



## PRESS RELEASE

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**FOR IMMEDIATE RELEASE**

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

**Austin, Texas – May 26, 2011** – Crossroads Systems, Inc. (OTC.PK: CRDS) reported financial results for its fiscal second quarter (Q2) ended April 30, 2011.

**Q2 2011 Operational Highlights**

- Officially announced the upcoming launch of StrongBox<sup>®</sup>, a new tape-based archive solution that leverages the Linear Tape File System (LTFS) technology co-developed by IBM and HP
- Achieved StrongBox best path testing and performance testing milestones on stated schedule
- Formed a strategic partnership with Capgemini, one of the world's leading providers of IT consulting services, to deliver Crossroads archiving solutions to its customers, including ReadVerify<sup>®</sup> Appliance (RVA<sup>®</sup>) and the Crossroads SPHiNX<sup>™</sup> virtual tape library
- Released RVA 4.0, the latest edition of Crossroads' standalone appliance that improves tape system efficiency and now offers support for VMware ESXi 4.1 virtual environments

**Q2 2011 Financial Results**

Revenue totaled \$2.6 million, a decrease of 49% from \$5.0 million in the same quarter a year ago. The decline was primarily due to a 64% decrease in revenue from intellectual property (IP) licensing, royalty and other sources, from \$4.1 million to \$1.5 million. IP licensing settlements can vary significantly from quarter to quarter and are best viewed on an annual basis, as Crossroads does not control the pace of

negotiations. The decrease in revenue from IP licensing, royalty and other was partially offset by a 15% increase in product revenue from \$941,000 in Q2 2010 to \$1.1 million in Q2 2011.

Gross profit was \$2.2 million or 86% of total revenue, as compared to \$4.0 million or 79% of total revenue in the same quarter a year ago.

Operating expenses totaled \$5.1 million including \$83,000 of stock-based compensation, compared to \$4.4 million and \$124,000 of stock-based compensation in the same quarter of 2010. The increase was primarily due to increased headcount needed to staff the development of StrongBox.

Net loss was \$2.9 million or \$(0.07) per share, as compared to a net loss of \$440,000 or \$(0.01) per share in the same quarter a year ago.

At April 30, 2011, cash, cash equivalents and short-term investments totaled \$12.7 million as compared to \$14.7 million at January 31, 2011. The decrease in cash was primarily due to timing of cash receipts.

### **Management Commentary**

“Operations were largely in line with our expectations this quarter except for IP revenue,” said Rob Sims, president and CEO of Crossroads Systems. “However, we expect the third quarter to recover with a strong IP component.

“We achieved critical milestones on schedule this quarter for our transformative tape archive solution, and we continue to execute on our strategy. Earlier this month we formed a Customer Advisory Board (CAB) comprised of more than 19 end-user organizations across numerous vertical markets. CAB will play a valuable role in guaranteeing Crossroads' solutions directly reflect the needs of our target customers by providing feature guidance to our development team.

“As we continue to collaborate with our CAB to enhance product functionality, StrongBox remains on schedule to meet its July early adopter program dates, as well as the October general availability. This positions Crossroads well to exit 2011 and enter 2012 having released transformative new technology that will serve the highest growth segment of the largest IT market.”

### **Conference Call**

Crossroads will hold a conference call later today (Thursday, May 26, 2011) to discuss its financial results. President and CEO Rob Sims and CFO 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 number 5-10 minutes prior to the start time and ask for the Crossroads Systems conference call:

Date: Thursday, May 26, 2011

Time: 4:30 p.m. Eastern time (3:30 p.m. Central time)

Dial-In Number: 877-221-8809

International: 706-679-8667

The conference call will be broadcasted and available for replay on the company's Web site in the [Investor Relations Events & Presentations](#) section and is also 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.

### **About Crossroads Systems**

Crossroads Systems, Inc. (OTC.PK: CRDS) is a global provider of solutions and services that ensure stored data is proactively protected and reliably recovered. Crossroads offers organizations powerful data protection, proactive data security, intelligent storage connectivity, unmatched performance, and significant cost savings. Founded in 1996 and headquartered in Austin, Texas, Crossroads holds more than 100 patents granted and pending and has been honored with numerous industry awards for innovation in data protection and storage. 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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**CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(unaudited)  
(In thousands, except share  
data)

ASSETS	<u>OCTOBER 31,</u> <u>2010</u>	<u>APRIL 30,</u> <u>2011</u> (Unaudited)
Current assets:		
Cash and cash equivalents .....	\$ 13,811	\$ 8,513
Short-term investments .....	-	4,200
Total cash, cash equivalents and short-term investments.....	13,811	12,713
Accounts receivable, net of allowance for doubtful accounts of \$19 and \$16, respectively.....	5,607	2,840
Inventories, net.....	93	164
Prepaid expenses and other current assets .....	293	1,286
Total current assets .....	19,804	17,003
Property and equipment, net.....	575	1,188
Intangible assets, net.....	739	204
Other assets .....	60	57
Total assets .....	<u>\$ 21,178</u>	<u>\$ 18,452</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accounts payable .....	\$ 990	\$ 1,803
Accrued expenses .....	2,271	1,524
Deferred revenue .....	1,517	2,315
Line of credit .....	1,973	1,973
Total current liabilities .....	6,751	7,615
Long term deferred revenue.....	103	35
Stockholders' equity:		
Common stock, \$.001 par value, 75,000,000 shares authorized, 42,945,102 and 43,463,232 shares issued and outstanding, respectively.....	43	43
Additional paid-in capital .....	198,697	199,264
Accumulated other comprehensive loss.....	(49)	(41)
Accumulated deficit .....	(184,367)	(188,464)
Total stockholders' equity .....	14,324	10,802
Total liabilities and stockholders' equity .....	<u>\$ 21,178</u>	<u>\$ 18,452</u>

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2011	2010	2011
Revenue:				
Product.....	\$ 941	\$ 1,085	\$ 2,034	\$ 2,394
IP license, royalty and other .....	4,102	1,492	5,731	3,784
Total revenue .....	5,043	2,577	7,765	6,178
Cost of revenue:				
Product.....	138	125	221	230
IP license, royalty and other .....	933	242	1,115	640
Total cost of revenue .....	1,071	367	1,336	870
Gross profit .....	3,972	2,210	6,429	5,308
Operating expenses:				
Sales and marketing .....	1,322	1,175	2,645	2,390
Research and development .....	2,185	2,820	4,465	4,937
General and administrative .....	570	835	1,232	1,482
Amortization of intangible assets.....	312	224	624	536
Total operating expenses .....	4,389	5,054	8,966	9,345
Loss from operations .....	(417)	(2,844)	(2,537)	(4,037)
Interest expense.....	(23)	(24)	(46)	(62)
Net loss.....	\$ (440)	\$ (2,868)	\$ (2,583)	\$ (4,099)
Basic and diluted net loss per share.....	\$ (0.01)	\$ (0.07)	\$ (0.09)	\$ (0.10)
Basic and diluted average common shares outstanding.....	30,130,102	42,842,260	29,714,005	42,757,088

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

	Six Months Ended	
	April 30,	
	2010	2011
Cash flows from operating activities:		
Net loss.....	\$ (2,583)	\$ (4,099)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	311	227
Amortization of intangible assets.....	624	536
Loss on disposal of fixed assets.....	-	6
Stock-based compensation.....	516	165
Provision for doubtful accounts receivable.....	(14)	1
Provision for excess and obsolete inventory.....	(6)	(3)
Changes in assets and liabilities:		
Accounts receivable.....	2,679	2,801
Inventories.....	11	(69)
Prepays and other current assets.....	122	(989)
Accounts payable.....	374	515
Accrued expenses.....	(383)	(418)
Deferred revenue.....	119	723
Net cash provided by (used in) operating activities.....	1,770	(604)
Cash flows from investing activities:		
Purchase of property and equipment.....	(163)	(844)
Purchase of held-to-maturity investments.....	-	(4,511)
Maturity of held-to-maturity investments.....	-	311
Net cash used in investing activities.....	(163)	(5,044)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of expenses.....	-	59
Net cash provided by financing activities.....	-	59
Effect of exchange rate on cash.....	(336)	291
Net increase in cash and cash equivalents.....	1,271	(5,298)
Cash and cash equivalents, beginning of period.....	5,297	13,811
Cash and cash equivalents, end of period.....	\$ 6,568	\$ 8,513