



For Immediate Release

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Crossroads Systems Announces Q3'07 Results

AUSTIN, Texas—August 30, 2007—Crossroads Systems, Inc. (OTC Pink Sheets: CRDS.PK), a leading provider of business information assurance solutions for secure storage and data protection, today announced results for its fiscal third quarter ended July 31, 2007 (Q3'07).

Revenue totaled \$4.6 million for Q3'07 compared to \$4.9 million in the fiscal second quarter ended April 30, 2007 (Q2'07). Product revenue totaled \$2.4 million for Q3'07 compared to \$1.9 million for Q2'07. In addition, revenue from IP license, royalty and other totaled \$2.1 million for Q3'07 compared to \$3.0 million for Q2'07. Gross profit was \$3.5 million, or 76 percent for Q3'07, compared to \$4.2 million, or 84 percent for Q2'07. Net loss for Q3'07 was \$3.3 million, or \$0.12 cents loss per share, compared to a net loss of \$2.3 million, or \$0.08 cents loss per share in Q2'07.

During the quarter, Crossroads acquired Grau Data Storage's well-known FileManager Agent, the company's leading Hierarchical Storage Management system.

About Crossroads Systems

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 Pink Sheets. 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.

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.

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* See Tables Attached*

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)
(In Thousands)

| | October 31, 2006 | July 31, 2007 |
|---|-----------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 12,321 | \$ 9,847 |
| Short-term investments..... | 3,955 | - |
| Total cash, cash equivalents and short-term investments.. | <u>16,276</u> | <u>9,847</u> |
| Accounts receivable, net | 4,916 | 4,131 |
| Inventories, net | 114 | 121 |
| Prepays and other current assets | <u>766</u> | <u>771</u> |
| Total current assets | 22,072 | 14,870 |
| Property and equipment, net | 1,940 | 2,084 |
| Intangible, net..... | 5,460 | 4,278 |
| Investment in Subsidiaries..... | - | 6,946 |
| Goodwill..... | 3,135 | 3,263 |
| Other assets | <u>45</u> | <u>44</u> |
| Total assets | <u><u>\$ 32,652</u></u> | <u><u>\$ 31,485</u></u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,728 | \$ 1,253 |
| Accrued expenses | 5,172 | 4,368 |
| Accrued warranty costs | 73 | 36 |
| Deferred revenue | <u>1,218</u> | <u>1,402</u> |
| Total current liabilities | 8,191 | 7,059 |
| Long-term liabilities..... | 2,363 | 2,603 |
| Stockholders' equity | <u>22,098</u> | <u>21,823</u> |
| Total liabilities and stockholders' equity | <u><u>\$ 32,652</u></u> | <u><u>\$ 31,485</u></u> |

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In Thousands, Except Share and Per Share Data)

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|---|--|-------------------|---------------------------------------|-------------------|
| | 2006 | 2007 | 2006 | 2007 |
| Revenue: | | | | |
| Product..... | \$ 5,013 | \$ 2,440 | \$ 8,083 | \$ 6,200 |
| IP License, royalty and other | 13,711 | 2,140 | 17,281 | 8,071 |
| Total revenue | 18,724 | 4,580 | 25,364 | 14,271 |
| Cost of revenue: | | | | |
| Product..... | 1,991 | 693 | 4,336 | 1,964 |
| IP License, royalty and other | 4,573 | 389 | 4,644 | 779 |
| Total cost of revenue | 6,564 | 1,082 | 8,980 | 2,743 |
| Gross profit | 12,160 | 3,498 | 16,384 | 11,528 |
| Operating expenses: | | | | |
| Sales and marketing | 1,799 | 1,898 | 3,227 | 5,189 |
| Research and development | 3,158 | 3,763 | 9,406 | 10,297 |
| General and administrative | 1,445 | 683 | 3,075 | 1,868 |
| FAS 123R and stock based compensation..... | 409 | 224 | 886 | 674 |
| Business restructuring expense..... | - | - | 328 | - |
| Amortization of intangibles..... | 67 | 351 | 201 | 1,053 |
| Total operating expenses | 6,878 | 6,919 | 17,123 | 19,081 |
| Income (Loss) from operations | 5,282 | (3,421) | (739) | (7,553) |
| Interest income..... | 142 | 155 | 514 | 471 |
| Net Income (Loss)..... | <u>\$ 5,424</u> | <u>\$ (3,266)</u> | <u>\$ (225)</u> | <u>\$ (7,082)</u> |
| Basic net gain (loss) per share..... | 0.20 | (0.12) | (0.01) | (0.25) |
| Fully Diluted net gain (loss) per share..... | 0.20 | (0.12) | (0.01) | (0.25) |
| Shares used in computing: | | | | |
| Basic net gain (loss) per share | <u>27,598,755</u> | <u>28,154,311</u> | <u>26,992,702</u> | <u>28,034,246</u> |
| Fully Diluted net gain (loss) per share | <u>27,627,633</u> | <u>28,154,311</u> | <u>26,992,702</u> | <u>28,034,246</u> |

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

| | Nine Months Ended July 31, | |
|--|-------------------------------|-----------------|
| | 2006 | 2007 |
| Cash flows from operating activities: | | |
| Net loss..... | \$ (225) | \$ (7,082) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation..... | 889 | 871 |
| Amortization of intangibles..... | 201 | 1,054 |
| Loss on disposal of fixed assets | 64 | - |
| Stock-based compensation..... | 28 | - |
| FAS 123R expense..... | 514 | 674 |
| Provision for doubtful accounts receivable..... | (23) | (34) |
| Provision for excess and obsolete inventory..... | 295 | 262 |
| Changes in assets and liabilities: | | |
| Accounts receivable..... | (622) | 810 |
| Inventories..... | 828 | (7) |
| Prepays and other current assets..... | (461) | (6) |
| Accounts payable..... | 1,267 | (442) |
| Accrued expenses and other..... | (518) | (868) |
| Net cash used in operating activities..... | <u>2,237</u> | <u>(4,768)</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment..... | (945) | (1,047) |
| Purchase of held-to-maturity investments..... | (3,954) | - |
| Maturity of held-to-maturity investments..... | 4,090 | 3,955 |
| Investment in privately-held company..... | (3,612) | (1,114) |
| Net cash provided by (used in) investing activities..... | <u>(4,421)</u> | <u>1,794</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock..... | 59 | 500 |
| Change in book overdraft..... | - | - |
| Net cash provided by financing activities..... | <u>59</u> | <u>500</u> |
| Net increase (decrease) in cash and cash equivalents..... | (2,125) | (2,474) |
| Cash and cash equivalents, beginning of period..... | 15,030 | 12,321 |
| Cash and cash equivalents, end of period..... | <u>\$ 12,905</u> | <u>\$ 9,847</u> |