

Crossroads Systems, Inc.
Updated Liquidation Analysis¹

Pursuant to section 1129(a)(7) of the Bankruptcy Code (the “Best Interests Test”), each Holder of an Impaired Interest must either: (i) accept the Prepackaged Plan; or (ii) receive or retain under the Prepackaged Plan property of a value, as of the Effective Date, that is not less than the value such non-accepting Holder would receive or retain if the Debtor were to be liquidated under chapter 7 of the Bankruptcy Code on the Effective Date.

Except for Class 5 Preferred Interests, all the Classes of Claims or Interests in the Prepackaged Plan are Unimpaired. Therefore, in determining whether the Best Interests Test has been met, the first step is to determine the projected recovery that Class 5 Preferred Interests would receive in a hypothetical liquidation of the assets of the Debtor in a chapter 7 proceeding. That amount is then compared to the projected recovery that such Class is expected to receive under the Prepackaged Plan.

The Debtor, with the assistance of their restructuring advisors, prepared this hypothetical liquidation analysis (the “Updated Liquidation Analysis”). The Updated Liquidation Analysis indicates the estimated amounts available to make Distributions to Holders of Preferred Interests as part of a hypothetical chapter 7 liquidation, as an alternative to the Prepackaged Plan. This Updated Liquidation Analysis does not compare alternative recoveries to Holders of Secured Claims, Priority Non-Tax Claims, General Unsecured Claims, Subordinated Claims, or Common Interests as they were deemed to, accept the Prepackaged Plan. The Updated Liquidation Analysis is based upon the assumptions discussed herein and in the Disclosure Statement.

The Updated Liquidation Analysis has been prepared to reflect the hypothetical situation that the Chapter 11 Case convert to a chapter 7 case on or about September 13, 2017 (the “Liquidation Date”) with a chapter 7 trustee (the “Chapter 7 Trustee”) appointed by the Bankruptcy Court. It also assumes that the Effective Date would occur on the Liquidation Date. The Debtor believes that the Prepackaged Plan provides a better recovery for Holders of Preferred Interests, and for Holders of Common Interests, as compared to a liquidation under chapter 7 of the Bankruptcy Code. The Debtor believes that a conversion to chapter 7 would result in a delay of Distributions to Creditors and Interest Holders and a reduction in recoveries compared to those available under the Prepackaged Plan. In addition, conversion would delay distributions to creditors because the Chapter 7 Trustee and his/her professionals would require additional time and effort to evaluate the Debtor’s books and records, Creditors’ Claims, Interests, and assets. Accordingly, the Debtor believes the value of property to be received under the Prepackaged Plan by each Holder of a Preferred Interest would be equal to or greater than the value such Holders would receive in a liquidation under chapter 7 of the Bankruptcy Code. Finally, the Updated Liquidation Analysis shows that Holders of Common Interests would receive no recovery under a chapter 7 liquidation.

The determination of the hypothetical chapter 7 liquidation to wind down the Debtor’s estate is an uncertain process involving the use of estimates and assumptions that, although considered

¹ Unless separately defined herein, all capitalized terms have the meanings ascribed to them in the *Prepackaged Plan of Reorganization for Crossroads Systems, Inc. Under Chapter 11 of the Bankruptcy Code (with First Technical Modifications)* [Docket No. 69] (the “Prepackaged Plan”).

reasonable by the Debtor and their advisors, are inherently subject to significant uncertainties and contingencies beyond the Debtor's control. ACCORDINGLY, NEITHER THE DEBTOR NOR ITS ADVISORS MAKE ANY REPRESENTATION OR WARRANTY THAT THE ACTUAL RESULTS UNDER THE PREPACKAGED PLAN OR A CHAPTER 7 LIQUIDATION OF THE DEBTOR WOULD OR WOULD NOT APPROXIMATE THE ASSUMPTION REPRESENTED HEREIN. ACTUAL RESULTS COULD VARY MATERIALLY. THE CLAIMS REFLECTED IN THE UPDATED LIQUIDATION ANALYSIS ARE SET FORTH SOLELY FOR THE PURPOSES OF SUCH ANALYSIS AND ARE NOT INTENDED AND SHALL NOT BE CONSTRUED AS AN ADMISSION OF THE DEBTOR'S LIABILITY OF ANY SUCH CLAIMS FOR ANY PURPOSE.

UNAUDITED

Liquidation Analysis for Preferred Interests

Sources of Funds	<u>Chapter 11</u>	<u>Chapter 7</u>
Cash ¹	\$264,836.49	\$264,836.49
SPA Purchase Consideration	\$4,000,000.00	\$0
Licensing Revenue ²	Unknown	Unknown
Subtotal:	\$4,264,836.49	\$264,836.49
Uses of Funds:		
Administrative Expense Claims		
Professional Fees ³	\$(120,000.00)	\$(120,000.00)
Wolverine Fees ⁴	\$(14,775.00)	\$(14,775.00)
Chapter 7 Statutory and Professional Fees ⁵	\$0	\$(30,000.00)
United States Trustee Fees	\$(10,400.00)	\$(1,950.00)
Other Administrative Expense Claims ⁶	\$(57,000.00)	\$(13,000.00)
General Unsecured Claims ⁷	\$(10,601.00)	\$(10,601.00)
Subordinated Claims ⁸	\$(23,665.09)	\$(23,665.09)
Subtotal:	\$(236,441.09)	\$(213,991.09)
Amount Available for Distribution to Holders of Preferred Interests⁹	\$2,672,233.78	\$50,845.40
Value Available to Holders of Common Interests¹⁰	\$576,504.30	\$0

¹ All amounts set forth herein are as of the assumed Liquidation Date of 9/13/2017. Additionally, Cash balances are inclusive of Professionals' retainers and prepayments.

² Amounts unknown and are disputed and subject to pending litigation.

³ Professional fees do not reflect any offset of retainers, include holdbacks for applicable Professionals as of the Liquidation Date, and project future Professional fees through the Effective Date based on historical run rates. Professional fees incurred by Professionals engaged by a Chapter 7 Trustee are reflected in the category "Chapter 7 Statutory and Professional Fees."

⁴ Amounts represent the estimated legal fees that the Debtor is obligated to pay under the Wolverine RSA.

⁵ Chapter 7 Trustee fees are calculated as set forth in the fee schedule included in section 326 of the Bankruptcy Code. This line item also includes an estimate of fees and expenses that would be incurred by Professionals engaged by the Chapter 7 Trustee for initial start-up and evaluation costs only. The Debtor did not estimate potential Professional fees related to Claims reconciliation or costs related to avoidance actions for either the chapter 7 or the Prepackaged Plan scenarios because the Debtor has assumed that such costs would be similar in all scenarios. Additionally, it is anticipated that if the Chapter 11 Case is converted to chapter 7, distributions to Holders of Preferred Interests would be delayed.

⁶ Amounts represent other Administrative Expense Claims and estimated Administrative Expense Claims not listed in another category.

⁷ Amounts do not include any proposed distribution on account of the contingent Claims, including the contingent Proofs of Claim filed by Oracle Corporation or AIG Property Casualty, Inc.

⁸ Amounts represent the estimated rejection damages claim pursuant to the Order (I) Authorizing the Debtor to Reject Warrant/Option Agreements and (II) Estimating Rejection Claims entered on 9/8/17 [Docket No. 62].

⁹ Under the Prepackaged Plan, Holders of Preferred Interests will receive \$2,672,233.78 plus their Pro Rata Share of 8% of the New Common Stock, which the Debtor estimates to equal at least \$108,492.93.

¹⁰ Amounts represent the remaining Cash available to Holders of Common Interests (which will hold their Pro Rata Share of 42.51% of the New Common Stock in the Reorganized Debtor) after subtracting Distributions on account of Administrative Expense Claims, General Unsecured Claims, Subordinated Claims, and Preferred Interests. Outside of the Prepackaged Plan, Holders of Preferred Interests have an aggregate liquidation preference of \$5,344,467.56, which would otherwise leave nothing for Holders of Common Interests. The Debtor also believes that under the Prepackaged Plan, Holders of Preferred Interests and Common Interests will receive additional going-concern value in addition to the Debtor's remaining Cash.