



For Immediate Release

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Crossroads Systems Announces Q2'06 Results

AUSTIN, Texas—June 1, 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 second quarter ended April 30, 2006 (Q2'06). Revenue totaled \$2.6 million for Q2'06 as compared to \$4.1 million in the fiscal first quarter ended January 31, 2006 (Q1'06). The decrease in revenue was mainly the result of a decrease of royalty revenue from HP and Quantum associated with inventory management for RoHS compliancy as well as a decrease in overall revenue from SUN. Gross margin percentage was 63 percent for Q2'06, compared to 64 percent for Q1'06. Net loss for Q2'06 was \$3.9M, or \$0.14 cents per share, compared to \$1.8M, or \$0.07 cents per share in Q1'06.

On April 12, 2006, Crossroads announced the acquisition of Tape Laboratories, Inc. (TapeLabs), with headquarters located in Los Angeles, California. Crossroads purchased 100% of the shares of TapeLabs. In return, the shareholder of TapeLabs received one million shares of Crossroads' common stock in addition to a cash payment at closing of approximately \$2.4 million and the payment by Crossroads of approximately \$2.3 million of TapeLabs' debt. Crossroads consolidated the results of operations of TapeLabs from April 12, 2006 through April 30, 2006 which contributed approximately two thousand dollars of net loss.

Additional details on Crossroads acquisition of TapeLabs can be found in the initial acquisition press release at:

<http://www.crossroads.com/Company/PressRoom/PressReleases.asp?id=277> as well as on our strategic acquisition page at:
<http://www.crossroads.com/Company/Acquisitions.asp>.

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 solves today's growing data storage, business continuity, disaster recovery and information security markets needs. Our solutions are designed to help companies store, manage and ensure the security, resiliency and accessibility of their data. Crossroads products are sold as part of packaged offerings 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 or call 800-BUY-CRDS / 800.643.7148.

TABLES ATTACHED.

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CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(Unaudited)

(In thousands, except share data)

	<u>January 31,</u> <u>2006</u>	<u>April 30,</u> <u>2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,839	\$ 7,713
Short-term investments	4,689	5,651
Total cash, cash equivalents and short-term investments	18,528	13,364
Accounts receivable, net	2,142	1,792
Prepays and other current assets	1,780	794
Total current assets	22,450	15,950
Property and equipment, net	1,678	1,932
Intangible, net.....	472	9,338
Other assets	66	66
Total assets	\$ 24,666	\$ 27,286
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 589	\$ 805
Accrued expenses	1,914	4,639
Accrued warranty costs	177	149
Deferred revenue	1,241	1,326
Total current liabilities	3,921	6,919
Long-term liabilities.....	-	2,363
Stockholders' equity	20,745	18,004
Total liabilities and stockholders' equity	\$ 24,666	\$ 27,286

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenue:				
Product.....	\$ 1,752	\$ 1,522	\$ 4,272	\$ 3,070
Royalty and other	2,504	1,058	4,675	3,570
Total revenue	<u>4,256</u>	<u>2,580</u>	<u>8,947</u>	<u>6,640</u>
Cost of revenue:				
Product.....	1,295	921	2,907	2,345
Royalty and other	38	40	73	71
Total cost of revenue	<u>1,333</u>	<u>961</u>	<u>2,980</u>	<u>2,416</u>
Gross profit	<u>2,923</u>	<u>1,619</u>	<u>5,967</u>	<u>4,224</u>
Operating expenses:				
Sales and marketing	687	894	1,597	1,428
Research and development	4,093	3,410	8,131	6,248
General and administrative	1,283	1,009	2,587	1,630
FAS123R and stock based compensation.....	-	272	-	477
Business restructuring expense.....	636	-	544	328
Amortization of intangibles.....	67	67	134	134
Total operating expenses	<u>6,766</u>	<u>5,652</u>	<u>12,993</u>	<u>10,245</u>
Loss from operations	(3,843)	(4,033)	(7,026)	(6,021)
Interest income.....	140	175	293	372
Net Loss.....	<u>\$ (3,703)</u>	<u>\$ (3,858)</u>	<u>\$ (6,733)</u>	<u>\$ (5,649)</u>
Basic and diluted net loss per share.....	(0.14)	(0.14)	(0.26)	(0.21)
Shares used in computing basic and diluted net loss per share	<u>26,082,975</u>	<u>26,801,002</u>	<u>25,892,768</u>	<u>26,684,652</u>

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	APRIL,	
	<u>2005</u>	<u>2006</u>
Cash flows from operating activities:		
Net loss.....	\$ (6,733)	\$ (5,649)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	1,127	316
Business restructuring expenses.....	296	-
Amortization of intangibles.....	135	134
Loss on disposal of fixed assets	6	34
Stock-based compensation.....	12	28
FAS 123R implementation.....	-	229
Provision for doubtful accounts receivable.....	(16)	(64)
Provision for excess and obsolete inventory.....	173	224
Changes in assets and liabilities:		
Accounts receivable.....	636	1,723
Inventories.....	(356)	898
Prepays and other current assets.....	136	(263)
Accounts payable.....	(662)	292
Accrued expenses and other.....	(1,701)	(489)
Net cash (used in) operating activities.....	<u>(6,947)</u>	<u>(2,587)</u>
Cash flows from investing activities:		
Purchase of property and equipment.....	(718)	(319)
Purchase of held-to-maturity investments.....	(18,213)	(3,955)
Maturity of held-to-maturity investments.....	26,135	3,093
Investment in privately-held company.....	-	(3,608)
Net cash provided by (used in) investing activities.....	<u>7,204</u>	<u>(4,789)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	572	59
Change in book overdraft.....	(138)	-
Net cash provided by financing activities.....	<u>434</u>	<u>59</u>
Net increase (decrease) in cash and cash equivalents.....	691	(7,317)
Cash and cash equivalents, beginning of period.....	101	15,030
Cash and cash equivalents, end of period.....	<u>\$ 792</u>	<u>\$ 7,713</u>