



## For Immediate Release

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## Crossroads Systems Announces Q3'06 Results

**AUSTIN, Texas—August 31, 2006**—Crossroads Systems, Inc. (OTC Pink Sheets: CRDS.PK), a leading provider of business information assurance solutions for secure storage and data protection, today announced results for its fiscal third quarter ended July 31, 2006 (Q3'06).

Revenue totaled \$18.7 million for Q3'06 as compared to \$2.6 million in the fiscal second quarter ended April 30, 2006 (Q2'06). Product revenue totaled \$5.0 million for Q3'06 as compared to \$1.5 million for Q2'06. The increase of \$3.5 million was the result of an increase in overall revenue from EMC and Quantum, as well as an increase from HP and SUN resulting from their last time buy of certain products. In addition, revenue from IP license, royalty and other totaled \$13.7 million for Q3'06 as compared to \$1.1 million for Q2'06. The increase of \$12.6 million was mainly a result of IP license revenue received in Q3'06. In addition, royalty revenue from HP increased from \$1.0 million in Q2'06 to \$2.0 million in Q3'06 due to HP's recovery after last quarter's RoHS compliancy challenges.

Gross margin percentage was 65 percent for Q3'06, compared to 63 percent for Q2'06. Net income for Q3'06 was \$5.4 million, or \$0.20 cents per share, compared to a net loss for Q2'06 of \$3.9 million, or \$0.14 cents per share.

On June 28, 2006, Crossroads announced it settled outstanding patent litigation with Carlsbad, California-based Dot Hill Systems Corp. (NASDAQ: HILL), a provider of storage networking solutions. In the settlement, Crossroads receives a one-time \$10.5 million cash payment and a 2.5 percent ongoing royalty on net sales of products utilizing Crossroads patented access controls technology. Of the \$10.5 million, Crossroads has received approximately \$9.1 million as of July 31, 2006. The remaining \$1.4 million is currently being disputed.

On April 12, 2006, Crossroads announced the acquisition of Tape Laboratories, Inc. (TapeLabs), with headquarters located in Los Angeles, California. Crossroads purchased 100 percent of TapeLabs shares. In return, the shareholder of TapeLabs received one million shares of Crossroads' common stock in addition to a cash payment at closing of approximately \$2.4 million and the payment by Crossroads of approximately \$2.3 million of TapeLabs' debt. Crossroads consolidated the results of operations of TapeLabs for Q3'06, contributing approximately \$1.1 million of product revenue and \$0.2 million of net loss.

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### **About Crossroads Systems, Inc.**

With headquarters in Austin, Texas, Crossroads Systems is a leading provider of Business Information Assurance solutions. Crossroads solves today's growing data storage, business continuity, disaster recovery and information security markets needs. Our solutions are designed to help companies store, manage and ensure the security, resiliency and accessibility of their data. Crossroads products are sold as part of packaged offerings from companies such as EMC, HP, Quantum and SUN, and are distributed through partners such as ACAL, Bell Micro, Info-X, and Promark. Crossroads (CRDS.PK) is currently traded on the Pink Sheets. Crossroads is a member of the Storage Networking Industry Association (SNIA). For more information about Crossroads Systems, please visit [www.crossroads.com](http://www.crossroads.com) or call 800-BUY-CRDS / 800.643.7148.

### **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.*

\* See Tables Attached\*

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

	<b>April 30,</b>	<b>July 31,</b>
	<b>2006</b>	<b>2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 7,713	\$ 12,905
Short-term investments.....	5,651	4,653
Total cash, cash equivalents and short-term investments..	13,364	17,558
Accounts receivable, net .....	1,792	4,096
Inventories, net .....	-	-
Prepays and other current assets .....	794	990
Total current assets .....	15,950	22,644
Property and equipment, net .....	1,932	1,955
Intangible, net.....	9,338	9,275
Other assets .....	66	66
Total assets .....	\$ 27,286	\$ 33,940
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 805	\$ 1,779
Accrued expenses .....	4,639	4,722
Accrued warranty costs .....	149	101
Deferred revenue .....	1,326	1,262
Total current liabilities .....	6,919	7,864
Long-term liabilities.....	2,363	2,363
Stockholders' equity .....	18,004	23,713
Total liabilities and stockholders' equity .....	\$ 27,286	\$ 33,940

**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,	
	2005	2006	2005	2006
Revenue:				
Product.....	\$ 3,232	\$ 5,013	\$ 7,504	\$ 8,083
IP License, royalty and other .....	2,544	13,711	7,219	17,281
Total revenue .....	5,776	18,724	14,723	25,364
Cost of revenue:				
Product.....	1,352	1,991	4,259	4,336
IP License, royalty and other .....	42	4,573	115	4,644
Total cost of revenue .....	1,394	6,564	4,374	8,980
Gross profit .....	4,382	12,160	10,349	16,384
Operating expenses:				
Sales and marketing .....	540	1,799	2,137	3,227
Research and development .....	3,182	3,158	11,313	9,406
General and administrative .....	1,240	1,445	3,827	3,075
FAS123R and stock based compensation.....	-	409	-	886
Business restructuring expense.....	-	-	544	328
Amortization of intangibles.....	67	67	201	201
Total operating expenses .....	5,029	6,878	18,022	17,123
Income (Loss) from operations .....	(647)	5,282	(7,673)	(739)
Interest income.....	148	142	441	514
Net Income (Loss).....	\$ (499)	\$ 5,424	\$ (7,232)	\$ (225)
Basic net gain (loss) per share.....	(0.02)	0.20	(0.28)	(0.01)
Fully Diluted net gain (loss) per share.....	(0.02)	0.20	(0.28)	(0.01)
Shares used in computing:				
Basic net gain (loss) per share .....	26,459,053	27,598,755	26,083,604	26,992,702
Fully Diluted net gain (loss) per share .....	26,459,053	27,627,633	26,083,604	26,992,702

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

	<b>NINE MONTHS ENDED</b>	
	<b>July,</b>	
	<b>2005</b>	<b>2006</b>
Cash flows from operating activities:		
Net loss.....	\$ (7,232)	\$ (225)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	1,619	889
Business restructuring expenses.....	229	-
Amortization of intangibles.....	202	201
Loss on disposal of fixed assets .....	24	64
Stock-based compensation.....	170	28
FAS 123R implementation.....	-	514
Provision for doubtful accounts receivable.....	(1)	(23)
Provision for excess and obsolete inventory.....	199	295
Changes in assets and liabilities:		
Accounts receivable.....	(48)	(622)
Inventories.....	(279)	828
Prepays and other current assets.....	(143)	(461)
Accounts payable.....	(1,521)	1,267
Accrued expenses and other.....	(1,708)	(518)
Net cash provided by (used in) operating activities.....	(8,489)	2,237
Cash flows from investing activities:		
Purchase of property and equipment.....	(774)	(945)
Purchase of held-to-maturity investments.....	(18,412)	(3,954)
Maturity of held-to-maturity investments.....	34,436	4,090
Investment in privately-held company.....	-	(3,612)
Net cash provided by (used in) investing activities.....	15,250	(4,421)
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	699	59
Change in book overdraft.....	-	-
Net cash provided by financing activities.....	699	59
Net increase (decrease) in cash and cash equivalents.....	7,460	(2,125)
Cash and cash equivalents, beginning of period.....	101	15,030
Cash and cash equivalents, end of period.....	\$ 7,561	\$ 12,905