



PRESS RELEASE

Investor Contact:

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

Investor Contact:

Scott Liolios or Matt Glover
Liolios Group
info@liolios.com
949.574.3860

Press Contact:

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

FOR IMMEDIATE RELEASE

Crossroads Systems Reports Fiscal Third Quarter 2011 Financial Results

Austin, Texas – August 24, 2011 – Crossroads Systems, Inc. (OTC.PK: CRDS) (OTC.PK: CRDSD), a global provider of solutions and services that ensure stored data is proactively protected and reliably recovered, reported financial results for its fiscal third quarter ending July 31, 2011 (Q3 2011).

Q3 2011 Highlights

- Product revenue increased 15% compared to the same quarter a year ago, driven primarily by a significant sale of the Crossroads ReadVerify Appliance (RVA)
- Signed a worldwide cross-license agreement with IBM to offer Crossroads RVA to IBM customers
- Achieved early adopter program milestone by shipping StrongBox solution to Crossroads Customer Advisory Board (CAB) members

Fiscal Q3 2011 Financial Results

Revenue totaled \$2.6 million, a decrease of 18% from \$3.2 million in the same quarter a year ago. The decline was primarily due to a 31% decrease in revenue from intellectual property (IP) licensing, royalty and other, from \$2.3 million to \$1.6 million. IP licensing contracts can vary significantly from quarter to quarter and should be considered 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 to \$1.0 million in Q3 2011 from \$884,000 in the same period a year ago.

Gross profit was \$2.3 million or 88% of total revenue, as compared to \$2.7 million, or 86% of total revenue in the same quarter a year ago.

Operating expenses totaled \$4.9 million, including \$137,000 of stock-based compensation, as compared to \$4.2 million and \$55,000 of stock-based compensation in the same period a year ago. The increase was primarily due to increased headcount.

Net loss was \$2.7 million or \$(0.06) loss per share based on 43.5 million weighted average shares outstanding, as compared to a net loss of \$1.5 million or \$(0.05) loss per share based on 30.4 million weighted average shares outstanding in the same quarter a year ago. The 43% increase in weighted average shares outstanding compared to the same period a year ago relates to the private equity financing the company completed in October 2010.

At July 31, 2011, cash, cash equivalents and short-term investments totaled \$9.5 million, as compared to \$12.7 million at April 30, 2011. The decrease in cash was due to the continued development and associated capital requirements of StrongBox.

Management Commentary

“Our Q3 results were largely in line with our expectations, including the fluctuation in IP revenue,” said Rob Sims, president and CEO of Crossroads Systems. “Subsequent to the quarter’s end, we came to an agreement in principal with a large licensee of our IP, which upon execution of the agreement, is expected to contribute significantly to our IP revenue in fiscal Q4. We continue to expect our cash balance at the end of our fiscal year to remain above \$10 million, and total revenue to be in line with fiscal 2010 levels.

“We made critical market acceptance of RVA during the quarter, including entering into an agreement with IBM, as well as a major sale into a global media conglomerate end user. Our channel growth from both a revenue and partner perspective continues for our SPHiNX solution. We are confident Crossroads branded products will replace declining legacy OEM revenue and continue to contribute to top line revenue growth in the near-term.

“During the quarter we also achieved critical milestones for StrongBox, which is our upcoming LTFS tape-based data vault. We met our early adopter ship date milestone and received tremendous initial feedback. One of the consistent requests included calls for expanding StrongBox functionality in regard to file retention and access. This capability brings the solution closer in line with a Tier 2 file system while retaining all of the Tier 3 functionality. Although implementing these changes will delay general availability by about four weeks, it will make the product even more attractive to the market place and expand revenue opportunities.”

Conference Call

Crossroads will hold a conference call later today (Wednesday, August 24, 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: Wednesday, August 24, 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 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) (OTC.PK: CRDSD) 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.

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.

©2011 Crossroads Systems, Inc. Crossroads and Crossroads Systems are registered trademarks of Crossroads Systems, Inc. All trademarks are the property of their respective owners. All specifications are subject to change without notice.

###

See tables attached

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In Thousands, Except Share Data)

ASSETS	<u>OCTOBER 31,</u> <u>2010</u>	<u>July 31,</u> <u>2011</u> (Unaudited)
Current assets:		
Cash and cash equivalents	\$ 13,811	\$ 4,591
Short-term investments	<u>-</u>	<u>4,864</u>
Total cash, cash equivalents and short-term investments.....	13,811	9,455
Accounts receivable, net of allowance for doubtful accounts of \$19 and \$17, respectively.....	5,607	2,599
Inventories, net.....	93	287
Prepaid expenses and other current assets	<u>293</u>	<u>872</u>
Total current assets	19,804	13,213
Property and equipment, net.....	575	1,262
Intangible assets, net.....	739	157
Other assets	<u>60</u>	<u>64</u>
Total assets	<u>\$ 21,178</u>	<u>\$ 14,696</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 990	\$ 1,128
Accrued expenses	2,271	1,612
Deferred revenue	1,517	1,567
Line of credit	<u>1,973</u>	<u>1,973</u>
Total current liabilities	6,751	6,280
Long term deferred revenue.....	103	127
Commitments and contingencies (See Note 8).....	-	-
Stockholders' equity:		
Common stock, \$.001 par value, 75,000,000 shares authorized, 42,945,102 and 43,603,463 shares issued and outstanding, respectively.....	43	44
Additional paid-in capital	198,697	199,424
Accumulated other comprehensive loss.....	(49)	(43)
Accumulated deficit	<u>(184,367)</u>	<u>(191,136)</u>
Total stockholders' equity	14,324	8,289
Total liabilities and stockholders' equity	<u>\$ 21,178</u>	<u>\$ 14,696</u>

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2011	2010	2011
Revenue:				
Product.....	\$ 884	\$ 1,016	\$ 2,918	\$ 3,410
IP license, royalty and other	2,275	1,561	8,006	5,345
Total revenue	3,159	2,577	10,924	8,755
Cost of revenue:				
Product.....	91	56	312	286
IP license, royalty and other	338	241	1,453	881
Total cost of revenue	429	297	1,765	1,167
Gross profit	2,730	2,280	9,159	7,588
Operating expenses:				
Sales and marketing	1,217	1,295	3,862	3,685
Research and development	2,129	2,917	6,494	7,854
General and administrative	579	665	1,811	2,147
Amortization of intangible assets.....	312	47	936	583
Total operating expenses	4,237	4,924	13,103	14,269
Loss from operations	(1,507)	(2,644)	(3,944)	(6,681)
Interest expense.....	(24)	(29)	(71)	(90)
Net loss.....	\$ (1,531)	\$ (2,673)	\$ (4,015)	\$ (6,771)
Basic and diluted net loss per share.....	\$ (0.05)	\$ (0.06)	\$ (0.13)	\$ (0.16)
Basic and diluted average common shares outstanding.....	30,411,046	43,473,289	29,920,847	43,314,336

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

	Nine Months Ended July 31,	
	2010	2011
Cash flows from operating activities:		
Net loss.....	\$ (4,115)	\$ (6,771)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	438	376
Amortization of intangible assets.....	936	583
Loss on disposal of fixed assets	-	6
Stock-based compensation.....	571	302
Provision for doubtful accounts receivable.....	(16)	1
Provision for excess and obsolete inventory.....	22	1
Changes in assets and liabilities:		
Accounts receivable.....	2,322	3,006
Inventories.....	20	(195)
Prepays and other current assets.....	116	(578)
Accounts payable.....	237	4
Accrued expenses.....	(366)	(297)
Deferred revenue.....	1,322	64
Net cash provided by (used in) operating activities.....	<u>1,487</u>	<u>(3,498)</u>
Cash flows from investing activities:		
Purchase of property and equipment.....	(232)	(1,068)
Purchase of held-to-maturity investments.....	-	(6,669)
Maturity of held-to-maturity investments.....	-	1,806
Net cash used in investing activities.....	<u>(232)</u>	<u>(5,931)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of expenses.....	-	62
Net cash provided by financing activities.....	<u>-</u>	<u>62</u>
Effect of exchange rate on cash.....	(400)	147
Net increase (decrease) in cash and cash equivalents.....	855	(9,220)
Cash and cash equivalents, beginning of period.....	5,297	13,811
Cash and cash equivalents, end of period.....	<u>\$ 6,152</u>	<u>\$ 4,591</u>