21/03
Storage Router and Method for Providing Virtual Local Storage	98966104.6	12/28/98	69832818.3	12/14/05
Storage Router and Method for Providing Virtual Local Storage	98966104.6	12/28/98	1044414	12/14/05
Storage Router and Method for Providing Virtual Local Storage	98966104.6	12/28/98	1044414	12/14/05
Storage Router and Method for Providing Virtual Local Storage	98966104.6	12/28/98	1044414	12/14/05
Storage Router and Method for Providing Virtual Local Storage	526873/2000	12/28/98	4691251	02/25/11
Storage Router and Method for Providing Virtual Local Storage	10012770.3	10/01/10		
Storage Router and Method for Providing Virtual Local Storage	10012768.7	10/01/10		

Exhibit B

Percentage Payment

Net Cash Proceeds Tier	Crossroads	Investors
First $20 million	48%	52%
Above $20 million and up to $100 million	60%	40%
Above $100 million	88%	12%

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

Exhibit C

Permitted Expenses

Permitted Expenses	**Allowed Amount**
Legal, licensing and other expenses related to the Crossroads ‘972 patent family	100%
Legal, licensing and other expenses related to current or future lawsuits against Crossroads filed by ‘972 patent family potential licensees or defendants in response to ‘972 patent enforcement	100%
Legal and other expenses related to ‘972 patent family prosecution, maintenance, and USPTO proceedings, including IPRs	100%
Lump sum monthly payment for salary, bonus and benefits compensation for IP management executives (Rick Coleman – approximately 70%; Mark Hood – approximately 70%; and Jennifer Crane – approximately 50%)	No more than $83,000 monthly
Company “out-of-pocket” expenses related to ‘972 litigation	100%
Lump sum monthly payment for miscellaneous IP related overhead (rent, employee depositions, technical support, etc.)	No more than $20,000 monthly

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

Schedule A

Allocation Schedule

Investor	Investment Amount	Allocation Percentage
TQ Zeta LLC	[**]	[**]
Intrepidus Holdings LLC	[**]	[**]
Total	**$10,000,000**	**100%**

[**] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

Exhibit 21.1

Subsidiaries of Crossroads Systems, Inc.

Subsidiary	Jurisdiction
Crossroads Systems (Texas), Inc.	Texas
Crossroads Europe GmbH	Germany
KIP CR P1 LP (1)	Delaware

(1) Crossroads Systems, Inc has a 99% limited partnership interest in KIP CR P1 LP.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference into the Registration Statements on Form S-8 (Reg. Nos. 333-176985, 333-192477 and 333-193190 and 333-201373) and Registration Statements on Form S-3 (Reg Nos. 333-172792, 333-188549 and 333-196379) of (i) our report dated January 13, 2016, relating to the consolidated financial statements of Crossroads Systems, Inc. and its subsidiaries, which reports are included in the Annual Report on Form 10-K of Crossroads Systems, Inc. for the year ended October 31, 2015.

/s/ **PMB Helin Donovan, LLP**

Austin , Texas

January 13, 2016

Exhibit 31.1

Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Richard K. Coleman, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of Crossroads Systems, Inc.;

2. Based on my knowledge, this report 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 13, 2016

/s/ Richard K. Coleman, Jr.
Richard K. Coleman, Jr.
Chief Executive Officer

Exhibit 31.2

Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Jennifer Crane, certify that:

1. I have reviewed this Annual Report on Form 10-K of Crossroads Systems, Inc.;

2. Based on my knowledge, this report 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 13, 2016

/s/ Jennifer Crane
Jennifer Crane
Chief Financial Officer

Exhibit 32.1

Certification of Principal Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350

I, Richard K. Coleman, Jr., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Crossroads Systems, Inc. for the year ended October 31, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Crossroads Systems, Inc.

Date: January 13, 2016

/s/ Richard K. Coleman, Jr.
Richard K. Coleman, Jr.
Chief Executive Officer

Exhibit 32.2

Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350

I, Jennifer Crane, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Crossroads Systems, Inc. for the year ended October 31, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Crossroads Systems, Inc.

Date: January 13, 2016

/s/ Jennifer Crane
Jennifer Crane
Chief Financial Officer