



# Press Release

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**FOR IMMEDIATE RELEASE**

## **Crossroads Systems Reports First Quarter Fiscal 2011 Financial Results**

Q1 2011 Revenue Up 32% Over Same Year-Ago Quarter to \$3.6 Million

**Austin, Texas – March 2, 2011** – Crossroads Systems, Inc. (OTC.PK: CRDS), a global leading provider of solutions to connect, protect, secure and restore data, reported financial results for its fiscal first quarter ended January 31, 2011.

Revenue in the first quarter of 2011 totaled \$3.6 million, an increase of 32% from \$2.7 million in the same year-ago quarter. Product revenue increased 20% to \$1.3 million from \$1.1 million in the first quarter of 2010, while revenue from intellectual property (IP) licensing, royalty and other sources increased 41% to \$2.3 million from \$1.6 million.

Gross profit in the first quarter 2011 was \$3.1 million or 86% of total revenue, compared to \$2.5 million or 90% of total revenue in the same year-ago quarter.

Operating expenses totaled \$4.3 million, including \$102,000 of stock-based compensation, compared to operating expenses in the same year-ago quarter of \$4.6 million, including \$392,000 in stock-based compensation.

Net loss in the first quarter was \$1.2 million or \$(0.03) per share, an improvement from a net loss in the same year-ago quarter of \$2.1 million or \$(0.07) per share.

At January 31, 2011, cash and cash equivalents totaled \$14.7 million, an increase from \$13.8 million at October 31, 2010. The increase in cash was primarily due to the timing of IP cash receipts.

"While year-over-year we demonstrated strong revenue improvement overall and an improving bottom line, we also realized a 9% sequential quarterly increase in our non-IP licensing revenue," said Rob Sims, president and CEO of Crossroads Systems. "This growth was achieved as we effectively completed the transition from a commodity hardware product line to a software services business. We are now focused on the next important transition of offering our own branded solutions. This process is being driven both directly and via new channels in combination with our new strategic alliances. In fact, our Crossroads branded solutions grew significantly in the first quarter, and accounted for 43% of our revenue.

"The decline of our legacy OEM business has been challenging, but we believe our new offering, with new channels and key industry alliances, will serve us well as our 'disruptive' tape archive and associated solutions come to market. We will continue to invest in developing our technology and increasing our marketing reach and capabilities in the second quarter, and we look forward to generating accelerating growth as we progress through 2011."

## **Conference Call**

Crossroads will hold a conference call later today, Wednesday, March 2, 2011 to discuss these financial results. The company's president and CEO, Rob Sims, and vice president of finance, Jennifer Crane, will host the call starting at 4:30 p.m. Eastern time. A question and answer session will follow management's presentation.

To participate in the call, dial the appropriate number 5-10 minutes prior to the start time, ask for the Crossroads conference call:

Dial-In Number: 1-877-221-8809

International: 1-706-679-8667

The conference call will be broadcasted simultaneously on the company's Web site in the [Investor Relations Events & Presentations](#) section and available by clicking [here](#).

For the webcast, please go to the Web site at least 15 minutes early to register, download, and install any necessary audio software. If you have any difficulty connecting with the conference call or webcast, please contact Liolios Group at 949-574-3860.

A replay of the conference call will be available on the company's Web site.

## **About Crossroads Systems, Inc.**

Headquartered in Austin, Texas, Crossroads Systems (OTC.PK: CRDS) has been a world leader in storage routing and virtualization since 1996, developing 79 patents with more than 100 patents pending. Crossroads Systems proprietary data routing technology and storage management solutions have more than 125,000 installations in most Fortune 2000 companies. Crossroads Systems now seeks to bring unique software and SaaS solutions to the enterprise storage sector and for the first time, deliver tiered storage solutions to Cloud Service Providers and private enterprise clouds. For more information, visit [www.crossroads.com](http://www.crossroads.com).

## **Important Cautions Regarding Forward-Looking Statements**

This press release includes forward-looking statements that relate to the business and future events or future performance of Crossroads Systems, Inc. and involve known and unknown risks, uncertainties and other factors that may cause its actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, "believe," "expect," "anticipate," "estimate," "intend," "plan," "targets," "likely," "will," "would," "could," and similar expressions or phrases identify forward-looking statements. Forward-looking statements include, but are not limited to, statements about Crossroads Systems' ability to implement its business strategy, including the transition from a hardware storage company to a software solutions and services provider, its ability to expand its distribution channels, its ability to maintain or broaden relationships with existing distribution channels and strategic alliances and develop new industry relationships, the performance of third parties in its distribution channels and of its strategic alliances, uncertainties relating to product development and commercialization, the ability to obtain, maintain or protect patent and other proprietary intellectual property rights, technological change in its industry, market acceptance of its products and services, future capital requirements, regulatory actions or delays, competition in general and other factors that may cause actual results to be materially different from those described herein. Forward-looking statements in this press release are based on management's beliefs and opinions at the time the statements are made. Crossroads Systems does not intend, and undertakes no duty, to update this information to reflect future events or circumstances.

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\*See Tables Attached\*

**CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In Thousands)

<b>ASSETS</b>	<b>October 31, 2010</b>	<b>January 31, 2011</b>
		<b>(Unaudited)</b>
Current assets:		
Cash and cash equivalents.....	\$ 13,811	\$ 14,703
Accounts receivable, net .....	5,607	2,953
Inventories, net .....	93	167
Prepays and other current assets .....	293	227
Total current assets .....	19,804	18,050
Property and equipment, net .....	575	610
Intangible, net.....	739	427
Other assets .....	60	55
Total assets .....	\$ 21,178	\$ 19,142
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 990	\$ 663
Accrued expenses .....	2,271	1,617
Deferred revenue .....	1,517	1,250
Line of Credit .....	1,973	1,973
Total current liabilities .....	6,751	5,503
Long-term liabilities.....	103	112
Stockholders' equity .....	14,324	13,527
Total liabilities and stockholders' equity .....	\$ 21,178	\$ 19,142

**CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(In Thousands, Except Share and Per Share Data)

	Three Months Ended January 31,	
	2010	2011
Revenue:		
Product.....	\$ 1,093	\$ 1,309
IP License, royalty and other .....	1,629	2,292
Total revenue .....	2,722	3,601
Cost of revenue:		
Product.....	83	105
IP License, royalty and other .....	182	398
Total cost of revenue .....	265	503
Gross profit .....	2,457	3,098
Operating expenses:		
Sales and marketing .....	1,323	1,215
Research and development .....	2,280	2,117
General and administrative .....	662	647
Amortization of intangibles.....	312	312
Total operating expenses .....	4,577	4,291
Income (Loss) from operations .....	(2,120)	(1,193)
Interest (expense) income.....	(24)	(38)
Net Income (Loss).....	\$ (2,144)	\$ (1,231)
Basic net gain (loss) per share.....	(0.07)	(0.03)
Fully Diluted net gain (loss) per share.....	(0.07)	(0.03)
Shares used in computing:		
Basic net gain (loss) per share .....	29,199,586	42,668,607

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

	Three Months Ended January 31,	
	2010	2011
Cash flows from operating activities:		
Net loss.....	\$ (2,144)	\$ (1,231)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	163	100
Amortization of intangibles.....	312	312
Loss on disposal of fixed assets .....	-	6
Stock-based compensation.....	392	102
Provision for doubtful accounts receivable.....	(12)	-
Provision for excess and obsolete inventory.....	(2)	(6)
Changes in assets and liabilities:		
Accounts receivable.....	3,007	2,651
Inventories.....	22	(68)
Prepays and other current assets.....	(3)	66
Accounts payable.....	(241)	(224)
Accrued expenses and other.....	(608)	(317)
Deferred revenue and other.....	(3)	(266)
Net cash used in operating activities.....	883	1,125
Cash flows from investing activities:		
Purchase of property and equipment.....	(85)	(142)
Net cash used in investing activities.....	(85)	(142)
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	-	1
Net cash provided by financing activities.....	-	1
Effect of exchange rate on cash.....	(244)	(92)
Net increase (decrease) in cash and cash equivalents.....	554	892
Cash and cash equivalents, beginning of period.....	5,297	13,811
Cash and cash equivalents, end of period.....	\$ 5,851	\$ 14,703