



#### **For Immediate Release**

#### **Press Contact:**

Jennifer Crane  
Crossroads Systems  
[jcrane@crossroads.com](mailto:jcrane@crossroads.com)  
512.928.6897 or 800.643.7148

## **Crossroads Systems Reports Third Quarter of Fiscal 2008 Financial Results**

**Austin, Texas – September 3, 2008** – Crossroads Systems, Inc. (OTC Pink Sheets: CRDS), a leading provider of business information assurance for reliable data protection, robust data security and guaranteed connectivity solutions, today announced results for its fiscal third quarter ended July 31, 2008 (Q3'08).

Revenue for Q3'08 totaled \$4.1 million, compared to \$5.1 million in the fiscal second quarter ended April 30, 2008 (Q2'08). Product revenue totaled \$2.2 million for Q3'08 compared to \$2.3 million for Q2'08. Revenue from IP license, royalty and other totaled \$1.9 million for Q3'08 compared to \$2.8 million for Q2'08. The IP license, royalty and other revenue decrease in Q3'08 was related to lower than expected shipments by one of the Company's OEM relationships as well as a decrease in IP license revenue.

Gross profit was \$3.4 million, or 82 percent for Q3'08, compared to \$4.1 million, or 81 percent for Q2'08. The increase in gross profit as a percentage of revenue was driven by a higher mix of sales of ReadVerify (RVA), FileMigrator Agent (FMA) and VirtualTape Server (VTS) products. Net income for Q3'08 was \$1.2 million, or \$0.04 cents gain per share, compared to a net loss of \$2.5 million, or \$0.09 cents loss per share in Q2'08. Other income for Q3'08 includes a one-time increase related to some legal settlements.

"During this quarter we have achieved several key milestones as we continue the turnaround of the Company," said Rob Sims, CEO & President of Crossroads Systems. "We reached a critical inflection point, with revenue from new products outpacing revenues from our legacy product lines. We now are gaining traction with our full suite of storage and security products addressing a much larger and growing market opportunity. We are very optimistic about the potential of our strong partnerships and solid sales pipeline."

"We now believe we have built the proper infrastructure and have positioned the company well as we transition from a router company to a leading provider of data security, resiliency and connectivity solutions with a product suite unmatched in the marketplace today," Sims continued.

To learn more about Crossroads' financial information, please visit:

<http://www.crossroads.com/InvestorRelations/>

#### **About Crossroads Systems**

Headquartered in Austin, Texas, Crossroads Systems is a global leading provider of data security, resiliency and connectivity solutions. Crossroads (symbol: CRDS) trades over-the-counter on Pink Sheets and posts its financial disclosure reports, press releases and other related documentation on the OTCIQ web service of the Pink Sheets Web Site. More information about Crossroads Systems, Inc is available at [www.crossroads.com](http://www.crossroads.com).

Crossroads Systems, Inc.  
11000 North Mo-Pac Expressway  
Austin, Texas 78759  
Tel.: 866.BUY.CRDS  
866.289.2737  
512.349.0300  
Fax: 512.349.0304  
[www.crossroads.com](http://www.crossroads.com)



### 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.

©2008 Crossroads Systems, Inc. Crossroads and Crossroads Systems are registered trademarks of Crossroads Systems, Inc. All specifications are subject to change without notice.

###

\*See Tables Attached\*

Crossroads Systems, Inc.  
11000 North Mo-Pac Expressway  
Austin, Texas 78759  
Tel.: 866.BUY.CRDS  
866.289.2737  
512.349.0300  
Fax: 512.349.0304  
www.crossroads.com

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

	<b>October 31, 2007</b>	<b>July 31, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 9,261	\$ 8,458
Accounts receivable, net .....	4,555	3,397
Inventories, net .....	407	289
Prepays and other current assets .....	81	590
Total current assets .....	14,304	12,734
Property and equipment, net .....	1,989	1,573
Intangible, net.....	3,927	3,075
Investment in Subsidiaries.....	6,946	6,662
Goodwill.....	3,264	324
Other assets .....	127	64
Total assets .....	\$ 30,557	\$ 24,432
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 1,914	\$ 670
Accrued expenses .....	4,685	2,694
Accrued warranty costs .....	45	40
Deferred revenue .....	1,586	1,362
Line of Credit .....	-	2,024
Total current liabilities .....	8,230	6,790
Long-term liabilities.....	2,619	-
Stockholders' equity .....	19,708	17,642
Total liabilities and stockholders' equity .....	\$ 30,557	\$ 24,432

**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,	
	2007	2008	2007	2008
Revenue:				
Product.....	\$ 2,440	\$ 2,230	\$ 6,200	\$ 7,336
IP License, royalty and other .....	2,140	1,881	8,071	7,374
Total revenue .....	4,580	4,111	14,271	14,710
Cost of revenue:				
Product.....	693	356	1,964	1,458
IP License, royalty and other .....	389	376	779	1,239
Total cost of revenue .....	1,082	732	2,743	2,697
Gross profit .....	3,498	3,379	11,528	12,013
Operating expenses:				
Sales and marketing .....	1,898	1,737	5,189	5,403
Research and development .....	3,763	2,784	10,297	8,819
General and administrative .....	683	792	1,868	2,624
FAS 123R and stock based compensation.....	224	174	674	509
Business restructuring expense.....	-	-	-	-
Amortization of intangibles.....	351	284	1,053	836
Total operating expenses .....	6,919	5,771	19,081	18,191
Income (Loss) from operations .....	(3,421)	(2,392)	(7,553)	(6,178)
Other (expense) income.....	155	3,572	471	3,616
Net Income (Loss).....	<u>\$ (3,266)</u>	<u>\$ 1,180</u>	<u>\$ (7,082)</u>	<u>\$ (2,562)</u>
Basic net gain (loss) per share.....	(0.12)	0.04	(0.25)	(0.09)
Fully Diluted net gain (loss) per share.....	(0.12)	0.04	(0.25)	(0.09)
Shares used in computing:				
Basic net gain (loss) per share .....	28,154,311	28,154,311	28,034,246	28,154,311
Fully Diluted net gain (loss) per share .....	28,154,311	28,154,311	28,034,246	28,154,311

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

	Nine Months Ended July 31,	
	2007	2008
Cash flows from operating activities:		
Net loss.....	\$ (7,082)	\$ (2,562)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	871	736
Amortization of intangibles.....	1,054	836
Loss on disposal of fixed assets .....	-	(11)
Stock-based compensation.....	-	-
FAS 123R expense.....	674	510
Provision for doubtful accounts receivable.....	(34)	3
Provision for excess and obsolete inventory.....	262	20
Changes in assets and liabilities:	-	
Accounts receivable.....	810	886
Inventories.....	(7)	98
Prepays and other current assets.....	(6)	(253)
Accounts payable.....	(442)	(1,218)
Accrued expenses and other.....	(868)	780
Net cash used in operating activities.....	<u>(4,768)</u>	<u>(175)</u>
Cash flows from investing activities:		
Purchase of property and equipment.....	(1,047)	(307)
Purchase of held-to-maturity investments.....	-	-
Maturity of held-to-maturity investments.....	3,955	-
Investment in privately-held company.....	(1,114)	(2,378)
Net cash provided by (used in) investing activities.....	<u>1,794</u>	<u>(2,685)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	500	-
Proceeds from Borrowing on Line of Credit.....	-	2,024
Change in book overdraft.....	-	-
Net cash provided by financing activities.....	<u>500</u>	<u>2,024</u>
Effect of Exchange Rate on Cash.....	-	33
Net increase (decrease) in cash and cash equivalents.....	(2,474)	(803)
Cash and cash equivalents, beginning of period.....	12,321	9,261
Cash and cash equivalents, end of period.....	<u>\$ 9,847</u>	<u>\$ 8,458</u>