

EVENT NAME: Crossroads Systems Business and Intellectual Property Update Call
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Speaker: Rick Coleman; Crossroads Systems Inc., President & CEO

Questions from: Mike Latimore: Northland Capital Markets, Analyst

Questions from: Krishna Shankar: ROTH Capital Markets, Analyst

Questions from: David Spier: Nitor Capital, Analyst

Operator: Good afternoon and thank you for participating in today's conference call to discuss Crossroads Systems' Intellectual Property. With us today are Mr. Rick Coleman, the company's President and Chief Executive, Ms. Jennifer Crane, the company's Chief Financial Officer, and Mr. Mark Hood, the company's EVP of Corporate Development.

Following their remarks, we will open up the call for questions. Before we begin today's call, I will provide the necessary cautions regarding forward-looking statements made during this call.

During this call, the company's management will make certain forward-looking statements related to the businesses of Crossroads Systems Incorporated, which can be identified by the use of forward-looking terminologies such as believes, expects, plans, intends, anticipates, targets, projects and variations of such words or similar expression, but their absence does not mean that the statement is not forward-looking.

Statements in this announcement that are forward-looking include, but are not limited to, statements made by Mr. Coleman, Ms. Crane, or Mr. Hood about our expectations regarding future growth, operating and financial results, market demand or opportunities for our product and development and litigation we may be involved in, as well as statements about our business plans and objectives.

Such forward-looking statements involve known and unknown risks and uncertainties including uncertainties relating to product development and commercialization, the ability to maintain patent and other proprietary intellectual property protection, market acceptance, future capital requirements, regulatory actions or delays, competition in general and other factors.

These factors may cause actual results to be materially different from our historical results or from the results anticipated by our forward-looking statements. You should review our recent public filings filed with the Securities and Exchange Commission including our 2015 Form 10-K and Form 10-Qs for more complete discussion of these factors and other risks.

Crossroads Systems is not obligating itself to publically update or alter its forward-looking statements whether as a result of new information, future events or otherwise. I would like to remind everyone that a webcast replay of this call will be available via the

link provided in today's press release, as well as available on the company's website at crossroads.com.

Now, I would like to turn the call over to Mr. Rick Coleman. Sir, please proceed.

Rick Coleman: Thank you, Whitney. Good afternoon everyone and thank you for joining our business and intellectual property update. As you know, last week we received unexpected and disappointing decisions from the Patent Trial and Appeal Board regarding the validity of two of Crossroads' patents.

In a moment I will discuss those decisions, but first, let me offer some background on our '972 patents and our related patent infringement lawsuits against NetApp, Oracle, Cisco and Quantum.

Since 1996, Crossroads has been developing vital technology for the storage industry. Over the course of almost 20 years, the company has authored 165 patents and pending patents, many of which are foundational to the storage industry. Our '972 Portfolio, the focus of our current lawsuits, addresses the capability to provide host-based access controls to virtual local storage using a map. The technology covered by these 31 patents and pending patents allows users to control which host can access which storage resources and has a long and successful history.

The patents have generated over \$61 million in Crossroads revenue in settlements and out of court licenses. 51 companies have licensed patents from Crossroads, 17 of which did so without litigation and 34 as a result of successful litigation-related settlements. We have brought 13 distinct lawsuits in the Western District Court of Texas, including 4 current lawsuits against Oracle, NetApp, Cisco and Quantum.

We went to trial in one case and received a verdict of infringement and validity. The case was later appealed to the Federal Circuit and we won the appeal. In one other case, we received a default judgment. All four of our Markman rulings have been positive for Crossroads. And finally up until last week, we had never lost a significant ruling.

In late 2013 and early 2014, after many years of unsuccessful efforts to negotiate friendly licensing arrangements, we decided to pursue relief in Federal Court. As you know, we filed patent infringement lawsuits against NetApp, Oracle, Cisco, Dell, Tandberg and Huawei. We later settled the cases with Tandberg and Huawei and based on information we learned during legal discovery, we dropped the lawsuit against Dell.

All of the remaining lawsuits are related to four related patents in the '972 Patent family, the '035, '147 and, '041 patents were asserted against all defendants and the '311 patent was asserted only against NetApp. In a separate legal matter in 2012, we conducted an audit of an existing licensee, Dot Hill. Although Dot Hill had been paying ongoing license fees, Dot Hill had not fully complied with their obligation to pay licensing fees under the license agreement. When Dot Hill failed to pay the disputed amounts, we filed suit.

In response to our lawsuits, these defendants filed inter partes review requests or IPRs seeking review of all four of our asserted patents by the Patent Trial and Appeal Board or PTAB. An IPR is a post-grant review of an issued patent in which the petitioner attempts to challenge the validity of a patent on grounds of novelty and obviousness.

The law requires the PTAB to follow certain guidelines. Petitioners, such as the defendants in our cases, have the burden of proving a proposition of un-patentability by a preponderance of the evidence. The evidence must rely solely on prior art in the form of other patents or printed publications. To support a conclusion of obviousness necessary to invalidate our patents, the prior art references must disclose each and every claim limitation.

The defendants in our cases are relying on three combinations of prior art references. We have seen all of this prior art in previous cases and in fact, some of it was actually referenced in our patents at the time they were approved. Nonetheless, although the patents had been previously reviewed and later upheld by the patent office, the patent office granted the IPRs in order to review these three combinations of prior art references.

On October 30th, 2015, our legal team argued before a four-judge panel and we left the hearing believing we had proven our case successfully. However, last week, the PTAB judges issued decisions on five of the six IPRs, ruling against the '035 and '147 patents based on two of the three combinations. The PTAB agreed with Crossroads that one of the combinations did not invalidate. The IPR relating to our '041 patent is still undecided and that decision is due on or before March 17th, 2016.

NetApp's IPRs filed against the '311 patent were defeated last year. As a result, the '311 patent asserted solely against NetApp has no decisions pending.

We are extremely surprised and disappointed with the PTAB's adverse rulings on the two prior art combinations. We believe there were errors of both fact and law in the decisions and that the PTAB came to erroneous conclusions on all of the adverse IPR decisions issued last week.

We plan to appeal the rulings. The Board of Directors, management team and our legal advisors are evaluating our appeal alternatives, including the possibility of a request for rehearing before the PTAB or an appeal to the U.S. Federal Circuit. We expect to make a final decision within the next few weeks and we'll issue a press release and 8-K to update investors at that time.

Subject to obtaining necessary approvals, we're also taking other actions to increase shareholder value. In the coming weeks, we will work with our partner, Fortress Investment Group, to explore near-term alternatives to monetize the 135 patents and pending patents that comprise our non-'972 Patent Portfolio.

This portfolio has been analyzed three times, once during Fortress Investment Group's due diligence prior to loaning us \$10 million with the patents as collateral, a second time, by a third-party team of intellectual property experts, and finally by Kroub, Silbersher & Kolmykov, a New York-based intellectual property law firm.

Their feedback and our own analysis indicate that the patents may represent substantial untapped value and may have been incorporated in the underlying technologies associated with billions of dollars of storage industry revenue. Although we remain encouraged by this opportunity, we can provide no assurance that any transaction will be consummated.

The Board of Directors has also authorized management to explore strategic alternatives related to our product business, including the possibility of partnerships or an outright sale of that business. Although again, we can provide no assurance that any transaction will be consummated.

We are also exploring alternative strategies to utilize our potentially valuable federal tax assets. Our \$132 million net operating loss or NOL is still intact and can be applied to shield future profits from federal taxation.

Crossroads' intellectual property represents nearly two decades of work by our skilled and dedicated employees and our shareholders deserve to be compensated for the use of our technology. We remain committed to making that happen and resolute in our belief that we will prevail.

I will now turn the call over to the operator for questions.

Question and Answer Period

Operator: Thank you, sir. (Operator Instructions) We'll take our first question from Mike Latimore with Northland Capital Markets.

Mike Latimore: Great. Thanks, everybody. I guess just to get a sense of the process here, if you decide to go the rehearing route versus the Federal Circuit route, you know, what's the process there, how long does it take and what would be the difference in cost?

Rick Coleman: Thanks, Mike. We're still evaluating what the timeframes look like on those two different alternatives. In the case of the rehearing before the PTAB, we essentially go back with new information or clarifications to the original panel of judges. In the case that we go to the Federal Circuit, we're essentially asking for the Federal Circuit to overturn the decision of the PTAB.

Mike Latimore: OK. Would there be, I mean would the eventual ruling happen within, I don't know, 12 months or is it hard to estimate at this point?

Rick Coleman: I think we're well within 12 months.

Mike Latimore: OK, got it. And then the '311 patent where there's not -- what's your thought on that, I guess, are you going to move forward on that one?

Rick Coleman: Yeah, I'm not going to speculate on that right now, Mike. I will say that all of our patents are related in certain important ways, they're all related to the storage industry, they're all related on the '972 family to access controls. The '311 is one of the patents that fits that profile, it just so happens that NetApp's requests for inter partes review were defeated. Therefore, there's no pending action to invalidate the '311 patent.

Mike Latimore: And then just, it might be too early to estimate but as you think about, you know, alternatives for the product business and then maybe different, you know, legal -- strategic legal routes here, how do you think generally about expenses, whether it's R&D, legal expenses under the new strategy here?

Rick Coleman: Yes, we're still doing our own internal evaluation. You know, this came as a real shock to us and we've only had this information since last Friday and you know, we've got a lot of work to do. I'm not going to provide any guidance at this point, but as you know, our earnings call is scheduled for March 10th.

Mike Latimore: Got that. OK, great. Thanks a lot and good luck.

Rick Coleman: Thank you, Mike.

Operator: We'll take our next question from Krishna Shankar with Roth Capital.

Krishna Shankar: Yes. Regarding the '041 patent, you said that that PTAB review should be in before March. How, you know, can you sort of give us some sense for how that ties to the other two patents and whether the decision on that will be totally independent of the four decisions so far on the '035 and '147 patent?

Rick Coleman: Yea, Krishna thank you. Unfortunately, I don't have any way of answering that question. I will tell you that the public schedule for the '041 patent ruling was that it will come in mid-March, but having said that, there was one IPR ruling on the '147 patent that wasn't scheduled until April and we got it last Friday.

Krishna Shankar: I see, OK. And then in the past you've talked about the \$200 million number that you thought would be kind of an appropriate award for your IP based on those patents. Can you give us some sense for what the value of the non-'972 patent portfolio might be to you based on independent assessments?

Rick Coleman: Yea, the assessments that we've gotten and we've spoken about publicly just have to do with billions of dollars of industry revenue. We haven't done the level of work that we would need to do to figure out exactly which infringing companies or suspected infringing companies have products that equate to some level of revenue that we could attach to.

Krishna Shankar: OK, and then finally on the product business, are there any near-term changes to the product business with respect to StrongBox? And you talked about partnerships, is that partnerships with a distribution company, which would take over a lot of the sales and marketing or would you basically sell the product and the IP to another company? I mean what are you exploring?

Rick Coleman: I think at this point, we're considering a number of different alternatives and we may not even have on our list of options all of them that we should consider. It could be that some of our partners, whether they're distribution partners or even companies that we don't currently work with have their own ideas about how to proceed. So we're going to be open to those kinds of discussions and start the process as soon as this call ends.

Krishna Shankar: Great. And then my final question, can you talk about the cash burn right now, how much cash is there on the balance sheet and, you know, what do you expect the cash burn to be near-term, over the next couple of quarters?

Rick Coleman: I'm going to wait until our earnings call to provide a financial update.

Krishna Shankar: OK, thank you.

Rick Coleman: Thanks, Krishna.

Operator: We'll take our next question from David Spier with Nitor Capital.

David Spier: Hey, how are you?

Rick Coleman: Hi David.

David Spier: The first question I have is, I'm just trying to get a better understanding here and I appreciated the color given on the call but you mentioned you're going to appeal. I think the question I have and I think other shareholders might have is, one, do you have the capital currently to go through an appeal and as well as, you know, Techquity, if they are still committed to their financing and pursuing an appeal, as well?

Rick Coleman: Yea, I won't speak on behalf of Techquity, but I will say that we are taking the steps necessary to make sure that we do have the capital required to manage the appeal. Most of the legal work has been done already. Essentially, we've developed our legal arguments and presented them over series of months and that work culminated on October 30th when we appeared before the Patent Trial and Appeal Board.

So, there's clearly more work to be done to develop our appeal justification and present that information, but nothing near the level of work that was required to get us to the board in the first place.

David Spier: And additionally as well, I mean with that case, it was with the understanding that this was also a contingency case obviously that didn't apply to expert witnesses in that matter. But in terms of continuing to the appeal, is now the lawyers as well as part of their decision to put a contingency as well if they continue that work, is that part of the contingency deal?

Rick Coleman: The contingency part of our agreement with our lawyers kicks in after we get through the IPR process.

David Spier: So it will be in the court, if it gets to court.

Rick Coleman: Right.

David Spier: Got it.

Rick Coleman: Once we, in preparation to getting to trial that would be when we would expect our legal expenses to fall pretty significantly. And then, in the event there's an appeal of the trial verdict that also will be a part of our contingency agreement.

David Spier: Got it. And then is there any way, I guess to isolate the '311 patent more or less, regardless of the appeal in the recent IPRs, but for the '311, is there any way to give an idea of, is that a substantial claim? What is the meaning to that?

Rick Coleman: I think the best way to answer that is to say that, all of the patents that we asserted against the defendants are patents that we felt their products infringed. So for example, all three patents that we asserted against Quantum, we feel that all of their products infringe on all three of those patents, the same is true with the four patents we asserted against NetApp.

David Spier: Understood, so essentially it would be tied and you would need the other patents as well to enforce the '311?

Rick Coleman: Not necessarily. Again, we didn't look at it that way when we filed suit. We filed suit for infringement of all of the patents we knew they infringed but we just need to prove that they're infringing one of the patents.

David Spier: Got it, understood. And then in terms of mentioning the shareholder initiatives with selling the possibly, monetizing the non-'972 portfolio, as well as the product business, I mean is that something where if you do monetize it, that investors can be assured that that money will be going back towards investors, or if not that it will be going towards funding further pursuit of the patent claim? I mean, when you mentioned shareholder initiatives, is that monetization for a return of capital? What does that mean exactly?

Rick Coleman: Yea, It's way too early for me to speculate on that.

David Spier: OK, I mean, all right. I'm just trying to get something of more I guess clear-cut answers here because -

(Unintelligible)

Rick Coleman: --we know there are a lot of questions in the situation that we're in. I wish I had all the answers, but I don't.

David Spier: Yea, I understand. I'm just trying to really get a feel of whether there is truly value here more than the current market cap or if that's not the case, then that's really just what I was trying to get it. So, anything that could be helpful on those that would be great.

Rick Coleman: Yea, clearly, we believe there's way more value than the current market cap. In fact, I want to say very clearly, this case isn't over. If you've been involved in legal battles in the past, especially significant ones and financially, this is just middle innings, right. So we've had a set of adverse rulings and we're reacting to that but in our mind, we're still expecting to win the game.

David Spier: And you believe you have the assets in more or less like assets also wherewithal, in terms of assets to continue pursuing the case? Because you said it's not over, but as well as the what needs to be known is whether you have it currently, the assets, so clearly you're saying you do.

Rick Coleman: I understand your question and if we didn't believe that we would be able to get to the end of this process, we wouldn't embark on it.

David Spier: Got it. OK, I do appreciate the call again. Thanks a lot, guys.

Rick Coleman: OK, thank you.

Operator: At this time, this concludes our question-and-answer session. I would now like to turn the call back over to Mr. Coleman. Sir, please proceed.

Rick Coleman: OK, thank you, Operator. I want to close by reminding investors that our management teams and Board of Directors are aligned with your interest. Our 29% beneficial ownership of Crossroads common stock hasn't changed and we're working on your behalf everyday. It is our intent to deliver significant shareholder value, it always has been. We're going to update you on our Q1 earnings call scheduled for March 10th. I appreciate your dialing in to the call and we look forward to providing you an update at that time.