



# Press Release

**Investor Contact:**

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

**Press Contact:**

Matthew Zintel  
Zintel Public Relations  
[matthew.zintel@zintelpr.com](mailto:matthew.zintel@zintelpr.com)  
317.848.8804

**FOR IMMEDIATE RELEASE**

## **Crossroads Systems Reports Fiscal Fourth Quarter and Fiscal 2010 Full Year Financial Results**

**Austin, Texas – December 15, 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 fourth quarter (Q4'10) and fiscal year ended October 31, 2010 (FY'10).

**Fiscal Fourth Quarter 2010**

Revenue totaled \$5.4 million for Q4'10 compared to \$3.2 million in the fiscal third quarter ended July 31, 2010 (Q3'10). Product revenue totaled \$1.3 million for Q4'10 compared to \$884,000 for Q3'10. Revenue from IP license, royalty and other totaled \$4.1 million for Q4'10 compared to \$2.3 million for Q3'10.

Gross profit was \$4.7 million, or 87 percent for Q4'10, compared to \$2.7 million, or 86 percent for Q3'10. Total operating expenses were \$4.8 million for Q4'10, which included \$0.5 million of stock based compensation, compared to \$4.2 million of operating expense for Q3'10, including \$55,000 of stock based compensation. Net loss for Q4'10 was \$124,000, or \$0.00 cents loss per share, compared to a net loss of \$1.5 million, or \$0.05 cents loss per share in Q3'10.

Cash increased from \$6.2 million in Q3'10 to \$13.8 million in Q4'10. This increase was attributable to the private equity financing that the Company completed in October. The Company received net proceeds from the offering of \$9.2 million, after deducting placement agent fees and financing expenses. The Company sold 12,500,000 shares of its common stock at \$0.80 per share for gross proceeds to the Company of \$10.0 million and issued warrants to purchase an additional 4,296,875 shares of common stock (including shares underlying a warrant issued to the placement agent) with an exercise price of \$0.80 per share.

"2010 represented a strong year of execution against our strategic goals," said Rob Sims, President and CEO. "While overall revenue was flat versus fiscal 2009, it is important to note that our Crossroads branded revenue contribution grew significantly. This growth offset the declining OEM business that the Company had made a strategic decision to deemphasize as part of the transition to our current software solutions and services business model. Additionally, we continued to demonstrate our ability to generate substantial high margin revenue from our intellectual property portfolio. Crossroads has generated \$50 million in IP licensing revenue over the past six years, primarily from one patent family representing less than 10 percent of total patents."

Sims further stated, "The equity financing is another key execution milestone, providing Crossroads with the necessary working capital to greatly accelerate the adoption of our innovative solutions targeting Tier 3 data

storage, which is made up of fixed content, long-term and compliance-based storage, projected to grow more than 300 percent in the next six years. This financing, representing our first funding since the initial IPO in 1999, was effectively priced at nearly a 100 percent premium to where our shares had been trading. The funding further signals to current and prospective customers, partners and investors that we believe Crossroads is now poised to emerge out of "stealth mode" as a leader in providing dramatically lower cost solutions targeted at managing the explosion of Tier 3 data within the enterprise and in the cloud."

### **Fiscal Year 2010**

Total revenue for FY'10 totaled \$16.4 million, compared with \$16.8 million for fiscal year 2009 (FY'09). Gross profit for FY'10 was \$13.9 million, or 85 percent, compared with \$14.2 million, or 84 percent, for FY'09. Net loss for FY'10 was \$4.1 million, or \$0.14 cents loss per share, compared to a net loss of \$4.4 million, or \$0.15 cents loss per share in FY'09.

For additional financial information, visit [www.crossroads.com/InvestorRelations/](http://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](http://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.*

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\*See Tables Attached\*

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

	<b>October 31, 2009</b>	<b>October 31, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 5,297	\$ 13,811
Accounts receivable, net .....	5,124	5,607
Inventories, net .....	111	93
Prepaid expenses and other current assets .....	423	293
Total current assets .....	10,955	19,804
Property and equipment, net .....	830	575
Intangible, net.....	1,502	442
Investment in subsidiaries.....	940	940
Other assets .....	69	60
Total assets .....	\$ 14,296	\$ 21,821
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 1,036	\$ 990
Accrued expenses .....	1,877	2,241
Accrued warranty costs .....	18	30
Deferred revenue .....	199	1,517
Line of credit .....	1,973	1,973
Total current liabilities .....	5,103	6,751
Long-term liabilities.....	59	103
Stockholders' equity .....	9,134	14,967
Total liabilities and stockholders' equity .....	\$ 14,296	\$ 21,821

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

	Three Months Ended October 31,		Year Ended October 31,	
	2009	2010	2009	2010
Revenue:				
Product.....	\$ 1,872	\$ 1,325	\$ 5,870	\$ 4,243
IP license, royalty and other .....	4,132	4,119	10,978	12,125
Total revenue .....	6,004	5,444	16,848	16,368
Cost of revenue:				
Product.....	91	96	653	422
IP license, royalty and other .....	757	631	2,081	2,070
Total cost of revenue .....	848	727	2,734	2,492
Gross profit .....	5,156	4,717	14,114	13,876
Operating expenses:				
Sales and marketing .....	1,210	1,409	5,494	5,270
Research and development .....	2,309	2,312	9,730	8,907
General and administrative .....	572	812	2,116	2,623
Amortization of intangibles.....	265	265	1,079	1,060
Total operating expenses .....	4,356	4,798	18,419	17,860
Income (loss) from operations .....	800	(81)	(4,305)	(3,984)
Interest expense.....	(25)	(42)	(113)	(110)
Other (expense) income.....	(0)	(1)	12	(4)
Net Income (loss).....	<u>\$ 775</u>	<u>\$ (124)</u>	<u>\$ (4,406)</u>	<u>\$ (4,098)</u>
Basic net gain (loss) per share.....	0.03	(0.00)	(0.15)	(0.14)
Fully diluted net gain (loss) per share.....	0.03	(0.00)	(0.15)	(0.14)
Shares used in computing:				
Basic net gain (loss) per share .....	<u>29,216,522</u>	<u>31,337,003</u>	<u>29,032,451</u>	<u>30,345,374</u>
Fully Diluted net gain (loss) per share .....	<u>29,393,710</u>	<u>31,337,003</u>	<u>29,032,451</u>	<u>30,345,374</u>

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

	Years Ended October 31,	
	2009	2010
Cash flows from operating activities:		
Net loss.....	\$ (4,406)	\$ (4,098)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	839	553
Amortization of intangibles.....	1,079	1,060
Loss on disposal of fixed assets .....	1	0
Stock-based compensation.....	716	1,099
Provision for doubtful accounts receivable.....	(70)	(16)
Provision for excess and obsolete inventory.....	108	20
Changes in assets and liabilities:		
Accounts receivable.....	527	(468)
Inventories.....	110	(2)
Prepays and other current assets.....	(77)	128
Accounts payable.....	(698)	126
Accrued expenses and other.....	54	90
Deferred revenue and other.....	(151)	1,329
Net cash used in operating activities.....	<u>(1,968)</u>	<u>(179)</u>
Cash flows from investing activities:		
Purchase of property and equipment.....	(216)	(320)
Net cash used in investing activities.....	<u>(216)</u>	<u>(320)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs.....	1	9,178
Paydown of line of credit.....	(51)	-
Net cash (used in) provided by financing activities.....	<u>(50)</u>	<u>9,178</u>
Effect of exchange rate on cash.....	445	(165)
Net (decrease) increase in cash and cash equivalents.....	(1,789)	8,514
Cash and cash equivalents, beginning of period.....	7,086	5,297
Cash and cash equivalents, end of period.....	<u>\$ 5,297</u>	<u>\$ 13,811</u>