



Press Release

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CROSSROADS SYSTEMS REPORTS FOURTH QUARTER, FISCAL 2005 FULL YEAR RESULTS

AUSTIN, Texas – November 22, 2005 – Crossroads Systems, Inc. (Nasdaq: CRDS), a leading provider of business information assurance solutions for secure storage and data management, today reported results for its fiscal fourth quarter (Q4'05) and fiscal year that ended October 31, 2005.

Fiscal Fourth Quarter 2005

Revenue totaled \$5.0M for Q4'05 compared to \$5.8M in the fiscal third quarter ended July 31, 2005 (Q3'05). Gross margin percentage was 69% for Q4'05, compared to 76% for Q3'05. Net loss for Q4'05 was \$0.8M, or \$0.3 cents per share, compared to \$0.5M net loss, or \$0.2 cents per share in Q3'05.

Fiscal Year 2005

Total revenue for fiscal year 2005 (FY'05) was \$19.7 million, compared with \$26.0 million for fiscal year 2004 (FY'04). Gross profit for FY'05 was \$13.8 million compared with \$18.1 million for FY'04. Net loss for FY'05 was \$8.1 million, or \$0.31 cents per share, compared with \$6.4 million net loss, or \$0.25 cents per share, for FY'04.

"Though we were disappointed by lower revenues, we believe we have made significant progress this past fiscal year in both growing our customer base as well as focusing on reducing our quarterly cash burn from \$3.1 million in Q1 2005 to \$247,000 in Q4 2005 by reducing overall headcount and by controlling our other administrative and operational costs," said Rob Sims, president and chief executive officer. "We continue to seek opportunities to add new customers and improve our financial performance. Along with a planned facilities move and consolidation of locations by April 2006, we are considering other cost cutting measures such as a voluntary deregistration and delisting of our common stock which we believe would reduce aggregate financial, operational and disclosure costs."

Note Regarding FIN46R – Consolidation of Variable Interest Entities

In December 2003, Crossroads entered into a strategic relationship with NexQL Corporation, a development stage company, for the joint development of hardware accelerated data management solutions. FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51", and the revised interpretations, require consolidation by business enterprises of Variable Interest Entities, as defined by FIN 46. As a result, the operating results of NexQL were accounted for under the equity method in Q1'04, and the company began consolidating the statements of operations and cash flows of NexQL beginning May 1, 2004, such that the three and twelve months ended Q4'05 reflect the consolidated operations and cash flows of NexQL. The consolidation of NexQL had a direct impact on Crossroads' net loss for the three and twelve months ended Q4'05. Net operating expenses attributable to NexQL for Q4'05 was \$0.4M, compared with \$0.7M in Q3'05 and \$2.8 million for FY'05, compared with \$2.4 million for FY'04.

Conference Call

The conference call will be held at 3:30pm CDT (4:30pm EDT) November 22nd. Interested parties can listen to the call by dialing 1-866-459-7779 (or 1-678-460-1867 for international callers).

An audio-only replay of the call will be available by November 25th for a limited time by calling 1-866-453-6660 (or 1-678-460-1688 for international callers) and using passcode 207529. An audio replay will be available for a limited time by visiting the Crossroads web site.



About Crossroads Systems, Inc.

With headquarters in Austin, Texas, Crossroads Systems (Nasdaq:CRDS) is a leading provider of business information assurance solutions for secure storage and data management. Crossroads' solutions serve the growing data storage, data management and information assurance markets, and are designed to help companies store, manage and ensure the security, validity 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, DLT Solutions, Info-X, and Promark. Crossroads is a voting member of the Storage Networking Industry Association (SNIA). For more information about Crossroads Systems, please visit www.crossroads.com or call 800/643 7148.

Forward-Looking Statements

This release may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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. Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are: the quarterly fluctuations of Crossroads' operating results and Crossroads' inability to accurately predict revenue and budget for expenses for future periods; the extent to which Crossroads can reduce its cash consumption and achieve positive cash flow; the company's ability to maintain its operating margins; the acceptance by our existing customers of any new family of products; the performance of NexQL with whom we are required to consolidate our financial statements; our ability to incorporate the assets of Teracruz that we acquired into our products and/or to develop new products based on Teracruz technology that achieve market acceptance; any general economic slowdown, including, in particular, related expense reductions by organizations affecting their IT spending and budget which could impact sales; the dependence of Crossroads' business on the storage area network market which has been declining and is unpredictable; unforeseen changes in anticipated expenses or revenues; the continuation of Crossroads' successful relationships with its limited number of OEM customers; Crossroads' inability to protect its intellectual property rights; our ability to retain the services of key employees; the effect of FAS 123R which will require us to include additional equity compensation expense, including that of NexQL in our financial results; our failure to maintain the listing of our stock on the Nasdaq National Market and/or to continue to file SEC reports; as well as other factors detailed in Crossroads' filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K and Quarterly Reports on 10-Q. Crossroads expressly disclaims any obligation to release publicly any updates or revisions to the information contained in this press release or with respect to any future distribution of its stock by investors, or to update or revise any forward-looking statements to reflect any changes in expectations, or any change in events or circumstances on which those statements are based, unless otherwise required by law.

—TABLES ATTACHED—

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In Thousands, Except Share and Per Share Data)

	Three Months Ended October 31,		Fiscal Year Ended October 31,	
	2004	2005	2004	2005
Revenue:				
Product.....	\$ 2,485	\$ 2,493	\$ 15,036	\$ 9,997
Royalty and other	4,117	2,477	10,993	9,696
Total revenue	6,602	4,970	26,029	19,693
Cost of revenue:				
Product.....	1,366	1,477	7,300	5,736
Royalty and other	436	42	594	157
Total cost of revenue	1,802	1,519	7,894	5,893
Gross profit	4,800	3,451	18,135	13,800
Operating expenses:				
Sales and marketing	1,058	486	4,461	2,623
Research and development	3,893	2,721	13,671	14,034
General and administrative	1,584	1,193	5,442	5,019
NexQL research and development.....	-	-	721	-
Business restructuring expense.....	(119)	-	(306)	544
Litigation settlement.....	1,000	-	1,000	-
Non-controlling interest.....	-	-	-	-
Amortization of intangibles.....	-	67	-	269
Total operating expenses	7,416	4,467	24,989	22,489
Loss from operations	(2,616)	(1,016)	(6,854)	(8,689)
Interest income.....	148	167	494	608
Net Loss.....	<u>\$ (2,468)</u>	<u>\$ (849)</u>	<u>\$ (6,360)</u>	<u>\$ (8,081)</u>
Basic and diluted net loss per share.....	(0.10)	(0.03)	(0.25)	(0.31)
Shares used in computing basic and diluted net loss per share	<u>25,437,968</u>	<u>26,517,002</u>	<u>25,225,009</u>	<u>26,192,844</u>

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In Thousands)

	July 31	October 31
	2005	2005
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments.....	\$ 19,974	\$ 19,819
Accounts receivable, net	2,631	2,787
Inventories, net	1,240	909
Prepays and other current assets	811	522
Total current assets	24,656	24,037
Property and equipment, net	2,023	1,844
Intangible, net.....	607	539
Other assets	23	66
Total assets	<u>\$ 27,309</u>	<u>\$ 26,486</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 391	\$ 511
Accrued expenses	2,245	2,179
Accrued warranty costs	278	211
Deferred revenue	1,205	1,214
Total current liabilities	4,119	4,115
Stockholders' equity	23,190	22,371
Total liabilities and stockholders' equity	<u>\$ 27,309</u>	<u>\$ 26,486</u>