



Crossroads Systems Reports Fiscal Fourth Quarter and Fiscal Year 2019 Financial Results

DALLAS, Texas, December 12, 2019 – 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 fourth quarter and the year ended October 31, 2019.

The overall performance for the quarter and for fiscal 2019 was consistent with expectations. Portfolio growth remained in line with historical growth. The results of additional homes in inventory converting to additional sales volume has begun and to date, we are pleased with the sales volumes experience.

Fiscal Q4 2019 Financial Highlights

- Total property sales income was \$6.6 million for the quarter compared to \$4.1 million for the comparative period of 2018
- Total interest income was \$3.2 million up from \$2.7 million from the comparative period of 2018
- Operating income of \$1.0 million, up from \$476,000 for the comparative period of 2018
- Cash EPS (operating income less income to non controlling interests) increased to \$0.14 from \$0.06 for the comparative period of 2018
- Held 128 properties in inventory compared to 79 at the same time in 2018
- Added \$5.6 million in new single-family mortgages during the quarter
- Book Value of \$51.0 million or \$8.54 per share
- Cash balance of \$1.7 million

Fiscal 2019 Financial Highlights

- Total property sales income was \$25.3 million for the fiscal year compared to \$19.3 million for the comparative period of 2018
- Total interest income was \$12 million up from \$8.9 million from the comparative period of 2018

- Operating income of \$4.4 million, up from \$2.6 million for the comparative period of 2018
- Cash EPS (operating income less income to non controlling interests) increased to \$0.63 from \$0.36 for the comparative period of 2018
- The company booked \$688,000 of state and federal income tax expense for the fiscal year which will be offset against the deferred tax asset. In addition, the company recorded a tax valuation allowance of \$1.3 million related to unusable tax carryforward losses. This non-cash valuation allowance will swing year over year as we grow earnings and are able to utilize additional losses.

Eric A. Donnelly, Chief Executive Officer at Crossroads Systems, said, "With an almost 75% increase to EPS and 69% increase to operating income, we are excited about the momentum going into the recent announcement of our bank acquisition and what that means for our shareholders and customers later this year and beyond. We will continue to be prudent with inventory management and managing our liability sensitive balance sheet. The Texas economy continues to perform at a high level and interest rate outlook remains favorable for responsible scaling of our company and continued social impact throughout our markets."

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
(In Thousands)

	<u>October 31,</u> <u>2019</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,736
Restricted Cash	2,583
Accounts receivable, net	892
Current portion of mortgage notes receivable	1,478
Inventories	11,796
Prepays and other current assets	349
Total current assets	<u>18,835</u>
Mortgage Notes Receivable	122,207
Goodwill	18,567
Deferred tax asset	19,680
Other non-current assets	214
Total assets	<u><u>\$ 179,503</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$ 350
Accrued expenses	620
Escrow liabilities	2,653
Current portion of senior secured credit facilities	63,139
Current portion of other note payable	168
Current portion of acquisition note payable	2,495
Total current liabilities	<u>69,425</u>
Senior secured credit facilities, net	48,637
Acquisition debt, net	10,397
Total liabilities	<u>128,458</u>
Stockholders' equity	<u>51,044</u>
Total liabilities and stockholders' equity	<u><u>\$ 179,503</u></u>

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands)

		For the year ended October 31, 2019
Revenue:		
Interest income	\$	11,986
Property sales		25,331
Other revenue		387
Total revenue		37,704
Cost of revenue:		
Interest expense		6,298
Cost of properties sold		21,149
Total cost of revenue		27,447
Gross profit		10,257
Operating expenses:		
General and administrative		2,071
Salaries and wages		2,760
Total operating expenses		4,831
Income (loss) from operations		5,425
Other income (expense):		
Interest (expense) income		(1,064)
Other (expense) income		-
Income before provision for income taxes		4,361
Income tax provision		(1,991)
Net Income (loss)		2,370
Less: income attributable to non-controlling interests		(618)
Net income attributable to controlling interests	\$	1,752

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (In Thousands)

For the year ended
October 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$	2,370
Adjustments to reconcile net income to net cash used in operating activities:		
Stock compensation		(2)
Gain on derivative related activity		(155)
Amortization of deferred financing fees		11
Provision for income taxes		-
Changes in operating assets and liabilities:		
Interest receivable		(161)
Notes receivable		(14,663)
Inventories		(4,308)
Prepays and other assets		368
Accounts payable		2,279
Accrued and other liabilities		(241)
Escrow liabilities		119
Net cash used in operating activities		(14,382)

CASH FLOWS FROM INVESTING ACTIVITIES

Restricted cash		(41)
Net cash used in investing activities		(41)

CASH FLOWS FROM FINANCING ACTIVITIES

Preferred equity contributions		2,500
Preferred equity dividend distributions		(664)
Borrowings on credit facilities, net		16,594
Principal payments on credit facilities		-
Principal payments on other notes payable		(168)
Borrowings on acquisition note payable		-
Principal payments on acquisition note payable		(4,427)
Net cash provided by financing activities		13,835

Net change in cash and cash equivalents		(588)
Cash and cash equivalents at beginning of the year		2,324
Cash and cash equivalents at end of the year	\$	1,736

SUPPLEMENTAL INFORMATION

Cash paid for interest	\$	7,098
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CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands)

		For the three months ended October 31, 2019
Revenue:		
Interest income	\$	3,160
Property sales		6,611
Other revenue		42
Total revenue		9,814
Cost of revenue:		
Interest expense		1,683
Cost of properties sold		5,548
Total cost of revenue		7,231
Gross profit		2,583
Operating expenses:		
General and administrative		666
Salaries and wages		691
Total operating expenses		1,356
Income (loss) from operations		1,226
Other income (expense):		
Interest (expense) income		(240)
Other (expense) income		-
Income before provision for income taxes		986
Income tax provision		(1,587)
Net Income (loss)		(601)
Less: income attributable to non-controlling interests		(156)
Net income attributable to controlling interests	\$	(757)

CROSSROADS SYSTEMS, INC.**Supplemental Schedule - Consolidated Balance Sheet****As of October 31, 2019**

	Crossroads October 31, 2019	CPF October 31, 2019	Elimination Entries October 31, 2019	Consolidated October 31, 2019
ASSETS				
Current assets:				
Cash and cash equivalents	34,030	1,701,595	-	1,735,625
Restricted cash	-	2,583,057	-	2,583,057
Accounts receivable, net	-	892,213	-	892,213
Inventories	-	11,796,430	-	11,796,430
Intercompany receivable	3,143,910	18,579,160	(21,723,070)	(0)
Prepays and other current assets	201,704	97,338	-	299,042
Earnest money deposits	-	49,890	-	49,890
Mortgage notes receivable (residential)	-	121,858,489	-	121,858,489
Discount on notes receivables acquired	-	(20,244)	-	(20,244)
Mortgage notes receivable (Commerical property)	-	1,847,106	-	1,847,106
Total current assets	3,379,644	159,385,034	(21,723,070)	141,041,608
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	177,749	11,543	-	189,292
Deferred tax asset	19,680,324	-	-	19,680,324
Total assets	\$ 55,190,857	\$ 159,421,118	\$ (35,109,245)	\$ 179,502,730
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	10,162	340,298	-	350,460
Accrued and other current liabilities	199,457	420,206	-	619,663
Escrow liabilities	-	2,652,581	-	2,652,581
Due to subsidiaries	18,579,160	-	(18,579,160)	(0)
Revolving line of credit, inventory	-	10,677,838	-	10,677,838
Revolving line of credit, mortgage notes (current maturities)	-	54,186,080	(1,724,723)	52,461,357
Current portion of other note payable	-	-	168,071	168,071
Current portion of acquisition note payable	-	-	2,495,160	2,495,160
Payroll liabilities	-	-	-	-
Total current liabilities	18,788,779	68,277,003	(17,640,652)	69,425,130
Senior secured term notes (long-term)	-	46,911,858	1,724,723	48,636,581
Acquisition debt (long-term)	12,891,703	-	(2,495,160)	10,396,543
Total liabilities	31,680,482	115,188,862	(18,411,089)	128,458,255
Stockholders' equity:				
Total participating payables	-	156,049	-	156,049
Total preferred equity investment	-	18,053,507	-	18,053,507
Total subordinated debt	2,199,377	1,514,898	(168,071)	3,546,203
Members equity in CPF	-	18,580,846	-	18,580,846
Common stock	5,972	-	-	5,972
Additional paid-in capital	242,361,362	-	(13,351,925)	229,009,437
(Accumulated deficit)/Retained Earnings	(217,499,406)	-	(3,178,160)	(220,677,566)
Current year net (loss) income	(3,556,930)	5,926,957	-	2,370,027
Total stockholders' equity (deficit)	23,510,375	44,232,256	(16,698,156)	51,044,475
Total liabilities and stockholders' equity (deficit)	\$ 55,190,857	\$ 159,421,118	\$ (35,109,246)	\$ 179,502,729

CROSSROADS SYSTEMS, INC.

Supplemental Schedule - Consolidated Income Statement

For the Quarter Ended October 31, 2019

	Crossroads October 31, 2019	CPF October 31, 2019	Consolidated October 31, 2019
Revenue:			
Interest income	\$ -	\$ 3,160,107	\$ 3,160,107
Property sales	-	6,611,054	6,611,054
Other revenue		42,433	42,433
Total revenue	-	9,813,594	9,813,594
Cost of revenue:			
Interest expense	-	1,682,942	1,682,942
Cost of properties sold	-	5,547,809	5,547,809
Other cost of revenue		-	-
Total cost of revenue	-	7,230,752	7,230,752
Gross Profit	-	2,582,843	2,582,843
Operating expenses:			
General and administrative	126,771	538,908	665,678
Salaries and wages	-	690,675	690,675
Total operating expenses	126,771	1,229,583	1,356,354
Income (Loss) from operations	(126,771)	1,353,259	1,226,489
Other income (expense):			
Interest (expense) income	(240,126)	-	(240,126)
Other (expense) income	-	-	-
Total other income (expense)	(240,126)	-	(240,126)
Income before provision for income taxes	(366,896)	1,353,259	986,363
Income tax provision	(1,587,459)	-	(1,587,459)
Net Income (Loss)	\$ (1,954,356)	\$ 1,353,259	\$ (601,096)
Less: income attributable to non-controlling interests	\$ -	(155,546)	(155,546)
Net income attributable to controlling interests	\$ (1,954,356)	\$ 1,197,713	\$ (756,642)
Outstanding shares			5,971,994
Earnings per share, before income tax provision			\$ 0.14

CROSSROADS SYSTEMS, INC.

Supplemental Schedule - Consolidated Income Statement

For the Year Ended October 31, 2019

	Crossroads October 31, 2019	CPF October 31, 2019	Consolidated October 31, 2019
Revenue:			
Interest income	\$ -	\$ 11,986,113	\$ 11,986,113
Property sales	-	25,330,557	25,330,557
Other revenue	-	387,264	387,264
Total revenue	-	37,703,935	37,703,935
Cost of revenue:			
Interest expense	-	6,298,379	6,298,379
Cost of properties sold	-	21,148,760	21,148,760
Other cost of revenue	-	-	-
Total cost of revenue	-	27,447,139	27,447,139
Gross Profit	-	10,256,796	10,256,796
Operating expenses:			
General and administrative	501,539	1,569,875	2,071,413
Salaries and wages	-	2,759,964	2,759,964
Total operating expenses	501,539	4,329,838	4,831,377
Income (Loss) from operations	(501,539)	5,926,957	5,425,418
Other income (expense):			
Interest (expense) income	(1,064,403)	-	(1,064,403)
Other (expense) income	-	-	-
Total other income (expense)	(1,064,403)	-	(1,064,403)
Income before provision for income taxes	(1,565,941)	5,926,957	4,361,016
Income tax provision	(1,990,989)		(1,990,989)
Net Income (Loss)	\$ (3,556,930)	\$ 5,926,957	\$ 2,370,027
Less: income attributable to non-controlling interests	\$	(617,582)	(617,582)
Net income attributable to controlling interests	\$ (3,556,930)	\$ 5,309,375	\$ 1,752,445
Outstanding shares			5,971,994
Earnings per share, before income tax provision			<u>\$ 0.63</u>

**Shareholder Report for
the Fourth Quarter & Fiscal Year Ended
October 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

5,971,994 Shares Issued and Outstanding as of October 31, 2019

Dear Shareholder:

As we complete our second successful fiscal year at the helm of Crossroads, we look to our third year as hugely transformative to our business. Before we expand on the proposed bank acquisition, we'd like to summarize the 2019 financial results.

During the year, we successfully sold 179 properties, ending the year with a mortgage portfolio balance of \$122 million. To further impact our communities, we made a decision to decrease our operating margins on property sales as a means to drive more volume and loan growth. This is especially significant in a bank structure where loan growth and interest margin are key metrics. Our operating income for the year continued to grow to \$4.4 million compared to \$2.6 million in the prior year. As a result of our focus on volume and loan growth, we have been able to increase our inventory of available homes from 79 homes at October 31, 2018 to 128 homes at October 31, 2019, which should result in higher sales for 2020. We feel strongly that the margin reduction will result in long-term portfolio growth and increased earnings for the company.

In addition, we continued to evaluate new markets opportunities and chose to expand into McAllen, Texas by acquiring three individual lots and another group of 22 in a new residential development. We have partnered with a local builder to build the homes and have sold and closed on one to date. The delivery of these homes will have a longer cycle than our usual single-family product in our existing markets but have a lower risk profile as the homes will be built after qualified buyers are under contract. We will offer financing to qualified buyers of these homes as we do on our existing inventory of homes.

We continue to operate with social responsibility at the forefront, and we are quite proud of the work our team has done. A copy of our Social Impact report can be found on our website.

On November 18th, we announced our definitive agreement to purchase Rice Bancshares Inc. (the "Bank"), a Texas community bank located just outside of our DFW market and 8 years away from celebrating its 100th year serving its communities. We will acquire the Bank for approximately \$32M in cash which will result in merged bank book value of just under \$60 million dollars. We anticipate that the combination of our operating subsidiary, Capital Plus Financial ("CPF"), and the First State Bank will result in one of the best capitalized and highest performing Community Development Financial Institution ("CDFI") banks and Minority Depository Institutions ("MDI") in the country. Our goal is not only to lead in our corner of the industry but to be one of the best performing banks in the country. With a holding company board comprised of experienced bank board directors and a bank board actively supporting the success of the combined companies, we are confident in our ability to execute on our growth plan.

While the timing for regulatory approval is unknown; the acquisition and merger with the Bank is expected to be immediately accretive to our shareholders. The Bank's current cost of funds is less than 100 basis points which will result in a decrease to our current cost of capital of greater than 300 basis points. Moreover, we anticipate growing the deposit base of the Bank considerably to broaden the shorter end of the liability side of the balance sheet in today's favorable interest rate environment. On the longer end of the curve and to better match fund the longer dated assets of

the combined entity, we intend to complete our CDFI Bond Guarantee Application in 2020 which was carried over from last year.

In addition, we are projecting historical originations for CPF and conservative loan growth at the Bank. While there will undoubtedly be efficiencies gained from the merger and increased quality commercial loan production, we expect our return on average assets and return on equity to be far in excess of average bank metrics. We expect our return on assets to be in excess of 2.5% and our return on equity in excess of 18% with a capital ratio of at least 15%, all of which compare favorably to peers and demonstrate a highly profitable and well capitalized bank. We hope to be able to realize further savings from collaborating with our bank partners to share important compliance services. One of our goals is to continue to help them achieve their Community Reinvestment Act (“CRA”) qualifications by sharing services and excess deposits with our bank, for example.

Not surprisingly, our deposit strategy will focus both on earnings and social impact. We plan to grow the Bank organically in our markets by banking quality C&I customers but we will also leverage on the trust we’ve developed in our markets to offer basic financial services to the underbanked and unbanked in Texas which by some estimates represents 25% of the population. As a proven social enterprise and B-Corp, we believe we can close the trust gap which often prevents people from depositing with traditional banks. The third deposit strategy will be to solicit excess deposits from larger institutions in our markets who will receive CRA credit for supporting a CDFI and MDI. A recent House Financial Services Sub Committee meeting on MDIs highlighted the push for collaboration between large banks and MDIs. A common form of this collaboration is the placement of deposits into the MDI.

We expect to file our regulatory application with the Federal Reserve this quarter for Crossroads to apply for bank holding company status and to the FDIC and Texas Department of Banking for the bank acquisition. The resulting transaction will merge CPF and the bank with CPF’s real estate activities done through a wholly owned subsidiary of the bank in a community development corporation (“CDC”). The CDC will continue CPF’s mission of providing affordable housing throughout its markets and will look to expand its social impact throughout its markets.

To that end, CPF consummated a licensing agreement with SG Blocks, Inc. (NASDAQ: SGBX) in the fourth fiscal quarter of 2019 to license SG Blocks’ residential technology under the name SG Residential (“SGR”), a public welfare investment of the CDC. Our agreement provides exclusive rights to the residential construction pipeline in the United States and its territories. Our licensing agreement allows us to develop residential home and multifamily projects in an efficient and profitable manner to help scale the real estate vertical of our business. The public welfare investment will focus initially on Opportunity Zone eligible projects. We do not believe this will be a capital intensive endeavor however it does help us to fulfill our mission to improve low to moderate communities.

We believe in the SG Blocks technology, its efficiency and the benefits it can provide to low to moderate income homeowners often most at risk in natural disasters. We view this as a very low cost opportunity to expand our housing mission and one which leverages our expertise in project

management and bidding accuracy to create a low risk, high return vertical for the company using our existing overhead.

In summary, we're honored that you're on this journey with us as we continue to transform Crossroads into a well-capitalized financial holding company. We will continue to come up with innovative solutions to maximize shareholder value and social impact equally. Thank you for your continued support.

Saludos Cordiales,

Robert H. Alpert & Eric A. Donnelly