

XYRATEX LTD
Form 6-K
April 17, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

April 17, 2009

Commission File Number:0001284823

XYRATEX LTD

(Translation of registrant's name into English)

Langstone Road,
Havant
PO9 1SA
United Kingdom

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1)

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7)

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Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes No

If is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

NEWS RELEASE

Havant, UK April 17, 2009 Xyratex Ltd (Nasdaq: XRTX) today released the following financial information for the first quarter of its 2009 fiscal year, ending February 28, 2009:

- Management's Discussion and Analysis of Financial Condition and Results of Operations
 - Unaudited condensed consolidated financial statements
-

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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This section contains forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our 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. These risks and other factors include those listed under **Risk Factors** and elsewhere in our Annual Report on Form 20-F as filed with the Securities and Exchange Commission. In some cases, you can identify forward-looking statements by terminology such as *may*, *will*, *should*, *expects*, *intends*, *plans*, *anticipates*, *believes*, *estimates*, *predicts*, *potential*, *continue*, or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Overview

We are a leading provider of modular enterprise-class data storage subsystems and storage process technology. We design, develop and manufacture enabling technology that provides our customers with data storage products to support high-performance storage and data communication networks. We operate in two business segments: Networked Storage Solutions (NSS) and Storage Infrastructure (SI).

Our NSS products are primarily storage subsystems, which we provide to OEMs and our SI products consist of disk drive manufacturing process equipment, which we sell directly to manufacturers of disk drives and disk drive components. We form long-term strategic relationships with our customers and we support them through our operations in the United States, Asia and Europe. In our 2008 fiscal year, sales to our top three customers, NetApp, Seagate Technology and Western Digital, accounted for 54%, 9% and 7% of our revenues, respectively. In the three months ended February 28, 2009, sales to NetApp, Dell and Seagate accounted for 53%, 13% and 6% of our revenues, respectively. No other customer accounted for more than 10% of our revenues in the period. We had 46 customers which individually contributed more than \$0.5 million to revenues in our 2008 fiscal year. At February 28, 2009 we had over 150 active customers. We enter into joint development projects with our key customers and suppliers in order to research and introduce new technologies and products.

Revenues

Our NSS products consist primarily of HDD based storage subsystems. Our modular subsystem architecture enables us to support many segments within the networked storage market through our OEM customer base. Our revenues are primarily dependent on the worldwide storage systems market, the market share of our OEM customer base, particularly that of key customers, and changes in that customer base.

Our SI revenues are primarily derived from the sale of disk drive manufacturing process equipment directly to manufacturers of disk drives and disk drive components. We supply four main product lines in this segment: disk drive production test and qualification systems; media write systems; cleaning and contamination control equipment; and, automation and factory control technology. Revenues from these products are subject to significant fluctuations, particularly from quarter to quarter, as they are dependent on the capital investment decisions and installation schedules of our customers.

Over the last five fiscal years we have seen growth in demand for NSS products from many of our OEM customers, which we believe relates to factors including increases in the amount of digitally stored information, increased IT spending, growth in the specific markets that our customers address, the trend towards outsourcing and increased market share of our customers. Our revenues have also increased in 2008 through the contribution of two significant new customers. Although we expect there to continue to be an underlying growth in demand for data storage, we would expect revenues over at least the current fiscal year to be impacted by the effects of upheaval in the financial markets on the macro-economic environment. In addition our NSS revenues will be impacted in particular by the contribution of these significant new customers and the fact that, commencing in 2009, we have agreed to enable our largest customer, NetApp, to source a proportion of the products we supply under licenses from an alternative supplier. This proportion is set at a maximum of 25% in our next two fiscal years, but will increase in later fiscal years.

Our SI revenues which are similarly impacted by increases in the amount of digitally stored information can also be specifically affected by changes in shipped volume and increases in the individual storage capacity of disk drives. We saw a reduction in SI revenues in our 2008 fiscal year partly as a result of a reduction in the volume of disk drives shipped compared to expectations in the fourth calendar quarter. We believe this is also linked to the worsening macro economic environment and particularly the demand for personal computers. We expect SI revenues to continue to be significantly restricted in 2009 by the macro economic situation. We believe that the opportunity for growth in the longer term remains because we believe the demand for data storage capacity will continue to increase.

We typically enter into arrangements with our largest customers and provide them with products based on purchase orders executed under these arrangements. These arrangements often include estimates as to future product demand but do not typically specify minimum volume purchase requirements. Due to the complexity of our products, we provide almost all of our products on a build-to-order basis. The prices of our products are generally agreed to in advance and are based on a pre-negotiated pricing model. The pricing model may specify certain product components and component costs as well as anticipated profit margins.

As described above, the unit prices we obtain from our major customers will typically vary with volumes. As products become more mature, prices will generally decline, partly reflecting reduced component costs. We also regularly introduce new products which are likely to incorporate additional features or new technology and these products will generally command a higher unit price. Average unit prices will also vary with the mix of customers and products. Our unit prices for NSS products have reduced in the last three fiscal years as volumes with our major customers have increased and prices are adjusted in line with the agreed price/volume matrix. Because this is related to volume growth, this has not resulted in a reduction in our revenues in those fiscal years and has also enabled reductions in component costs. With this exception, we have not seen an overall trend in our unit prices.

Foreign Exchange Rate Fluctuations

The functional currency for all our operations is U.S. dollars and the majority of our revenues and cost of revenues are denominated in U.S. dollars. A significant proportion (approximately \$77.0 million in our 2008 fiscal year) of our non-U.S. dollar operating expenses relates to payroll and other expenses of our U.K. operations. To a lesser extent we are also exposed to movements in the Malaysian Ringgit relative to the U.S. dollar. We manage our exchange rate exposures through the use of forward foreign currency exchange contracts and option agreements. By using these derivative instruments, increases or decreases in our U.K. pound operating expenses resulting from changes in the U.S. dollar to U.K. pound exchange rate are partially offset by realized gains and losses on the derivative instruments.

Over our last three fiscal years there has been significant volatility in the exchange rate between the U.K. pound and the U.S. dollar including a dramatic fall in the value of the U.K. pound of 22% in the final four months of our 2008 fiscal year. We have hedged the majority of our exposure to this exchange rate movement for approximately one year ahead and we are particularly impacted by the movement in average annual exchange rates. The recent rise in the value of the US dollar, if not reversed, is expected to reduce 2009 operating expenses by approximately \$6 million, being approximately \$20 million less a \$13.6 million impact of forward contracts.

Cost reduction exercise

Following the changed economic environment in the final quarter of 2008 we have been reassessing our cost base in research and development and other areas. In our 2009 fiscal year we have commenced a cost reduction exercise which included a 7.3% reduction in our worldwide employee headcount, including an 11.6% reduction in our combined U.S. and U.K. employee headcount in the first quarter. The cost reduction activities have resulted in restructuring costs of \$3.1 million and annual cost savings compared to the costs that would have been incurred

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without the cost reduction exercise, of approximately \$24 million, of which approximately \$11 million relates to cost of revenues and the remainder relates to other operating expenses. This exercise is continuing into the second quarter of our 2009 fiscal year and we expect to make a further reduction in headcount of 10%. The impact of this has not yet been determined.

Costs of Revenues and Gross Profit

Our costs of revenues consist primarily of the costs of the materials and components used in the assembly and manufacture of our products, including disk drives, electronic cards, enclosures and power supplies. Other items included in costs of revenues include salaries, bonuses and other labor costs for employees engaged in the component procurement, assembly and testing of our products, warranty expenses, shipping costs, depreciation of manufacturing equipment and certain overhead costs. Our gross margins change primarily as a result of fluctuations in our product mix. Our gross margins also change as a result of changes to product pricing, provisions for obsolescence, manufacturing volumes and costs of components. The margins for our NSS products tend to be lower than the margins of our SI products and therefore our gross profit as a percentage of revenues will continue to vary with the proportions of revenues in each segment.

Research and Development

Our research and development expenses include expenses related to product development, engineering, materials costs and salaries, bonuses and other labor costs for our employees engaged in research and development. Research and development expenses include the costs incurred in designing products for our OEM customers, which often occurs prior to their commitment to purchase these products. We expense research and development costs as they are incurred.

Due to the level of competition in the markets in which we operate and the rapid changes in technology, our future revenues are heavily dependent on the improvements we make to our products and the introduction of new products. During our 2008 fiscal year our research and development expenses related to over 50 separate projects covering improving existing products, meeting customer specific requirements and entering new markets, such as development of the SBB compliant OneStor platform and a production test system designed specifically for 2.5 inch disk drives.

As of November 30, 2008, 27% of our employees were engaged in our research and development activities. Over recent fiscal years research and development expenses have risen approximately at the level of increase in revenue. Following the changed economic environment in the final quarter of 2008 we have been reassessing our cost base in research and development and are carrying out a cost reduction exercise in the first half of 2009 which will reduce expenditure in 2009. We intend to ensure that we continue to develop our technology base to support our customers and be able to take advantage of market improvements when they occur. We are committed to developing products based on advanced technologies and designs to support the opportunities for growth in both of our segments.

Selling, General and Administrative

Selling, general, and administrative expenses include expenses related to salaries, bonuses and other labor costs for senior management and sales, marketing, and administrative employees, market research and consulting fees, commissions to sales representatives, IT costs, other marketing and sales activities and exchange gains and losses arising on the retranslation of U.K. pound denominated assets and liabilities. Our selling, general and administrative expenses have increased over recent fiscal years as we have grown our business. We would expect these expenses to continue to change approximately in line with our revenues.

Impairment of goodwill and long-lived assets

We recorded a \$34.3 million non-cash impairment of our goodwill at November 30, 2008 representing the entire balance of goodwill on that date prior to the impairment. We are required by Financial Accounting Standard No. 142 *Goodwill and Other Intangible Assets* to subject our goodwill to an annual impairment test. Our forecasts used in the impairment calculation took into account reduced demand from our customers as a result of the deteriorating macro economic environment in the fourth quarter and also incorporated the impact of an 81% fall in our share price in the fourth quarter of our 2008 fiscal year which resulted in a position where our market capitalization was significantly lower than our net asset value.

In addition we assessed the potential impairment of other long lived assets by comparing the undiscounted cash flows of our business segments to the carrying value of the related assets over the useful lives of those assets. We used the same cash flows and asset values as that used to

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assess the impairment of goodwill. We concluded that there was no impairment of our other long lived assets, being intangible assets with a book value of \$11.2 million and property, plant and equipment with a book value of \$47.2 million.

The cash flows on which this assessment is based are highly dependent on our forecasts which are subjective and, as described in the highlights section above, we are experiencing increased uncertainty in the marketplace for our products. Until the market conditions improve we will continue to consider the potential for impairment at each quarter end. Were there to be a further deterioration in our business we may be required to record an impairment of our remaining long lived assets.

Equity Share Capital

On January 14, 2008 we commenced a share buy-back program. We announced that we would purchase our common shares up to a value of \$30 million. During the year ended November 30, 2008 we purchased 392,000 shares at a total value of \$6.1 million. Following the change in global economic conditions it is unlikely that we will purchase any additional shares under this program over at least the next six months in order to conserve our cash balances.

Provision for Income Taxes

We are subject to taxation primarily in the United Kingdom, the United States and Malaysia. Our Malaysian operations relating to SI and NSS products benefit from a beneficial tax status which has provided us with a zero tax rate on substantially all of our income arising in Malaysia. The beneficial tax status relating to SI products was granted in 2006 and ends in 2012. The beneficial tax status relating to NSS products was granted in February 2009 and will cover a period of ten years. The beneficial tax status for both SI and NSS products is subject to meeting certain requirements.

We have significant loss carryforwards in the United Kingdom and as a result we have not been required to make any significant U.K. tax payments in recent fiscal years. The impact of the global economic environment on our actual and forecast results when combined with our legal and tax structure resulted in the judgment of management that at November 30, 2008 the utilization of U.K. deferred tax assets of \$29.5 million was no longer probable and consequently included in provision for income taxes in our 2008 fiscal year was a valuation allowance against the book value of these assets at that date.

In the United Kingdom and the United States we benefit from research and development tax credits although benefitting from these credits in the U.K. is dependent on the reversal of the valuation allowance against the U.K. deferred tax asset.

As of November 30, 2008, we retained a deferred tax asset of \$10.5 million related to loss carryforwards and other timing differences in the United States, including \$2.6 million related to equity compensation expense, the realization of which is dependent on future share price movements.

Tax payments in our 2008 fiscal year amounted to \$1.3 million and, due to the beneficial Malaysian tax status and U.K. tax losses, these tax payments related primarily to our U.S. operations. In our 2009 fiscal year, following the valuation allowance against the U.K. deferred tax asset, we anticipate that our tax expense will consist of U.S. current taxes.

With effect from December 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FAS No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FAS 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. As a result of the adoption of FIN 48, the Company recorded no additional unrecognized tax benefits. As of November 30, 2008, the Company had \$9.4 million of unrecognized tax benefits. If this asset were recognized approximately \$7.9 million would reduce our income tax expense and \$1.5 million would have no impact due to the valuation allowance.

Results from Continuing Operations

The following table sets forth, for the periods indicated, selected operating data as a percentage of revenues.

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| | Three Months Ended | |
|-------------------------------------|----------------------|----------------------|
| | February 28, 2009 | February 29, 2008 |
| Revenues | 100.0% | 100.0% |
| Cost of revenues | 88.6 | 84.9 |
| Gross profit | 11.4 | 15.1 |
| Operating expenses: | | |
| Research and development | 10.2 | 8.9 |
| Selling, general and administrative | 7.5 | 6.9 |
| Amortization of intangible assets | 0.5 | 0.6 |
| Restructuring costs | 1.7 | |
| Operating income (loss) | (8.6) | (1.3) |
| Net income (loss) | (8.8)% | (1.0)% |

Three Months Ended February 28, 2009 Compared to the three Months Ended February 29, 2008

The following is a tabular presentation of our results of operations for the three months ended February 28, 2009 compared to the three months ended February 29, 2008. Following the table is a discussion and analysis of our business and results of operations for such periods.

| | Three months ended | | Increase/(Decrease) | |
|-------------------------------------|----------------------|----------------------|---------------------|---------|
| | February 28, 2009 | February 29, 2008 | Amount | % |
| (U.S. dollars in thousands) | | | | |
| Revenues: | | | | |
| Networked Storage Solutions | \$ 165,725 | \$ 187,776 | \$ (22,051) | (11.7)% |
| Storage Infrastructure | 18,160 | 29,278 | (11,118) | (38.0) |
| Total revenues | 183,885 | 217,054 | (33,169) | (15.3) |
| Cost of revenues | 162,993 | 184,283 | (21,290) | (11.6) |
| Gross profit: | | | | |
| Networked Storage Solutions | 18,389 | 27,599 | (9,210) | (33.4) |
| Storage Infrastructure | 2,768 | 5,526 | (2,758) | (49.9) |
| Non cash equity compensation | (265) | (354) | (89) | |
| Total gross profit | 20,892 | 32,771 | (11,879) | (36.2) |
| Operating expenses: | | | | |
| Research and development | 18,747 | 19,279 | (532) | (2.8) |
| Selling, general and administrative | 13,827 | 14,979 | (1,152) | (7.7) |
| Amortization of intangible assets | 966 | 1,379 | (413) | |
| Restructuring costs | 3,116 | | 3,116 | |
| Operating loss | (15,764) | (2,866) | (12,898) | |
| Interest income, net | 60 | 899 | (839) | |
| Provision for income taxes | 424 | 252 | 172 | |
| Net loss | \$ (16,128) | \$ (2,219) | \$ (13,909) | |

Revenues

The 15.3% decrease in our revenues in the three months ended February 28, 2009 compared to the three months ended February 29, 2008 was attributable to decreased sales of our NSS and SI products.

Revenues from sales of our NSS products decreased by \$22.1 million, or 11.7%. This was primarily due to our largest customer sourcing up to 25% of its products from an alternative supplier, as described in the overview. This was offset by the contribution of an additional \$15 million revenue from two significant new customers. Due to the global economic situation there remains significant uncertainty in customer demand and we expect revenue from NSS products to decline in the 2009 fiscal year.

Revenues from sales of our SI products decreased by \$11.1 million, or 38.0%. This comprised a \$5.1 million reduction in demand for media writing products and a \$6.0 million reduction in demand for automation and factory control products. We believe this reduction in demand reflects lower demand for disk drives related to the economic downturn. As described in the overview, our revenues from our SI products are subject to significant fluctuations, particularly between quarters, resulting from our major customers' capital expenditure decisions and installation schedules.

Cost of Revenues and Gross Profit

The decrease in cost of revenues and in gross profit in the three months ended February 28, 2009 compared to the three months ended February 29, 2008 was primarily due to lower NSS and SI revenues. As a percentage of revenues, our gross profit was 11.4% for the three months ended February 28, 2009 compared to 15.1% for the three months ended February 29, 2008. This change was primarily attributable to a decrease in NSS gross margins.

The gross margin for our NSS products decreased to 11.1% in the three months ended February 28, 2009 from 14.7% in the three months ended February 29, 2008. Of this decrease approximately 1.6% is the result of higher fixed labor and overhead costs compared to lower revenues. The remaining decrease results from a number of changes to product mix including a reduced proportion of products incorporating RAID technology.

The gross margin for SI products decreased to 15.2% in the three months ended February 28, 2009, from 18.9% in the three months ended February 29, 2008 primarily as a result of fixed labor and overhead costs relative to lower revenues.

In measuring the performance of our business segments from period to period without variations caused by special or unusual items, we focus on gross profit by product group, which excludes a non-cash equity compensation charge of \$0.3 million for the three months ended February 28, 2009 and \$0.4 million for the three months ended February 29, 2008. See Note 13 to our unaudited condensed consolidated financial statements for a description of our segments and how we measure segment performance.

Research and Development

The 2.8% decrease in research and development expense in the three months ended February 28, 2009 compared to the three months ended February 29, 2008 resulted from the initial impact of the cost reduction exercise and represented a 17.5% decrease from the three months ended November 30, 2008.

Selling, General and Administrative

The \$1.2 million decrease in our selling, general and administrative expense in the three months ended February 28, 2009 compared to the three months ended February 29, 2008 also reflects the initial impact of the cost reduction exercise and represents a 13.5% decrease from the three months ended November 30, 2008.

Amortization of Intangible Assets

The \$0.4 million decrease in amortization of intangible assets in the three months ended February 28, 2009 compared to the three months ended February 29, 2008 primarily resulted from intangible assets acquired as a result of the acquisition of ZT Automation in our 2004 fiscal year becoming fully amortized.

Restructuring costs

The \$3.1 million of restructuring costs relate to the cost reduction exercise described in the overview and comprises \$2.1 million related to employee reductions and \$1.0 million related to lease terminations.

Interest Income, Net

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We recorded net interest income of \$0.1 million in the three months ended February 28, 2009 compared with \$0.9 million in the three months ended February 29, 2008. This resulted primarily from a decrease in interest rates.

Provision for Income Taxes

As described in the overview income tax expense in the three months ended February 28, 2009 relates to estimated U.S. income. Income tax expense in the three months ended February 29, 2008 related primarily to an exchange adjustment to the U.K. deferred tax asset.

Net Loss

The most significant contributors towards the recording of a net loss of \$16.1 million for the three months ended February 28, 2009 compared to the net loss of \$2.2 million for the three months ended February 29, 2008 were the reduction in SI and NSS revenues and the restructuring costs, each of which is explained above.

Liquidity and Capital Resources

We finance our operations primarily through cash balances and cash flow from operations. We also have available bank facilities from HSBC.

Cash flows

Net cash provided by operating activities was \$10.3 million for the three months ended February 28, 2009 compared to net cash used in operating activities of \$6.8 million for the three months ended February 29, 2008.

Cash provided by operating activities of \$10.3 million for the three months ended February 28, 2009 resulted primarily from a reduction in working capital related to the reduction in revenues. This included a decrease in inventory and accounts receivable of \$16.6 million and \$54.4 million respectively offset by a decrease in accounts payable of \$44.9 million and a decrease in deferred revenues of \$3.2 million. These positive effects on cashflow were partially offset by the net loss of \$16.1 million after excluding net non-cash charges totaling \$7.0 million. Deferred revenue primarily represents advance payments from customers for Storage Infrastructure products and varies with the level of orders on hand for these products.

Cash used by operating activities of \$6.8 million for the three months ended February 29, 2008 resulted primarily from an increase in inventory of \$21.5 million, offset by a reduction in working capital requirements of our Storage Infrastructure business. The increase in inventory primarily related to a build up of inventory to mitigate the risks associated with the migration to our new ERP system and lower than expected shipments at the end of the quarter. The reduction in working capital requirements for our Storage Infrastructure business primarily resulted from the reduction in revenues in that division and was the primary cause of a decrease in accounts receivable of \$20.8 million and a decrease in accounts payable of \$3.3 million. In addition a decrease in deferred revenue of \$7.0 million also contributed to the net cash used. This relates to a reduction in orders on hand in our Storage Infrastructure segment. These negative effects on cashflow were partially offset by a \$4.9 million positive effect of the operating results being the net loss adjusted for non-cash charges.

Net cash used in investing activities was \$4.6 million for the three months ended February 28, 2009 compared to \$4.0 million for the three months ended February 29, 2008 all relating to capital expenditure.

Our capital expenditures relate primarily to purchases of equipment such as tooling, production lines and test equipment. We would expect our capital expenditure to generally change in line with our revenues. We increased our capital expenditure in 2008 to support the expansion of activity in Malaysia. Following the change in the economic environment we would expect our capital expenditure to be significantly lower in our 2009 fiscal year. We are however continuing to expand our facilities in Malaysia which will require additional expenditure of approximately \$3.4 million in our 2009 fiscal year to complete the building expansion. With this exception we currently have no material commitments for capital expenditures.

Net cash provided by our financing activities was \$0.1 million in the three months ended February 28, 2009 compared to net cash used in our financing activities of \$2.0 million in the three months ended February 29, 2008.

Net cash used in financing activities for the three months ended February 29, 2008 comprised of \$2.6 million for the repurchase of shares under our share buy-back program as described in the overview partially offset by \$0.6 million proceeds from the exercise of employee share options.

Liquidity

As of February 28, 2009, our principal sources of liquidity consisted of cash and cash equivalents of \$33.8 million and our multi-currency credit facilities with HSBC. The facilities include a revolving line of credit which expires in October 2011, and a short-term overdraft facility. The revolving line of credit is for an aggregate principal amount of up to \$30.0 million and bears interest at a rate of between 1.25% and 1.75% above LIBOR, depending on the level of debt relative to operating income. The overdraft facility is for an aggregate principal amount of \$25.0 million and bears interest at a rate equal to 1% above LIBOR. As of February 28, 2009, we had no debt outstanding under our revolving line of credit or our overdraft facility. The HSBC credit facilities provide for a security interest on substantially all of our assets.

Our future financing requirements will depend on many factors, but are particularly affected by our ability to generate profits, changes in revenues and associated working capital requirements, changes in the payment terms with our major customers and suppliers of disk drives, and quarterly fluctuations in our revenues. Additionally, our cash flow could be significantly affected by any acquisitions we might choose to make or alliances we have entered or might enter into. The current economic environment has increased the risk that we will not be able to generate profits in the short term. We believe that our cash and cash equivalents together with our credit facilities with HSBC will be sufficient to meet our cash requirements at least through the next 12 months. However, we cannot assure you that additional equity or debt financing will be available to us on acceptable terms or at all and in particular if we are unable to generate profits our ability to utilize the HSBC facilities may be limited.

Accounting Policies

Critical Accounting Policies

Our critical accounting policies are set out in our Annual Report on form 20-F as filed with the Securities and Exchange Commission on February 18, 2009. By *critical accounting policies* we mean policies that are both important to the portrayal of our financial condition and financial results and require critical management judgments and estimates about matters that are inherently uncertain. Although we believe that our judgments and estimates are appropriate, actual future results may differ from our estimates.

Recent Accounting Pronouncements

On December 1, 2007, the Company adopted Financial Accounting Standard No. 157 (FAS 157), Fair Value Measurements . FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of FAS 157 did not give rise to any adjustments to the consolidated financial statements. In February 2008, the FASB issued FASB Staff Position No. 157-2 Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 permits a one-year deferral in applying the measurement provisions of FAS 157 to non-financial assets and non-financial liabilities that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). FSP 157-2 was adopted on December 1, 2008 and did not give rise to any adjustments to the consolidated financial statements.

In December 2007, the FASB issued FAS No. 141 (Revised 2007), Business Combinations . FAS 141R retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. FAS 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest at their fair values as of the acquisition date. In addition, FAS 141R requires expensing of acquisition-related and restructure-related costs, remeasurement of earn out provisions at fair value, measurement of equity securities issued for purchase at the date of close of the transaction and non-expensing of in-process research and development related intangibles. FAS 141R is effective for our business combinations for which the acquisition date is on or after December 1, 2009.

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| | February 28, 2009 | November 30, 2008 |
|--|--|----------------------|
| | (US dollars and amounts in thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 33,822 | \$ 28,013 |
| Accounts receivable, net | 86,485 | 140,879 |
| Inventories | 111,602 | 128,183 |
| Prepaid expenses | 3,942 | 2,746 |
| Deferred income taxes | 1,000 | 1,000 |
| Other current assets | 3,561 | 4,430 |
| Total current assets | 240,412 | 305,251 |
| Property, plant and equipment, net | 47,342 | 47,229 |
| Intangible assets, net | 10,196 | 11,162 |
| Deferred income taxes | 8,709 | 9,545 |
| Total assets | \$ 306,659 | \$ 373,187 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 66,392 | \$ 111,295 |
| Employee compensation and benefits payable | 7,918 | 9,745 |
| Deferred revenue | 5,146 | 8,386 |
| Income taxes payable | 2,927 | 2,573 |
| Foreign currency contracts | 12,001 | 13,266 |
| Other accrued liabilities | 13,282 | 14,333 |
| Total current liabilities | 107,666 | 159,598 |
| Long-term liabilities | | |
| Total liabilities | 107,666 | 159,598 |
| Shareholders equity | | |
| Common shares of Xyratex Ltd (in thousands), par value \$0.01 per share 70,000 authorized, 29,459 and 29,146 issued and outstanding | 294 | 291 |
| Additional paid-in capital | 366,846 | 366,067 |
| Accumulated other comprehensive loss | (12,853) | (13,603) |
| Accumulated deficit | (155,294) | (139,166) |
| Total shareholders equity | 198,993 | 213,589 |
| Total liabilities and shareholders equity | \$ 306,659 | \$ 373,187 |

The accompanying notes are an integral part of these consolidated financial statements.

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended, | |
|--|--|----------------------|
| | February 28, 2009 | February 29, 2008 |
| | (US dollars in thousands, except per share amounts) | |
| Revenues | \$ 183,885 | \$ 217,054 |
| Cost of revenues | 162,993 | 184,283 |
| Gross profit | 20,892 | 32,771 |
| Operating expenses: | | |
| Research and development | 18,747 | 19,279 |
| Selling, general and administrative | 13,827 | 14,979 |
| Amortization of intangible assets | 966 | 1,379 |
| Restructuring costs | 3,116 | |
| Total operating expenses | 36,656 | 35,637 |
| Operating loss | (15,764) | (2,866) |
| Interest income, net | 60 | 899 |
| Loss before income taxes | (15,704) | (1,967) |
| Provision for income taxes | 424 | 252 |
| Net loss | \$ (16,128) | \$ (2,219) |
| Net loss per share: | | |
| Basic | \$ (0.55) | \$ (0.08) |
| Diluted | \$ (0.55) | \$ (0.08) |
| Weighted average common shares (in thousands), used in computing net loss per share: | | |
| Basic | 29,236 | 29,125 |
| Diluted | 29,236 | 29,125 |

The accompanying notes are an integral part of these consolidated financial statements.

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

(US dollars and amounts, in thousands)

| | Number of Common Shares | Par value | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Total |
|---|-------------------------------|---------------|----------------------------------|------------------------|--|-------------------|
| Balances as of November 30, 2007 | 29,117 | \$ 291 | \$ 356,268 | \$ (85,145) | \$ 1,847 | \$ 273,261 |
| Issuance of common shares | 266 | 3 | 631 | | | 634 |
| Non-cash equity compensation | | | 2,200 | | | 2,200 |
| Repurchases of common shares | (169) | (2) | | (2,616) | | (2,618) |
| Components of comprehensive loss, net of tax: | | | | | | |
| Net loss | | | | (2,219) | | |
| Unrealized loss on forward foreign currency contracts net of reclassification adjustment: | | | | | (1,159) | |
| Total comprehensive loss | | | | | | (3,378) |
| Balances as of February 29, 2008 | 29,214 | \$ 292 | \$ 359,099 | \$ (89,980) | \$ 688 | \$ 270,099 |

| | Number of Common Shares | Par value | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Total |
|---|-------------------------------|---------------|----------------------------------|------------------------|--|-------------------|
| Balances as of November 30, 2008 | 29,146 | \$ 291 | \$ 366,067 | \$ (139,166) | \$ (13,603) | \$ 213,589 |
| Issuance of common shares | 313 | 3 | 84 | | | 87 |
| Non-cash equity compensation | | | 1,530 | | | 1,530 |
| Tax on equity compensation | | | (835) | | | (835) |
| Components of comprehensive loss, net of tax: | | | | | | |
| Net loss | | | | (16,128) | | |
| Unrealized loss on forward foreign currency contracts net of reclassification adjustment: | | | | | 750 | |
| Total comprehensive loss | | | | | | (15,378) |
| Balances as of February 28, 2009 | 29,459 | \$ 294 | \$ 366,846 | \$ (155,294) | \$ (12,853) | \$ 198,993 |

The accompanying notes are an integral part of these consolidated financial statements.

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Months Ended, | |
|---|---------------------------|----------------------|
| | February 28, 2009 | February 29, 2008 |
| | (US dollars in thousands) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (16,128) | \$ (2,219) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 4,493 | 3,485 |
| Amortization of intangible assets | 966 | 1,379 |
| Non-cash equity compensation | 1,530 | 2,200 |
| Changes in assets and liabilities, net of impact of acquisitions and divestitures | | |
| Accounts receivable | 54,394 | 20,783 |
| Inventories | 16,581 | (21,469) |
| Prepaid expenses and other current assets | (327) | (602) |
| Accounts payable | (44,903) | (3,299) |
| Employee compensation and benefits payable | (1,827) | (1,895) |
| Deferred revenue | (3,240) | (7,018) |
| Income taxes payable | 354 | 372 |
| Deferred income taxes | 1 | (125) |
| Other accrued liabilities | (1,566) | 1,596 |
| Net cash provided by (used in) operating activities | 10,328 | (6,812) |
| Cash flows from investing activities: | | |
| Investments in property, plant and equipment | (4,606) | (4,016) |
| Net cash used in investing activities | (4,606) | (4,016) |
| Cash flows from financing activities: | | |
| Repurchases of common shares | | (2,618) |
| Proceeds from issuance of shares | 87 | 634 |
| Net cash provided by (used in) financing activities | 87 | (1,984) |
| Change in cash and cash equivalents | 5,809 | (12,812) |
| Cash and cash equivalents at beginning of period | 28,013 | 70,678 |
| Cash and cash equivalents at end of period | \$ 33,822 | \$ 57,866 |

The accompanying notes are an integral part of these consolidated financial statements.

XYRATEX LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(US dollars and amounts in thousands, except per share data, unless otherwise stated)

1. The Company and its Operations

Xyratex Ltd together with its subsidiaries (the Company) is a leading provider of modular enterprise-class data storage subsystems and storage process technology with principal operations in the United Kingdom (U.K.), the United States of America (U.S.) and Malaysia. We operate in two business segments: Networked Storage Solutions (NSS) and Storage Infrastructure (SI). Our NSS products are hard disk drive based data storage subsystems. Our SI products include disk drive production test and qualification systems, media write systems, cleaning and contamination control equipment and automation and factory control technology.

2. Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

These condensed consolidated financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which the Company s management considers necessary for a fair presentation of the financial position as of such dates and the operating results and cash flows for those periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In addition, the results of operations for the interim periods may not necessarily be indicative of the operating results that may be incurred for the entire year.

The November 30, 2008 balance sheet was derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements included in the Company s Form 20-F as filed with the Securities and Exchange Commission on February 18, 2009.

3. Equity compensation plans

The following table summarizes equity compensation expense related to share-based awards:

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| | Three months ended February 28, 2009 | | Three months ended February 29, 2008 | |
|-------------------------------------|---|-------|---|-------|
| Equity compensation: | | | | |
| Cost of revenues | \$ | 265 | \$ | 354 |
| Research and development | | 510 | | 708 |
| Selling, general and administrative | | 755 | | 1,138 |
| Total equity compensation | | 1,530 | | 2,200 |
| Related income tax benefit | \$ | 269 | \$ | 611 |

The Company's share based awards primarily consist of Restricted Stock Units (RSUs). The Company also operates an Employee Share Purchase Plan for U.S. employees and a Sharesave option plan for U.K. employees. Prior to 2006 the Company's share based awards were primarily in the form of share options. Based on an agreement with the Company's managing underwriter for the Initial Public Offering in 2004, there are 2,556 shares authorized for future grants under the plans. Option exercises are satisfied through the issue of new shares or where previously agreed with the trustee, through the transfer of shares from an employee benefit trust.

Restricted Stock Units

RSUs generally require that shares be awarded over four years from the date of grant, subject to continued service. The vesting of these units is also generally subject to the achievement of certain performance conditions in the year of grant. Equity compensation expense relating to RSUs totaling \$1,388 has been recorded in the three months ended February 28, 2009. Restricted stock units granted, exercised, canceled and expired are summarized as follows:

| | RSU | | Weighted-Average Grant Date Fair Value | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|-------|----|--|---|---------------------------|
| Non-vested restricted stock units at November 30, 2008 | 1,168 | \$ | 17.47 | 1.8 | |
| Vested | (273) | | 20.25 | | |
| Cancelled/forfeited | (369) | | 16.85 | | |
| Non-vested restricted stock units at February 28, 2009 | 526 | \$ | 16.34 | 1.7 | |
| Non-vested restricted stock units expected to vest at February 28, 2009 | 491 | | | 1.7 | \$ 1,119 |

Share Option Activity

The Company has four plans under which employees were granted options to purchase Xyratex Ltd shares prior to 2006. Options exercised, canceled or forfeited under all of the Company's share option plans, excluding the Sharesave Plan, are summarized as follows:

| | Options | | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|----------------------------------|---------|----|---------------------------------|---|---------------------------|
| Outstanding at November 30, 2008 | 1,592 | \$ | 9.91 | | |