



Press Release

Investor Contact:

Jennifer Crane
Crossroads Systems
jcrane@crossroads.com
512.928.6897 or 800.643.7148

Press Contact:

Matthew Zintel
Zintel Public Relations
matthew.zintel@zintelpr.com
317.848.8804

FOR IMMEDIATE RELEASE

Crossroads Systems Reports Fiscal Third Quarter Financial Results

Austin, Texas – September 1, 2010 – Crossroads Systems, Inc. (symbol: CRDS), a global leading provider of solutions to connect, protect, secure and restore data, today announced results for its fiscal third quarter ended July 31, 2010 (Q3'10).

Revenue totaled \$3.2 million for Q3'10 compared to \$5.0 million in the fiscal second quarter ended April 30, 2010 (Q2'10). Product revenue totaled \$884,000 for Q3'10 compared to \$941,000 for Q2'10. Revenue from IP license, royalty and other totaled \$2.3 million for Q3'10 compared to \$4.1 million for Q2'10. Gross profit was \$2.7 million, or 86 percent for Q3'10, compared to \$4.0 million, or 79 percent for Q2'10. Net loss for Q3'10 was \$1.5 million, or \$0.05 cents loss per share, compared to a net loss of \$393,000, or \$0.01 cent loss per share in Q2'10.

For additional financial information, visit www.crossroads.com/InvestorRelations/.

About Crossroads Systems, Inc.

Headquartered in Austin, Texas, Crossroads Systems is a global leading provider of solutions to connect, protect, secure and restore data-at-rest. 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. Visit www.crossroads.com.

Forward-Looking Statements

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.

©2010 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. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In Thousands)

	October 31, 2009	July 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 5,297	\$ 6,152
Accounts receivable, net	5,124	2,817
Inventories, net	111	68
Prepays and other current assets	423	304
Total current assets	10,955	9,341
Property and equipment, net	830	596
Intangible, net.....	1,502	707
Investment in Subsidiaries.....	940	940
Other assets	69	57
Total assets	\$ 14,296	\$ 11,641
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,036	\$ 884
Accrued expenses	1,877	1,459
Accrued warranty costs	18	28
Deferred revenue	199	1,510
Line of Credit	1,973	1,973
Total current liabilities	5,103	5,854
Long-term liabilities.....	59	88
Stockholders' equity	9,134	5,699
Total liabilities and stockholders' equity	\$ 14,296	\$ 11,641

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,	
	2009	2010	2009	2010
Revenue:				
Product.....	\$ 1,277	\$ 884	\$ 3,998	\$ 2,918
IP License, royalty and other	2,584	2,275	6,846	8,006
Total revenue	3,861	3,159	10,844	10,924
Cost of revenue:				
Product.....	87	91	495	312
IP License, royalty and other	507	337	1,324	1,439
Total cost of revenue	594	428	1,819	1,751
Gross profit	3,267	2,731	9,025	9,173
Operating expenses:				
Sales and marketing	1,164	1,208	4,181	3,766
Research and development	2,320	2,113	7,074	6,432
General and administrative	460	550	1,252	1,512
FAS 123R and stock based compensation.....	191	55	592	571
Business restructuring expense.....	-	-	217	-
Amortization of intangibles.....	265	265	814	795
Total operating expenses	4,400	4,191	14,130	13,076
Income (Loss) from operations	(1,133)	(1,460)	(5,105)	(3,903)
Interest (expense) income.....	(7)	(24)	(77)	(71)
Net Income (Loss).....	<u>\$ (1,140)</u>	<u>\$ (1,484)</u>	<u>\$ (5,182)</u>	<u>\$ (3,974)</u>
Basic net gain (loss) per share.....	(0.04)	(0.05)	(0.18)	(0.13)
Shares used in computing:				
Basic net gain (loss) per share	<u>29,103,391</u>	<u>30,411,046</u>	<u>28,953,483</u>	<u>29,920,847</u>

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

	Nine Months Ended July 31,	
	2009	2010
Cash flows from operating activities:		
Net loss.....	\$ (5,182)	\$ (3,974)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	658	438
Business restructuring expenses.....	217	-
Amortization of intangibles.....	814	795
Loss on disposal of fixed assets	1	0
Stock-based compensation and FAS 123R.....	592	571
Provision for doubtful accounts receivable.....	2	(16)
Provision for excess and obsolete inventory.....	107	22
Changes in assets and liabilities:		
Accounts receivable.....	2,248	2,322
Inventories.....	75	20
Prepays and other current assets.....	94	116
Accounts payable.....	(705)	237
Accrued expenses and other.....	(360)	(366)
Deferred revenue and other.....	(18)	1,322
Net cash provided by (used in) operating activities.....	<u>(1,457)</u>	<u>1,487</u>
Cash flows from investing activities:		
Purchase of property and equipment.....	(203)	(232)
Net cash used in investing activities.....	<u>(203)</u>	<u>(232)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	1	-
Paydown of Line of Credit.....	(51)	-
Net cash provided by (used in) financing activities.....	<u>(50)</u>	<u>-</u>
Effect of Exchange Rate on Cash.....	247	(400)
Net increase (decrease) in cash and cash equivalents.....	(1,463)	855
Cash and cash equivalents, beginning of period.....	7,086	5,297
Cash and cash equivalents, end of period.....	<u>\$ 5,623</u>	<u>\$ 6,152</u>