

Crossroads Systems Reports Fiscal First Quarter 2019 Financial Results

DALLAS, March 7, 2019 /PRNewswire/ -- Crossroads Systems, Inc. (OTC Pink: CRSS), a holding company focused on investing in businesses that promote economic vitality and community development, reported financial results for its fiscal first quarter ended January 31, 2019.



Fiscal Q1 2019 Financial Results

Revenue for the fiscal first quarter ended January 31, 2019 was \$7.2 million compared to \$3.2 million in the same period of 2018. Gross profit rose to \$2.1 million for the period ended January 31, 2019 compared to \$1.3 million for the same period in 2018. Property sales income for the quarter were \$4.3 million or 60 percent of total revenues compared to \$2.0 million in the first quarter of 2018. Interest income was \$2.8 million or 40 percent of revenue for the quarter compared to \$1.2 million for first quarter 2018. The operating income for the quarter was \$689,675 or \$0.12 earning per share compared to a loss of \$344,000 in the comparative period for 2018. The net income for the quarter was \$627,949 after recording a tax provision for \$61,726. The provision is a non-cash expense the Company offsets against its deferred tax asset of \$21.6 million.

At October 31, 2018, cash and cash equivalents totaled \$1.0 million.

Management Commentary

Eric A. Donnelly, Chief Executive Officer at Crossroads Systems, said, "We worked diligently in the first year of the assimilated businesses to reduce the holding company expenses to very efficient levels and the year over year improvement in Crossroads' quarterly earnings reflect that. As it has historically done, Capital Plus spent the first quarter of 2019 building inventory for the busy spring sales season. Our first quarter is typically our slowest sales period but demand for our affordable housing as well as mortgage demand and performance remain consistent year over year as we continue to build long term shareholder value."

About Crossroads Systems

Crossroads Systems, Inc. (OTC Pink: CRSS), is a holding company focused on investing in businesses that promote economic vitality and community development. Crossroads' subsidiary, Capital Plus Financial (CPF), is a certified Community Development Financial Institution (CDFI) and certified B- Corp which supports Hispanic homeownership with a long term, fixed rate single family mortgage product.

Important Cautions Regarding Forward-Looking Statements

This press release includes forward-looking statements that relate to the business and expected future events or future performance of Crossroads Systems, Inc. and Capital Plus Financial and involve known and unknown risks, uncertainties and other factors that may cause its actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, "believe," "expect," "anticipate," "estimate," "intend," "plan," "targets," "likely," "will," "would," "could," and similar expressions or phrases identify forward-looking statements. Forward-looking statements include, but are not limited to, statements about Crossroads Systems' and Capital Plus Financial's ability to implement their business strategy, and their ability to achieve or maintain profitability. The future performance of Crossroads Systems and Capital Plus Financial may be adversely affected by the following risks and uncertainties: economic changes affecting homeownership in the geographies where Capital Plus Financial conducts business, developments in lending markets that may not align with Capital Plus Financial's expectations and that may affect Capital Plus Financial's plans to grow its portfolio, variations in quarterly results, developments in litigation to which we may be a party, technological change in the industry, future capital requirements, regulatory actions or delays and other factors that may cause actual results to be materially different from those described or anticipated by these forward-looking statements. For a more detailed discussion of these factors and risks, investors should review Crossroads Systems' annual and quarterly reports. Forward-looking statements in this press release are based on management's beliefs and opinions at the time the statements are made. All forward-looking statements are qualified in their entirety by this cautionary statement, and Crossroads Systems undertakes no duty to update this information to reflect future events, information or circumstances.

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CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

For the period ended January 31, 2019
(In Thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$	1,033
Restricted Cash		673
Accounts receivable, net		801
Current portion of mortgage notes receivable		1,079
Inventories		9,523
Prepays and other current assets		<u>462</u>
Total current assets		13,571

Mortgage Notes Receivable		109,374
Goodwill		18,567
Deferred tax asset		21,604
Other non-current assets		<u>497</u>
Total assets	\$	<u>163,612</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$	78
Accrued expenses		642
Escrow liabilities		437
Current portion of senior secured credit facilities		68,057
Current portion of other note payable		168
Current portion of acquisition note payable		<u>2,843</u>
Total current liabilities		72,225

Senior secured credit facilities, net		29,560
Acquisition debt, net		<u>11,920</u>
Total liabilities		113,704

Stockholders' equity		<u>49,908</u>
Total liabilities and stockholders' equity	\$	<u>163,612</u>

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the quarter ended January 31, 2019
(In Thousands)

Revenue:

Interest income	\$	2,849
Property sales		4,315
Other revenue		<u>46</u>
Total revenue		7,209

Cost of revenue:

Interest expense	1,391
Cost of properties sold	3,678
Other cost of revenue	-
Total cost of revenue	<u>5,069</u>
Gross profit	<u>2,140</u>
Operating expenses:	
General and administrative	413
Salaries and wages	<u>737</u>
Total operating expenses	1,150
Income (loss) from operations	990
Other income (expense):	
Interest (expense) income	(300)
Other (expense) income	-
Income before provision for income taxes	<u>690</u>
Income tax provision	<u>(62)</u>
Net Income (loss)	<u>\$ 628</u>

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the quarter ended January 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 627,949
Adjustments to reconcile net income to net cash used in operating activities:	
Stock compensation	2,521
Gain on derivative related activity	(154,870)
Amortization of deferred financing fees	11,450
Provision for income taxes	-
Changes in operating assets and liabilities:	
Interest receivable	(69,911)
Notes receivable	(1,429,993)
Inventories	(2,034,971)
Prepays and other assets	(28,797)
Accounts payable	83,681
Accrued and other liabilities	(271,617)
Escrow liabilities	<u>(2,096,082)</u>
Net cash used in operating activities	(5,360,641)

CASH FLOWS FROM INVESTING ACTIVITIES

Restricted cash	<u>1,869,078</u>
Net cash used in investing activities	1,869,078

CASH FLOWS FROM FINANCING ACTIVITIES

Preferred equity contributions	2,500,000
Preferred equity dividend distributions	(136,740)
Borrowings on credit facilities, net	2,434,117
Principal payments on credit facilities	-
Principal payments on other notes payable	(41,002)
Borrowings on acquisition note payable	-
Principal payments on acquisition note payable	<u>(2,555,679)</u>
Net cash provided by financing activities	2,200,696
Net change in cash and cash equivalents	<u>(1,290,867)</u>
Cash and cash equivalents at beginning of the year	2,323,614
Cash and cash equivalents at end of the year	<u>\$ 1,032,747</u>

SUPPLEMENTAL INFORMATION

Cash paid for interest \$ 1,426,636

CROSSROADS SYSTEMS, INC.

Supplemental Schedule - Unaudited Consolidated Balance Sheet

As of January 31, 2019

	Unaudited Crossroads January 31, 2019	Unaudited CPF January 31, 2019	Unaudited Elimination Entries January 31, 2019	Unaudited Consolidated January 31, 2019
ASSETS				
Current assets:				
Cash and cash equivalents	48,516	984,230	-	1,032,747
Restricted cash	-	672,852	-	672,852
Accounts receivable, net	-	801,418	-	801,418
Inventories	-	9,523,242	-	9,523,242
Intercompany receivable	3,143,910	15,469,943	(18,613,853)	(0)
Prepays and other current assets	0 222,294	180,535	-	402,829
Earnest money deposits	-	58,995	-	58,995
Mortgage notes receivable (residential)	-	110,447,451	-	110,447,451
Discount on notes receivables acquired	-	(3,825)	-	(3,825)
Mortgage notes receivable (Commerical property)	-	8,879	-	8,879
Total current assets	3,414,720	138,143,720	(18,613,853)	122,944,587
Property and equipment, net	-	24,540	-	24,540
Investment in subsidiaries	13,386,175	-	(13,386,175)	-
Goodwill	18,566,966	-	-	18,566,966
Other assets	212,099	260,725	-	472,824
Deferred tax asset	21,603,560	-	-	21,603,560
Total assets	\$ 57,183,520	\$ 138,428,985	\$ (32,000,028)	\$ 163,612,477
	57,183,520			
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	0 204	77,894	-	78,098
Accrued and other current liabilities	330,073	311,450	-	641,523
Escrow liabilities	-	437,266	-	437,266
Due to subsidiaries	15,469,943	-	(15,469,943)	(0)
Revolving line of credit, inventory	-	7,731,633	-	7,731,633
Revolving line of credit, mortgage notes (current maturities)	-	55,686,070	4,639,056	60,325,126
Current portion of other note payable	-	-	168,071	168,071
Current portion of acquisition note payable	-	-	2,843,046	2,843,046
Payroll liabilities	-	-	-	-
Total current liabilities	15,800,220	64,244,312	(7,819,770)	72,224,762
Senior secured term notes (long-term)	-	34,198,621	(4,639,056)	29,559,565
Acquisition debt (long-term)	14,763,080	-	(2,843,046)	11,920,034
Total liabilities	30,563,300	98,442,933	(15,301,872)	113,704,361
Stockholders' equity:				
Total participating payables	-	157,187	-	157,187
Total preferred equity investment	-	18,099,582	-	18,099,582
Total subordinated debt	2,199,377	1,641,967	(168,071)	3,673,272
Members equity in CPF	-	19,008,082	-	19,008,082
Common stock	5,972	-	-	5,972

Additional paid-in capital	242,361,362	-	(13,351,925)	229,009,437
(Accumulated deficit)/Retained Earnings	(217,495,205)	-	(3,178,160)	(220,673,365)
Current year net (loss) income	<u>(451,286)</u>	<u>1,079,235</u>	<u>-</u>	<u>627,949</u>
Total stockholders' equity (deficit)	<u>26,620,220</u>	<u>39,986,052</u>	<u>(16,698,156)</u>	<u>49,908,116</u>
				-
Total liabilities and stockholders' equity (deficit)	<u>\$ 57,183,520</u>	<u>\$ 138,428,985</u>	<u>\$ (32,000,028)</u>	<u>\$ 163,612,477</u>

CROSSROADS SYSTEMS, INC.

Supplemental Schedule - Unaudited Consolidated Income Statement

For the Quarter Ended January 31, 2019

	Unaudited Crossroads January 31, 2019	Unaudited CPF January 31, 2019	Unaudited Consolidated January 31, 2019
Revenue:			
Interest income	\$ -	\$ 2,848,662	\$ 2,848,662
Property sales	-	4,315,103	4,315,103
Other revenue		45,600	45,600
Total revenue	<u>-</u>	<u>7,209,365</u>	<u>7,209,365</u>
Cost of revenue:			
Interest expense	-	1,391,024	1,391,024
Cost of properties sold	-	3,678,146	3,678,146
Other cost of revenue		-	-
Total cost of revenue	<u>-</u>	<u>5,069,170</u>	<u>5,069,170</u>
Gross Profit	<u>-</u>	<u>2,140,195</u>	<u>2,140,195</u>
Operating expenses:			
General and administrative	89,291	323,477	412,768
Salaries and wages	-	737,483	737,483
Total operating expenses	<u>89,291</u>	<u>1,060,960</u>	<u>1,150,251</u>
Income (Loss) from operations	(89,291)	1,079,235	989,944
Other income (expense):			
Interest (expense) income	(300,270)	-	(300,270)
Other (expense) income	-	-	-
Total other income (expense)	<u>(300,270)</u>	<u>-</u>	<u>(300,270)</u>
Income before provision for income taxes	(389,560)	1,079,235	689,675
Income tax provision	<u>(61,726)</u>	<u>-</u>	<u>(61,726)</u>
Net Income (Loss)	<u>\$ (451,286)</u>	<u>\$ 1,079,235</u>	<u>\$ 627,949</u>
Outstanding shares			5,976,994
Earnings per share, net income			<u>\$ 0.11</u>

**Unaudited Fiscal First Quarter 2019 Shareholder Report for
The Three Months Ended
January 31, 2019
Crossroads Systems, Inc.**
Delaware 74-284664
(State of Incorporation) (IRS Employer Identification No.)

**8214 Westchester Drive
Suite 950
Dallas, TX 75225**
(Address of principal executive office)

(214) 999-0149
(Company's telephone number)

**Common Stock
\$0.001 Par Value
Trading Symbol: CRSS
Trading Market: OTC Pink Open Market**

75,000,000 Common Shares Authorized

5,979,994 Shares Issued and Outstanding as of January 31, 2019

Dear Shareholder:

The first quarter is historically our seasonally slowest sales quarter as CPF builds its inventory of rehabilitated homes to be ready for the busy spring sales season in Texas. As previously stated, the exit of indiscriminate rent to own funds has allowed the company to build well priced inventory in order to meet one of the core missions – to provide an affordable home in densely urban MSAs of Texas.

CPF's outstanding mortgage balance portfolio continued to grow at its historical pace and is currently at \$110 million. For the first quarter, CPF generated \$2.8 million in interest income from its \$110 million fixed rate conventional mortgage portfolio and \$4.3 million sales from the sale of properties in low to moderate income census tracts. Again, the winter months are inventory building months vs robust home sales periods. This mirrors industry cycles. The consolidated operating income for the quarter was approximately \$690K before accruing for a non-cash tax provision of \$62K. The net income after the provision for was \$627K. Note the Company offsets this provision against its deferred tax asset of \$21.6M. At January 31, 2019, CPF's unadjusted leverage was 2.46x and the consolidated cash coverage ratio, adjusted for one-time and transaction expenses was 2.57x.

CPF as a certified CDFI is eligible to apply for the CDFI's Annual Bond Guarantee Program. Applications were due on February 25th and CPF has applied. We encourage any shareholders to read more about this incredible program on the CDFI Fund's website – www.cdfifund.gov. As a CDFI, CPF is also eligible for membership into the Federal Home Loan Bank System and is continuing to complete its membership application.

As a wholly owned subsidiary of Crossroads, the financials are presented on a consolidated basis (supplementary schedules are included for reference). The expenses at the holding company (Crossroads) level have been reduced to essential operating expenses and interest expense on the original acquisition loan. Crossroads and CPF continue to focus on impacting communities and delivering long term shareholder value while operating at efficiency expense ratios.

We thank you for your support of our social enterprise.

Saludos Cordiales,

Robert H. Alpert & Eric A. Donnelly