



Press Release

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FOR IMMEDIATE RELEASE

Crossroads Systems Reports Fiscal First Quarter Financial Results

Austin, Texas – February 25, 2009 – Crossroads Systems, Inc. (symbol: CRDS), a global leading provider of solutions to connect, protect, secure and restore data, today announced results for its fiscal first quarter ended January 31, 2009 (Q1'09).

Revenue totaled \$3.2 million for Q1'09 compared to \$7.2 million in the fiscal fourth quarter ended October 31, 2008 (Q4'08). Product revenue totaled \$1.6 million for Q1'09 compared to \$2.0 million for Q4'08. In addition, revenue from IP license, royalty and other totaled \$1.7 million for Q1'09 compared to \$5.2 million for Q4'08. Gross profit was \$2.6 million, or 80 percent for Q1'09, compared to \$6.3 million, or 87 percent for Q4'08. Net loss for Q1'09 was \$2.5 million, or \$0.09 cents loss per share, compared to a net loss of \$5.0 million, or \$0.18 cents loss per share in Q4'08.

The decrease in revenue and gross margin was largely due to a decrease in revenue received from our largest OEM as well as a decrease in license revenue and deferred revenue of one million dollars recognized last quarter. Our OEM constitutes a large percentage of our business so when their business fluctuates, it greatly impacts our business. As a result, Q1'09 included one-time restructuring expenses of \$217,000.

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. 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.

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See Tables Attached

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

	October 31, 2008	January 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 7,086	\$ 5,888
Accounts receivable, net	5,535	4,173
Inventories, net	329	252
Prepays and other current assets	343	257
Total current assets	13,293	10,570
Property and equipment, net	1,444	1,283
Intangible, net.....	2,791	2,297
Investment in Subsidiaries.....	968	968
Goodwill.....	324	-
Other assets	17	75
Total assets	\$ 18,837	\$ 15,193
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,321	\$ 889
Accrued expenses	2,333	1,381
Accrued warranty costs	33	30
Deferred revenue	298	261
Line of Credit	2,024	2,024
Total current liabilities	6,009	4,585
Long-term liabilities.....	53	45
Stockholders' equity	12,775	10,563
Total liabilities and stockholders' equity	\$ 18,837	\$ 15,193

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

	Three Months Ended	
	January 31,	
	2008	2009
Revenue:		
Product.....	\$ 2,814	\$ 1,562
IP License, royalty and other	2,678	1,684
Total revenue	5,492	3,246
Cost of revenue:		
Product.....	530	284
IP License, royalty and other	454	369
Total cost of revenue	984	653
Gross profit	4,508	2,593
Operating expenses:		
Sales and marketing	1,759	1,564
Research and development	2,985	2,487
General and administrative	594	233
FAS 123R and stock based compensation.....	176	283
Business restructuring expense.....	-	217
Amortization of intangibles.....	268	284
Total operating expenses	5,782	5,068
Income (Loss) from operations	(1,274)	(2,475)
Interest (expense) income.....	49	(22)
Net Income (Loss).....	\$ (1,225)	\$ (2,497)
Basic net gain (loss) per share.....	(0.04)	(0.09)
Shares used in computing:		
Basic net gain (loss) per share	28,154,311	28,791,047

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

	Three Months Ended	
	January 31,	
	<u>2008</u>	<u>2009</u>
Cash flows from operating activities:		
Net loss.....	\$ (1,225)	\$ (2,497)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	256	232
Business restructuring expenses.....	-	217
Amortization of intangibles.....	284	284
Loss on disposal of fixed assets	1	-
Stock-based compensation.....	-	130
FAS 123R expense.....	176	153
Provision for doubtful accounts receivable.....	66	1
Provision for excess and obsolete inventory.....	81	24
Changes in assets and liabilities:		
Accounts receivable.....	(517)	1,358
Inventories.....	147	53
Prepays and other current assets.....	(397)	86
Accounts payable.....	(300)	(382)
Accrued expenses and other.....	(165)	(735)
Net cash used in operating activities.....	<u>(1,593)</u>	<u>(1,076)</u>
Cash flows from investing activities:		
Purchase of property and equipment.....	(56)	(71)
Net cash used in investing activities.....	<u>(56)</u>	<u>(71)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	-	1
Proceeds from Borrowing on Line of Credit.....	2,024	-
Net cash provided by financing activities.....	<u>2,024</u>	<u>1</u>
Effect of Exchange Rate on Cash.....	13	(52)
Net increase (decrease) in cash and cash equivalents.....	388	(1,198)
Cash and cash equivalents, beginning of period.....	9,261	7,086
Cash and cash equivalents, end of period.....	<u>\$ 9,649</u>	<u>\$ 5,888</u>