



## For Immediate Release

**Contact:**

Rob Sims  
Crossroads Systems, Inc.  
512.928.6897 or 800.643.7148

[info@crossroads.com](mailto:info@crossroads.com)

## Crossroads Systems Announces Q1'06 Results and Annual Meeting of Stockholders

**AUSTIN, Texas—March 22, 2006**—Crossroads Systems, Inc. (OTC Pink Sheets: CRDS.PK), a leading provider of business information assurance solutions for secure storage and data management, today announced results for its fiscal first quarter ended January 31, 2006 (Q1'06). Revenue totaled \$4.1 million as compared to \$5.0 million in the fiscal fourth quarter ended October 31, 2005 (Q4'05). The decrease in revenue was mainly the result of a decrease of approximately \$0.6 million due to the volatility of EMC as well as no IP license revenue being received in Q1'06. Gross margin percentage was 64% for Q1'06, compared to 69% for Q4'05. Net loss for Q1'06 was \$1.8M, or \$0.07 cents per share, compared to \$0.8M, or \$0.03 cents per share in Q4'05.

Crossroads reduced its current workforce during the quarter, including outsourcing its manufacturing to Bantam Electronics, to streamline operations and re-align resources with the company's current strategy in targeted growth areas. The company recognized a charge in its first fiscal quarter as a result of this restructuring plan of approximately \$300K.

Effective November 1, 2005, Crossroads adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense for the first quarter of fiscal 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of November 1, 2005, based on the grant date fair value estimated in accordance with the original provision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Stock-based compensation expense for all stock-based compensation awards granted after November 1, 2005 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Crossroads recognizes these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years. Prior to the adoption of SFAS 123R, Crossroads recognized stock-based compensation expense in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. Crossroads has applied the provisions of SAB 107 in its adoption of SFAS 123R.

In addition, Crossroads announced that it will hold its 2006 Annual Meeting of Stockholders on April 27, 2006 at 9:00 AM CDT at its new corporate headquarters:

Crossroads Systems, Inc.  
11000 North Mo-Pac Expressway  
Austin, Texas 78759  
Tel.: 866.BUY.CRDS  
866.289.2737  
512.349.0300  
Fax: 512.349.0304  
[www.crossroads.com](http://www.crossroads.com)



Crossroads Systems, Inc.  
11000 N. MoPac Expressway  
Austin, TX 78759 USA

**Contact Information:**

Phone: 512.349.0300

**Forward-Looking Statements**

*Statements that Crossroads Systems, Inc. may publish, including those in this announcement that are not strictly historical, are "forward-looking" statements made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This release may include forward-looking statements. The words "believe," "expect," "intend," "plan," "project," "will" and similar phrases as they relate to Crossroads are intended to identify such forward-looking statements. These statements reflect the current views and assumptions of Crossroads, and are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.*

**About Crossroads Systems, Inc.**

With headquarters in Austin, Texas, Crossroads Systems is a leading provider of Business Information Assurance solutions. Crossroads solutions serve the growing data storage, business continuity, disaster recovery, information security and business information assurance markets and are designed to help companies store, manage and ensure the security, resiliency and accessibility of their data. Crossroads products are in solutions from companies such as EMC, HP, Quantum and SUN, and are distributed through partners such as ACAL, Bell Micro, Info-X, and Promark. Crossroads (CRDS.PK) is currently traded on the Over The Counter ("OTC") Bulletin Board. Crossroads is a member of the Storage Networking Industry Association (SNIA). For more information about Crossroads Systems, please visit [www.crossroads.com](http://www.crossroads.com) or call 800-BUY-CRDS / 800.643.718.

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11000 North Mo-Pac Expressway  
Austin, Texas 78759  
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512.349.0300  
Fax: 512.349.0304  
[www.crossroads.com](http://www.crossroads.com)

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

ASSETS	<u>OCTOBER 31,</u> <u>2005</u>	<u>JANUARY 31,</u> <u>2006</u>
Current assets:		
Cash and cash equivalents .....	\$ 15,030	\$ 13,839
Short-term investments .....	4,789	4,689
Total cash, cash equivalents and short-term investments.....	19,819	18,528
Accounts receivable, net of allowance for doubtful accounts of \$138 and \$119, respectively.....	2,787	2,142
Inventories, net .....	909	-
Prepays and other current assets .....	522	1,780
Total current assets .....	24,037	22,450
Property and equipment, net .....	1,844	1,678
Intangible, net.....	539	472
Other assets .....	66	66
Total assets .....	\$ 26,486	\$ 24,666
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 511	\$ 589
Accrued expenses .....	2,179	1,914
Accrued warranty costs .....	211	177
Deferred revenue .....	1,214	1,241
Total current liabilities .....	4,115	3,921
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.001 par value, 175,000,000 shares authorized, 26,517,002 and 26,598,755 shares issued and outstanding, respectively....	27	27
Additional paid-in capital .....	184,255	184,423
Accumulated deficit .....	(161,911)	(163,705)
Total stockholders' equity .....	22,371	20,745
Total liabilities and stockholders' equity .....	\$ 26,486	\$ 24,666

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

	<b>THREE MONTHS ENDED</b>	
	<b>JANUARY 31,</b>	
	<u><b>2005</b></u>	<u><b>2006</b></u>
Revenue:		
Product.....	\$ 2,520	\$ 1,548
Royalty and other.....	2,171	2,512
Total revenue .....	<u>4,691</u>	<u>4,060</u>
Cost of revenue:		
Product.....	1,612	1,424
Royalty and other.....	35	31
Total cost of revenue .....	<u>1,647</u>	<u>1,455</u>
Gross profit .....	<u>3,044</u>	<u>2,605</u>
Operating expenses:		
Sales and marketing.....	910	534
Research and development.....	4,038	2,962
General and administrative.....	1,304	621
FAS123R expense.....	-	81
Business restructuring.....	(92)	328
Amortization of intangibles.....	67	67
Total operating expenses .....	<u>6,227</u>	<u>4,593</u>
Loss from operations .....	(3,183)	(1,988)
Other income, net.....	153	197
Net loss .....	<u>\$ (3,030)</u>	<u>\$ (1,791)</u>
Basic and diluted net loss per share .....	<u>\$ (0.12)</u>	<u>\$ (0.07)</u>
Shares used in computing basic and diluted net loss per share .....	<u>25,708,764</u>	<u>26,572,096</u>

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

	<b>THREE MONTHS ENDED</b>	
	<b>JANUARY 31,</b>	
	<u><b>2005</b></u>	<u><b>2006</b></u>
Cash flows from operating activities:		
Net loss.....	\$ (3,030)	\$ (1,791)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	562	308
Business restructuring expenses.....	(92)	-
Amortization of intangibles.....	67	67
Loss on disposal of fixed assets.....	6	34
Stock-based compensation.....	12	28
FAS 123R Implementation	-	81
Provision for doubtful accounts receivable.....	(27)	(20)
Provision for excess and obsolete inventory.....	31	125
Changes in assets and liabilities:		
Accounts receivable.....	85	665
Inventories.....	(111)	784
Prepays and other current assets.....	(94)	(1,259)
Accounts payable.....	(39)	78
Accrued expenses and other.....	(118)	(274)
Net cash used in operating activities.....	<u>(2,748)</u>	<u>(1,174)</u>
Cash flows from investing activities:		
Purchase of property and equipment.....	(355)	(176)
Purchase of held-to-maturity investments.....	(6,001)	(3,000)
Maturity of held-to-maturity investments.....	10,600	3,100
Net cash provided by (used in) investing activities.....	<u>4,244</u>	<u>(76)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	244	59
Change in book overdraft.....	(138)	-
Net cash provided by financing activities.....	<u>106</u>	<u>59</u>
Net increase (decrease) in cash and cash equivalents.....	1,602	(1,191)
Cash and cash equivalents, beginning of period.....	101	15,030
Cash and cash equivalents, end of period.....	<u>\$ 1,703</u>	<u>\$ 13,839</u>