

XYRATEX LTD
Form 6-K
July 16, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

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

July 16, 2012

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 Form 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):

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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): o

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Xyratex Ltd is incorporating by reference the information set forth in this Form 6-K into its registration statements on Form S-8 (File No. 333-169612), Form S-8 (File No. 333-138570), Form S-8 (File No. 333-125244), Form S-8 (File No. 333-125238), Form S-8 (File No. 333-116811), Form S-8 (File No. 333-116810), Form S-8 (File No. 333-116809) and Form S-8 (File No. 333-116808).

NEWS RELEASE

Havant, UK July 16, 2012 Xyratex Ltd (Nasdaq: XRTX) today released the following financial information for the second quarter of its 2012 fiscal year, ended May 31, 2012:

- 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

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 data storage technology including modular solutions for the enterprise data storage industry and hard disk drive capital equipment. We report our operations in two product segments: Enterprise Data Storage Solutions (previously Networked Storage Solutions or NSS) and Hard Disk Drive (HDD) Capital Equipment (previously Storage Infrastructure or SI). During 2012 we changed the title of our operating segments to reflect the markets in which we operate, but have not made any other changes to our segmental reporting.

Our Enterprise Data Storage Solutions products are primarily HDD based storage subsystems and solutions, which we provide to Original Equipment Manufacturers, or OEMs, and our HDD Capital Equipment products consist of HDD manufacturing process equipment, which we sell directly to manufacturers of HDDs and their component suppliers. 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 2011 fiscal year, sales to our top six customers, NetApp Inc. (NetApp), Dell Inc. (Dell), IBM Corp. (IBM), EMC, Hewlett-Packard Company (HP) and Seagate Technology PLC, accounted for 93% of our revenues with sales to NetApp, Dell and IBM accounting for 42%, 22% and 13% of our revenues respectively. Our top six customers in the six months ended May 31, 2012 were NetApp, Dell, IBM, Western Digital Corporation (Western Digital), EMC and HGST, a subsidiary of Western Digital, and accounted for 89% of our revenues with sales to NetApp, Dell and IBM accounting for 42%, 21% and 14% of our revenues, respectively. We had 29 customers that individually contributed more than \$0.5 million to revenues in our 2011 fiscal year.

As well as our manufacturing and operational capability, our revenues are highly dependent on our research and development efforts. We enter into joint development projects with our key customers and suppliers in order to research and introduce new technologies and products.

Revenues

Revenues from sales of products in both of our segments are impacted by underlying increases in the amount of digitally stored information. Our enterprise data storage solutions revenues are primarily dependent on the worldwide enterprise data storage market, the market share of our OEM customer base, particularly that of key customers, and changes in that customer base. Our HDD capital equipment revenues are specifically affected by changes in shipped volume and increases in the individual storage capacity of disk drives. 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.

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Demand for our HDD capital equipment products in 2011 was at an historically low level. We believe this reflected changes in the underlying market for disk drives, such as a reduction in demand for laptop drives, as well as customer specific factors including the proposed acquisitions by Seagate and Western Digital of the disk drive operations of Samsung and Hitachi respectively, the impact of two natural disasters in Japan and Thailand and the effect of increased competition for drive processing systems. We have seen an increase in demand in respect of our 2012 fiscal year including an estimate of \$50 million revenue arising from the replacement of equipment damaged in the Thailand floods. Partly for this reason we believe our HDD capital equipment revenues will increase significantly in our 2012 fiscal year. However, the demand for these products in 2013 and beyond remains uncertain, reflecting continued uncertainty in the underlying demand for HDDs partly due to weak demand in the global economy.

Over at least the past five years we have seen underlying growth in demand for enterprise data storage 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 and an increased market share of our customers. Commencing in 2009 we enabled our largest customer, NetApp, to source a proportion of the products we supply under license from a contract manufacturer. This proportion was set at a maximum of 25% for our 2011 fiscal year, increasing to 50% in our 2012 fiscal year and 75% in our 2013 fiscal year. We expect to see other changes in our customer base in 2012 with an anticipated reduction in revenue due to certain customer programs moving to an in-house solution, which we believe will be partially offset by anticipated revenue from the introduction of a number of new products and programs including initial revenue from our new High Performance Computing solution. It is difficult to forecast the net effect of these changes, but we believe our enterprise data storage solutions revenues may continue to fall in our 2012 fiscal year. Over the longer term our revenues with our major customers will significantly depend on our ability to develop and manufacture products that compete well with those provided by contract manufacturers and these customers' own development efforts.

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 \$73 million in our 2011 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 due to our operations in Malaysia. We manage these 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.

In previous fiscal years there has been significant volatility in the exchange rate between the U.K. pound and the U.S. dollar. 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 average value of the U.K. pound relative to the U.S. dollar did not move significantly from 2010 to 2011 and therefore 2012 expenses are not expected to be significantly impacted by changes in exchange rates.

Gross Profit

Our gross profit margins change primarily as a result of fluctuations in our product and customer mix. Our gross margins also change as a result of changes to product pricing, provisions for obsolescence, manufacturing volumes and costs of components.

Operating Expenses

We would generally expect operating expenses to change in line with changes in revenue. In 2011 we experienced a significant fall in HDD capital equipment revenues. In response to this we implemented a cost reduction program to reduce fixed costs where we believe we were able to do so without impacting our competitive position. We expect the reduction in operating expenses related to this program to be partially offset by our plan to increase expenses related to enterprise data storage solutions. Due to uncertainty in the demand for capital equipment products in 2013 and beyond, we may make further cost reductions in our 2012 fiscal year to reduce expenses supporting these products in our 2013 fiscal year.

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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 2011 fiscal year our research and development expenses related to over 67 separate projects covering developing new products, improving existing products, meeting customer specific requirements and entering new markets, such as development of a product to address the high performance computing market and a new product to more effectively test 3.5 inch HDDs.

Share Repurchase Plan and Dividends

We announced in March 2011 that we would recommence the share repurchase plan initially approved during the first quarter of 2008 and increased the maximum value of shares that may be repurchased. According to the revised terms of the plan, we may repurchase up to an additional \$50 million of the outstanding shares following April 30, 2011. As of May 31, 2012, we had 27.9 million shares outstanding, having repurchased 3.6 million shares in our 2011 fiscal year at an aggregate cost of \$32.3 million and 0.3 million shares in the six months ended May 31, 2012 at an aggregate cost of \$3.6 million. These amounts have been deducted from Additional Paid in Capital.

We began a quarterly dividend payment plan with our first dividend in the third quarter of our 2011 fiscal year. In our 2012 fiscal year to date, we declared cash dividends of \$1.8 million or \$0.065 per share in February 2012, \$2.1 million or \$0.075 per share in April 2012, and \$2.1 million or \$0.075 per share in July 2012. The cash dividends declared in fiscal year 2011 amounted to an aggregate of \$0.11 per share and totaled \$3.0 million, of which we paid out approximately \$1.5 million in fiscal 2011 and the remaining \$1.5 million in December 2011.

Provision for Income Taxes

We are subject to taxation primarily in the United Kingdom, the United States and Malaysia.

Our Malaysian operations 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 enterprise data storage solutions products was granted in February 2009 and ends in 2017. The beneficial tax status relating to HDD capital equipment products was granted in 2006 and ends in May 2012. We are seeking to obtain future incentives to extend the beneficial arrangements for both product groups and would expect the result of this application to be determined in our 2012 fiscal year. As required by accounting guidance, we have recorded a deferred tax asset of \$1.5 million related to our Malaysia operations on the basis that the beneficial tax status is not renewed. If the incentive is renewed the recording of this asset will be reversed and a tax expense of this amount recorded. The beneficial tax status is subject to meeting certain requirements. This amount relates to the 2011 fiscal year and we have determined that this amount should have been recognized in our 2011 financial statements. We have also determined that this amount was not material relative to the year ended November 30, 2011 or to estimated income for the year ending November 30, 2012 and therefore we have corrected this error as an adjustment in the six months ended May 31, 2012.

We have significant loss carryforwards and other deferred tax assets 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. As of November 30, 2011, we retained a deferred tax asset of \$15.5 million related to loss carryforwards and other timing differences in the United Kingdom. As of November 30, 2011, we retained a deferred tax asset of \$8.2 million related to loss carryforwards and other timing differences in the United States. In the United Kingdom and the United States, we benefit from research and development tax credits.

Results from Continuing Operations

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

| | Three Months Ended May 31, | | Six Months Ended May 31, | |
|-------------------------------------|----------------------------|--------|--------------------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of revenues | 83.5 | 87.1 | 82.8 | 86.7 |
| Gross profit | 16.5 | 12.9 | 17.2 | 13.3 |
| Operating expenses: | | | | |
| Research and development | 8.5 | 8.9 | 8.4 | 8.3 |
| Selling, general and administrative | 5.3 | 5.3 | 5.5 | 5.1 |
| Amortization of intangible assets | 0.3 | 0.4 | 0.3 | 0.3 |
| Operating income (loss) | 2.5 | (1.6) | 3.0 | (0.4) |
| Net income (loss) | 2.2 | (1.3) | 2.9 | 0.0 |

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| Segment gross profit (loss) as a percentage of segment revenues: | | | | |
|--|------|-------|------|------|
| Enterprise Data Storage Solutions | 16.3 | 14.9 | 16.8 | 14.5 |
| HDD Capital Equipment | 19.0 | (2.7) | 21.3 | 2.4 |

Three Months Ended May 31, 2012 Compared to the Three Months Ended May 31, 2011

The following is a tabular presentation of our results of operations for the three months ended May 31, 2012 compared to the three months ended May 31, 2011. Following the table is a discussion and analysis of our business and results of operations for such periods.

| | Three Months Ended May 31, | | Increase/(Decrease) | |
|--------------------------------------|-------------------------------|------------|---------------------|-------|
| | 2012 | 2011 | Amount | % |
| (U.S. dollars in thousands) | | | | |
| Revenues: | | | | |
| Enterprise Data Storage Solutions | \$ 278,459 | \$ 301,162 | \$ (22,703) | (7.5) |
| HDD Capital Equipment | 43,657 | 37,386 | 6,271 | 16.8 |
| Total revenues | 322,116 | 338,548 | (16,432) | (4.9) |
| Cost of revenues | 268,841 | 294,901 | (26,060) | (8.8) |
| Gross profit (loss): | | | | |
| Enterprise Data Storage Solutions | 45,356 | 44,777 | 579 | 1.3 |
| HDD Capital Equipment | 8,278 | (1,024) | 9,302 | |
| Non cash equity compensation | (359) | (106) | (253) | |
| Total gross profit | 53,275 | 43,647 | 9,628 | 22.1 |
| Operating expenses: | | | | |
| Research and development | 27,255 | 29,970 | (2,715) | (9.1) |
| Selling, general and administrative | 16,955 | 17,968 | (1,013) | (5.6) |
| Amortization of intangible assets | 950 | 1,295 | (345) | |
| Operating income (loss) | 8,115 | (5,586) | 13,701 | |
| Interest income, net | 154 | 42 | 112 | |
| Provision (benefit) for income taxes | 1,273 | (982) | 2,255 | |
| Net income (loss) | \$ 6,996 | \$ (4,562) | \$ 11,558 | |

Revenues

The 4.9% decrease in our revenues in the three months ended May 31, 2012 compared to the three months ended May 31, 2011 was attributable to decreased sales of our enterprise data storage products partially offset by increased sales of our HDD capital equipment products.

Revenues from sales of our enterprise data storage products decreased by \$22.7 million, or 7.5%. This resulted primarily from a reduction in revenues from certain of our major customers related to changes in their sourcing including a \$10.7 million decrease in revenues from our largest customer, NetApp which, in accordance with the agreement we have with it has sourced a greater proportion of the products we supply from an alternative supplier.

Revenues from sales of our HDD capital equipment products increased by \$6.3 million, primarily due to increased requirements arising from the floods in Thailand. As stated in the overview, revenue from these products varies significantly from quarter to quarter.

Cost of Revenues and Gross Profit

The \$26.1 million, or 8.8%, decrease in cost of revenues in the three months ended May 31, 2012 compared to the three months ended May 31, 2011 was primarily due to lower enterprise data storage solutions revenues. Gross profit increased by 22.1% and as a percentage of revenues, our gross profit was 16.5% for the three months ended May 31, 2012 compared to 12.9% for the three months ended May 31, 2011. This increase was attributable to the increased gross margins in both segments.

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The gross margin for our enterprise data storage products increased to 16.3% in the three months ended May 31, 2012 from 14.9% in the three months ended May 31, 2011. This was primarily due to one of our major customers purchasing products without HDDs due to disk drive supply constraints. In addition, a number of changes to customer mix improved gross margin, partially offset by the effect of fixed costs relative to lower volumes.

The gross margin for HDD capital equipment products increased to 19.0% in the three months ended May 31, 2012, from negative 2.7% in the three months ended May 31, 2011. This increase resulted from three main factors. Firstly, changes in product mix increased gross margin by 10.0%. Revenue in the prior year included early stage products that were in the higher cost introductory phase. Secondly, a reduction in overheads relative to higher revenues increased gross margin by 6.2%. Thirdly reduced inventory write-downs increased gross margin by 5.5%.

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 \$0.4 million for the three months ended May 31, 2012 and \$0.1 million for the three months ended May 31, 2011. See Note 12 to our unaudited condensed consolidated financial statements for a description of our segments and how we measure segment performance.

Research and Development

The \$2.7 million, or 9.1%, decrease in research and development expense in the three months ended May 31, 2012 compared to the three months ended May 31, 2011 resulted primarily from a decrease in the number of employees of 9.8%. This was associated with a cost reduction exercise undertaken in response to the lower demand for HDD capital equipment products described in the overview above.

Selling, General and Administrative

Selling, general and administrative expense decreased by \$1.0 million, or 5.6%, in the three months ended May 31, 2012 compared to the three months ended May 31, 2011. The decrease primarily resulted from reduced employee bonuses. Part of a provision for employee bonuses for the fiscal year 2011, amounting to \$0.8 million, was released in the three months ended May 31, 2012 as this amount was not ultimately awarded. The Company has also determined that this amount was not material relative to the year ended November 30, 2011 or to estimated income for the year ending November 30, 2012 and therefore has corrected this error as an adjustment in the six months ended May 31, 2012.

Provision (Benefit) for Income Taxes

The provision for income taxes in the three months ended May 31, 2012 is based on our current estimate of the effective tax rate based on a forecast of income before taxes for the year ending November 30, 2012. The benefit for income taxes in the three months ended May 31, 2011 was based on the Company's estimate of the effective tax rate based on a forecast of income before taxes for the year ended November 30, 2011.

Net Income

The most significant contributors towards the recording of net income of \$7.0 million for the three months ended May 31, 2012 compared to a net loss of \$4.6 million for the three months ended May 31, 2011, were the increase in gross margins and reduction in research and development expense.

Six Months Ended May 31, 2012 Compared to the Six Months Ended May 31, 2011

The following is a tabular presentation of our results of operations for the six months ended May 31, 2012 compared to the six months ended May 31, 2011. Following the table is a discussion and analysis of our business and results of operations for such periods.

| Six months ended | | Increase/(Decrease) | |
|-------------------------|----------------|----------------------------|----------|
| 2012 | May 31, | Amount | % |
| 2011 | | | |

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(U.S. dollars in thousands)

| | | | | | |
|--------------------------------------|----|---------|----|---------|--------------------|
| Revenues: | | | | | |
| Enterprise Data Storage Solutions | \$ | 550,528 | \$ | 635,348 | \$ (84,820) (13.4) |
| HDD Capital Equipment | | 67,254 | | 63,699 | 3,555 5.6 |
| Total revenues | | 617,782 | | 699,047 | (81,265) (11.6) |
| Cost of revenues | | 511,468 | | 605,946 | (94,478) (15.6) |
| Gross profit: | | | | | |
| Enterprise Data Storage Solutions | | 92,469 | | 92,124 | 345 0.4 |
| HDD Capital Equipment | | 14,305 | | 1,527 | 12,778 836.8 |
| Non cash equity compensation | | (460) | | (550) | 90 |
| Total gross profit | | 106,314 | | 93,101 | 13,213 14.2 |
| Operating expenses: | | | | | |
| Research and development | | 51,923 | | 58,225 | (6,302) (10.8) |
| Selling, general and administrative | | 33,733 | | 35,416 | (1,683) (4.8) |
| Amortization of intangible assets | | 1,920 | | 2,049 | (129) |
| Operating income (loss) | | 18,738 | | (2,589) | 21,327 |
| Interest income, net | | 340 | | 79 | 261 |
| Provision (benefit) for income taxes | | 1,221 | | (2,634) | 3,855 |
| Net income | \$ | 17,857 | \$ | 124 | \$ 17,733 |

Revenues

The 11.6% decrease in our revenues in the six months ended May 31, 2012 compared to the six months ended May 31, 2011 was primarily attributable to decreased sales of our enterprise data storage products.

Revenues from sales of our enterprise data storage products decreased by \$84.8 million, or 13.4%. This resulted primarily from a reduction in revenues from certain of our major customers related to changes in their sourcing including a \$63 million decrease in revenues from our largest customer, NetApp, which sourced a greater proportion of the products we supply from an alternative supplier.

Revenues from sales of our HDD capital equipment products increased by \$3.6 million, or 5.6% primarily due to increased requirements arising from the floods in Thailand. As described in the overview, revenues from these products vary significantly from quarter.

Cost of Revenues and Gross Profit

The decrease in cost of revenues and in gross profit in the six months ended May 31, 2012 compared to the six months ended May 31, 2011 were primarily due to lower enterprise data storage revenues. As a percentage of revenues, our gross profit was 17.2% for the six months ended May 31, 2012 compared to 13.3% for the six months ended May 31, 2011. This change was attributable to increased margins in both segments.

The gross margin for our enterprise data storage products increased to 16.8% in the six months ended May 31, 2012 from 14.5% in the six months ended May 31, 2011. The movement primarily resulted from a number of changes to customer and product mix. These changes include a 1.4% benefit from one of our major customers purchasing products without HDDs due to disk drive supply constraints. These increases were partially offset by the effect of fixed costs relative to lower volumes.

The gross margin for HDD capital equipment products increased to 21.3% in the six months ended May 31, 2012, from 2.4% in the six months ended May 31, 2011. This increase resulted from three main factors. Firstly, changes in product mix improved gross margin in 2012 by approximately 9%. 2011 revenue included early stage products that were still in the higher cost introductory phase. Secondly, the effect of fixed costs relative to lower volumes increased gross margin by approximately 7%. Thirdly reduced inventory write-downs increased gross margin.

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 \$0.5 million for the six months ended May 31, 2012 and \$0.6 million for the six months ended May 31, 2011. See Note 12 to our unaudited condensed consolidated financial statements for a description of our segments and how we measure segment performance.

Research and Development

The \$6.3 million or 10.8% decrease in research and development expense in the six months ended May 31, 2012 compared to the six months ended May 31, 2011 resulted from a decrease in external project costs of \$4.3 million and a decrease in the number of employees of 8%. These were primarily associated with a cost reduction exercise undertaken in response to the lower demand for HDD capital equipment products described in the overview above.

Selling, General and Administrative

Selling, general and administrative expense decreased by \$1.7 million or 4.8% in the six months ended May 31, 2012 compared to the six months ended May 31, 2011. The decrease primarily resulted from a decreased provision for employee bonuses.

Provision (benefit) for Income Taxes

The provision for income taxes in the six months ended May 31, 2012 primarily relates to the Company's current estimate of the effective tax rate based on a forecast of income before taxes for the year ending November 30, 2012. This is partially offset by a \$1.5 million benefit from the recognition of a deferred tax asset for our Malaysian operations as described in the overview. The benefit for income taxes in the six months ended May 31, 2011 primarily relates to a \$2.2 million benefit resulting from the completion of an investigation into U.K. tax returns for 2007 and 2008.

Net Income

The most significant contributors towards the recording of net income of \$17.9 million for the six months ended May 31, 2012 compared to a net income of \$0.1 million for the six months ended May 31, 2011, were the increase in gross margins for HDD capital equipment products and the \$8.1 million decrease in operating expenses.

Non-GAAP Financial Measures

The following discussion and analysis of our results of operations include certain non-GAAP financial measures as identified in the reconciliation below. The intention in providing these non-GAAP measures is to provide supplemental information regarding our operational performance while recognizing that they have material limitations and that they should only be referred to, with reference to, and not considered to be a substitute for, or superior to, the corresponding GAAP measure. The financial results calculated in accordance with GAAP and reconciliations of these non-GAAP measures to the comparable GAAP measures should be carefully evaluated. The non-GAAP financial measures used by us may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

We believe that the provision of these non-GAAP financial measures is useful to investors and investment analysts because it enables comparison to the Company's historical operating results, those of competitors and other industry participants and also provides transparency to the measures used by management in operational and financial decision making. In relation to the specific items excluded: (a) intangible assets represent costs incurred by the acquired business prior to acquisition, are not cash costs and will not be replaced when the assets are fully amortized and therefore the exclusion of these costs provides management and investors with better visibility of the costs required to generate revenue over time; (b) equity compensation expense is non-cash in nature and is outside the control of management during the period in which the expense is incurred, (c) the exclusion of the related tax effects of excluding items (a) and (b) is necessary to show the effect on net income (loss) of the change in tax expense that would have been recorded if these items had not been incurred and (d) the recognition of the Malaysia deferred tax asset relates to the potential for the non-renewal of certain tax incentive arrangements in 2012. Item (d) is non-recurring and will reverse if the incentive arrangements are renewed.

Included in the table below is a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures as provided above.

| | Three Months Ended May 31, | | Six Months Ended May 31, | |
|---|-------------------------------|------------|-----------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| (U.S. dollars in thousands, except per share amounts) | | | | |
| <i>Summary Reconciliation of GAAP Net Income (Loss) To Non-GAAP Net Income (Loss)</i> | | | | |
| GAAP net income (loss) | \$ 6,996 | \$ (4,562) | \$ 17,857 | \$ 124 |
| Amortization of intangibles | 950 | 1,295 | 1,920 | 2,049 |
| Equity compensation | 2,132 | 1,763 | 3,845 | 4,413 |
| Malaysia deferred tax asset recognized | | | (1,489) | |
| Tax effect of non-GAAP adjustments | (771) | (426) | (1,442) | (1,013) |
| Non-GAAP net income (loss) | \$ 9,308 | \$ (1,930) | \$ 20,692 | \$ 5,573 |
| Diluted Earnings (Loss) Per Share (GAAP) | \$ 0.24 | \$ (0.15) | \$ 0.62 | \$ 0.00 |
| Diluted Earnings (Loss) Per Share (non-GAAP) | \$ 0.32 | \$ (0.06) | \$ 0.72 | \$ 0.18 |
| Weighted average common shares (in thousands), used in computing diluted net earnings (loss) per share: | 28,786 | 30,844 | 28,764 | 31,691 |

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On a non-GAAP basis, a net income of \$9.3 million was recorded for the three months ended May 31, 2012 compared with the recording of net loss of \$1.9 million for the three months ended May 31, 2011 and diluted earnings per share was \$0.32 compared with loss per share of \$0.06. These increases were a result of the same factors described above in the section **Three Months Ended May 31, 2012 Compared to the Three Months Ended May 31, 2011**.

On a non-GAAP basis, a net income of \$20.7 million was recorded for the six months ended May 31, 2012 compared with \$5.6 million for the six months ended May 31, 2011 and diluted earnings per share was \$0.72 compared with \$0.18. These increases were a result of the same factors described above in the section **Six Months Ended May 31, 2012 Compared to the Six Months Ended May 31, 2011**.

Liquidity and Capital Resources

We finance our operations primarily through cash balances and cash flow from operations.

Cash flows

Net cash provided by operating activities was \$18.0 million in the six months ended May 31, 2012, compared to \$65.8 million in the six months ended May 31, 2011.

Cash provided by operating activities of \$18.0 million for the six months ended May 31, 2012 resulted from net income after excluding net non-cash charges of \$32.8 million, offset by an increase in working capital of \$14.7 million. The increase in working capital primarily related to an increase in inventory of \$16.2 million and a decrease in accounts payable of \$33.4 million. These were partially offset by a decrease in accounts receivable of \$37.1 million. The changes in accounts payable and receivable resulted from the reduction in revenues. The increase in inventory related primarily to a change in the supply model of HDDs, resulting from supply constraints, and increased orders for HDD capital equipment products. In addition cash was provided by a \$7.6 million increase in deferred revenue related to the increase in customer orders for capital equipment products and cash was used due to a \$7.3 million decrease in employee compensation and benefits payable, primarily related to the payment of annual employee bonuses.

Cash provided by operating activities of \$65.8 million for the six months ended May 31, 2011 resulted from net income after excluding net non-cash charges of \$12.9 million and a decrease in working capital of \$52.9 million. The decrease in working capital related to decreases in inventory and accounts receivable of \$42.9 million and \$32.3 million respectively partially offset by increases in accounts payable of \$10.8 million. These were partially offset by the effects of a \$6.7 million decrease in employee compensation and benefits payable, primarily related to the payment of an employee bonus and a \$7.0 million decrease in deferred revenue, primarily related to the reduction in customer orders.

Net cash used in investing activities for the six months ended May 31, 2012 amounted to \$10.5 million. This amount included \$7.0 million related to capital expenditure. The remaining balance of \$3.5 million related to the final payment for a patent cross license. Net cash used in investing activities for the six months ended May 31, 2011 amounted to \$22.0 million. This amount included \$6.1 million related to an acquisition in the period, \$3.5 million related to the purchase of patents and \$1.2 million related to the purchase of a software license. The remaining balance of \$11.2 million related 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.

Net cash used in our financing activities was \$8.4 million in the six months ended May 31, 2012, being \$5.5 million of dividends paid to our shareholders and \$3.6 million relating to the repurchase of shares under our share buy back program as described in the overview. Net cash used in our financing activities was \$7.7 million in the six months ended May 31, 2011. This amount includes \$5.3 million for the repurchase of shares and \$2.4 million relating to a decrease in a book overdraft.

Liquidity

As of May 31, 2012, our principal source of liquidity consisted of cash and cash equivalents of \$131.8 million. Our cash and cash equivalents are denominated primarily in U.S. dollars and held in variable interest liquidity funds and bank deposits. 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

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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. We believe that our cash and cash equivalents will be sufficient to meet our cash requirements at least through the next 12 months.

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 24, 2012. 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 Pronouncement

In June 2011, the FASB issued new guidance related to the presentation of comprehensive income. An entity can elect to present items of net income and other comprehensive income on one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements. The statements would need to be presented with equal prominence as the other primary financial statements. The items that constitute net income and other comprehensive income do not change. This guidance is effective for annual periods beginning after December 15, 2011. The adoption of the guidance is not expected to have a material impact on our consolidated financial statements.

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| | May 31, 2012 | November 30, 2011 |
|--|--|----------------------|
| | (US dollars and amounts in thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 131,752 | \$ 132,630 |
| Accounts receivable, net | 163,595 | 200,742 |
| Inventories | 180,340 | 164,180 |
| Prepaid expenses | 4,799 | 3,296 |
| Deferred income taxes | 10,000 | 9,020 |
| Other current assets | 7,895 | 7,016 |
| Total current assets | 498,381 | 516,884 |
| Property, plant and equipment, net | 42,732 | 45,215 |
| Intangible assets, net | 16,208 | 18,128 |
| Deferred income taxes | 12,767 | 13,476 |
| Total assets | \$ 570,088 | \$ 593,703 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 135,271 | \$ 168,696 |
| Employee compensation and benefits payable | 14,530 | 21,786 |
| Deferred revenue | 15,293 | 7,692 |
| Income taxes payable | 1,007 | 43 |
| Other accrued liabilities | 19,951 | 26,312 |
| Total current liabilities | 186,052 | 224,529 |
| Long-term debt | | |
| Total liabilities | 186,052 | 224,529 |
| Shareholders equity | | |
| Common shares (in thousands), par value \$0.01 per share 70,000 authorized, 27,912 and 27,568 issued and outstanding | 279 | 276 |
| Additional paid-in capital | 361,944 | 361,070 |
| Accumulated other comprehensive deficit | (1,259) | (1,337) |
| Accumulated income | 23,072 | 9,165 |
| Total shareholders equity | 384,036 | 369,174 |
| Total liabilities and shareholders equity | \$ 570,088 | \$ 593,703 |

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

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended, | | Six Months Ended, | |
|---|---|-----------------|-------------------|-----------------|
| | May 31, 2012 | May 31, 2011 | May 31, 2012 | May 31, 2011 |
| | (US dollars in thousands, except per share amounts) | | | |
| Revenues | \$ 322,116 | \$ 338,548 | \$ 617,782 | \$ 699,047 |
| Cost of revenues | 268,841 | 294,901 | 511,468 | 605,946 |
| Gross profit | 53,275 | 43,647 | 106,314 | 93,101 |
| Operating expenses: | | | | |
| Research and development | 27,255 | 29,970 | 51,923 | 58,225 |
| Selling, general and administrative | 16,955 | 17,968 | 33,733 | 35,416 |
| Amortization of intangible assets | 950 | 1,295 | 1,920 | 2,049 |
| Total operating expenses | 45,160 | 49,233 | 87,576 | 95,690 |
| Operating income (loss) | 8,115 | (5,586) | 18,738 | (2,589) |
| Interest income, net | 154 | 42 | 340 | 79 |
| Income (loss) before income taxes | 8,269 | (5,544) | 19,078 | (2,510) |
| Provision (benefit) for income taxes | 1,273 | (982) | 1,221 | (2,634) |
| Net income (loss) | \$ 6,996 | \$ (4,562) | \$ 17,857 | \$ 124 |
| Net earnings (loss) per share: | | | | |
| Basic | \$ 0.25 | \$ (0.15) | \$ 0.64 | \$ 0.00 |
| Diluted | \$ 0.24 | \$ (0.15) | \$ 0.62 | \$ 0.00 |
| Weighted average common shares (in thousands), used in computing net earnings (loss) per share: | | | | |
| Basic | 28,099 | 30,844 | 27,927 | 30,670 |
| Diluted | 28,786 | 30,844 | 28,764 | 31,691 |
| Cash dividends declared per share | \$ 0.08 | \$ | \$ 0.15 | \$ |

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 | Total |
|--|-------------------------------|---------------|----------------------------------|------------------------|---|-------------------|
| Balances as of November 30, 2010 | 30,276 | \$ 303 | \$ 382,684 | \$ (16,152) | \$ 496 | \$ 367,331 |
| Issuance of common shares | 660 | 7 | 2 | | \$ | 9 |
| Repurchase of common shares | (550) | (5) | (5,298) | | \$ | (5,303) |
| Non-cash equity compensation | | | 4,413 | | \$ | 4,413 |
| Components of comprehensive income, net of tax: | | | | | | |
| Net income | | | | 124 | | |
| Unrealized gain on forward foreign currency contracts and reclassification adjustment: | | | | | 2,126 | |
| Total comprehensive income | | | | | \$ | 2,250 |
| Balances as of May 31, 2011 | 30,386 | \$ 305 | \$ 381,801 | \$ (16,028) | \$ 2,622 | \$ 368,700 |

| | Number of Common Shares | Par value | Additional paid in capital | Accumulated income | Accumulated other comprehensive loss | Total |
|--|-------------------------------|---------------|----------------------------------|-----------------------|---|-------------------|
| Balances as of November 30, 2011 | 27,568 | \$ 276 | \$ 361,070 | \$ 9,165 | \$ (1,337) | \$ 369,174 |
| Issuance of common shares | 650 | 6 | 600 | | \$ | 606 |
| Repurchase of common shares | (306) | (3) | (3,571) | | \$ | (3,574) |
| Non-cash equity compensation | | | 3,845 | | \$ | 3,845 |
| Components of comprehensive income, net of tax: | | | | | | |
| Net income | | | | 17,857 | | |
| Unrealized gain on forward foreign currency contracts and reclassification adjustment: | | | | | 78 | |
| Total comprehensive income | | | | | \$ | 17,935 |
| Dividends to shareholders | | | | (3,950) | \$ | (3,950) |
| Balances as of May 31, 2012 | \$ 27,912 | \$ 279 | \$ 361,944 | \$ 23,072 | \$ (1,259) | \$ 384,036 |

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

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended, | |
|---|---------------------------|-----------------|
| | May 31, 2012 | May 31, 2011 |
| | (US dollars in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 17,857 | \$ 124 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 8,290 | 10,212 |
| Amortization of intangible assets | 1,920 | 2,049 |
| Non-cash equity compensation | 3,845 | 4,413 |
| Loss (gain) on sale of assets | 1,157 | (15) |
| Deferred income taxes | (297) | (3,844) |
| Changes in assets and liabilities, net of impact of acquisitions and divestitures | | |
| Accounts receivable | 37,147 | 32,299 |
| Inventories | (16,160) | 42,943 |
| Prepaid expenses and other current assets | (2,382) | (2,888) |
| Accounts payable | (33,425) | (10,774) |
| Employee compensation and benefits payable | (7,256) | (6,703) |
| Deferred revenue | 7,601 | (6,989) |
| Income taxes payable | 964 | (730) |
| Other accrued liabilities | (1,231) | 5,664 |
| Net cash provided by operating activities | 18,030 | 65,761 |
| Cash flows from investing activities: | | |
| Investments in property, plant and equipment | (6,964) | (11,225) |
| Payment for acquisition of intangible assets | (3,500) | (4,700) |
| Acquisition of business | | (6,084) |
| Net cash used in investing activities | (10,464) | (22,009) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of shares | 601 | 2 |
| Repurchase of shares | (3,574) | (5,303) |
| Dividends to shareholders | (5,471) | |
| Decrease in book overdraft | | (2,374) |
| Net cash used in financing activities | (8,444) | (7,675) |
| Change in cash and cash equivalents | (878) | 36,077 |
| Cash and cash equivalents at beginning of period | 132,630 | 90,842 |
| Cash and cash equivalents at end of period | \$ 131,752 | \$ 126,919 |

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 data storage technology with principal operations in the United Kingdom (U.K.), the United States of America (U.S.) and Malaysia. The Company reports its operations in two product groups: Enterprise Data Storage Solutions (previously Networked Storage Solutions or NSS) and Hard Disk Drive (HDD) Capital Equipment (previously Storage Infrastructure or SI). Our Enterprise Data Storage Solutions products are primarily HDD based data storage subsystems and solutions which we supply to Original Equipment Manufacturers (OEMs). Our HDD Capital Equipment products are process, inspection and test equipment which we supply to the hard disk drive industry. During 2012 the Company has changed the title of its operating segments to reflect the markets in which it operates, but has not made any other changes to its segment reporting.

2. Basis of Presentation

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

These condensed consolidated financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) that 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 U.S. 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, 2011 balance sheet was derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the U.S. 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 24, 2012.

3. Equity Compensation Plans

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

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| | Three months ended | | Six months ended | |
|-------------------------------------|--------------------|-----------------|------------------|-----------------|
| | May 31, 2012 | May 31, 2011 | May 31, 2012 | May 31, 2011 |
| Equity compensation: | | | | |
| Cost of revenues | \$ 359 | \$ 106 | \$ 460 | \$ 550 |
| Research and development | 713 | 664 | 1,375 | 1,547 |
| Selling, general and administrative | 1,060 | 993 | 2,010 | 2,316 |
| Total equity compensation | 2,132 | 1,763 | 3,845 | 4,413 |
| Related income tax benefit | \$ 533 | \$ 470 | \$ 961 | \$ 908 |

The Company's share based awards primarily consist of Restricted Stock Units (RSUs). The Company also operates an Employee Share Purchase Plan (ESPP) for U.S. employees and a Sharesave option plan (Sharesave Plan) for U.K. employees. As of June 30, 2012, there were 3,200 shares authorized for future grants under all share plans.

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. The holders of RSUs do not hold rights to dividends or dividend equivalents. Equity compensation expense relating to RSUs totaling \$3,681 has been recorded in the six months ended May 31, 2012. 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, 2011 | 1,948 | \$ 12.09 | 1.6 | |
| Granted | 934 | 16.32 | | |
| Vested | (544) | 11.27 | | |
| Cancelled/forfeited | (593) | 13.01 | | |
| Non-vested restricted stock units at May 31, 2012 | 1,745 | 14.35 | 1.8 | |
| Non-vested restricted stock units expected to vest at May 31, 2012 | 1,569 | 14.27 | 1.8 | \$ 17,953 |

Share Option Activity

The Company has four plans under which employees were granted options to purchase Xyratex Ltd shares prior to 2006. The number of options outstanding and exercisable under these plans at May 31, 2012 was 459 with a weighted average exercise price of \$14.03, weighted average remaining contractual term of 2.6 years and an aggregate intrinsic value of \$454. In the six months ended May 31, 2012, 66 options were exercised with a weighted average exercise price of \$4.22.

Employee Stock Purchase Plan and Sharesave Plan

Employees contributed approximately \$370 to awards granted under the ESPP and Sharesave Plan. No shares were issued under the Sharesave Plan and 39 were issued under the ESPP in the six months ended May 31, 2012.

4. Net Earnings (Loss) per Share

Basic net earnings (loss) per share for the three and six month periods ended May 31, 2012 and May 31, 2011 is computed by dividing net income (loss) by the weighted-average number of common shares. Diluted net earnings (loss) per share gives effect to all potentially dilutive common share equivalents outstanding during the period.

| | Number of common shares | | | |
|--|---------------------------------------|-----------------|-------------------------------------|-----------------|
| | Three months ended May 31, 2012 | May 31, 2011 | Six months ended May 31, 2012 | May 31, 2011 |
| Total weighted average common shares basic | 28,099 | 30,844 | 27,927 | 30,670 |
| Dilutive effect of share options | 66 | | 82 | 53 |
| Dilutive effect of restricted stock units | 621 | | 755 | 968 |
| Total weighted average common shares diluted | 28,786 | 30,844 | 28,764 | 31,691 |

Number of options and other share based awards excluded from the calculation because the effect would be anti-dilutive

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5. Equity and Dividends

Repurchase of Common Shares

The Company announced in March 2011 that it would recommence the share purchase plan initially approved during the first quarter of 2008, and increased the maximum value of shares that may be repurchased. According to the revised terms of the plan, the Company may repurchase up to an additional \$50,000 of the outstanding shares following April 30, 2011. Under the plan the Company repurchased 3,602 shares at an aggregate cost of \$32,291 in the year ended November 30, 2011 and 306 shares at an aggregate cost of \$3,574 in the six months ended May 31, 2012.

Dividends

On January 31, 2012, the Board of Directors approved a cash dividend of \$0.065 per share, which was paid on February 29, 2012 to shareholders of record as of the close of business on February 15, 2012.

On March 29, 2012 the Board of Directors approved a cash dividend of \$0.075 per share, which was paid on April 26, 2012 to shareholders of record as of the close of business on April 12, 2012.

On July 5, 2012 the Board of Directors approved a cash dividend of \$0.075 per share, to be paid on August 1, 2012 to shareholders of record as of the close of business on July 19, 2012.

6. Financial Instruments

The Company's principal financial instruments, other than derivatives, comprise cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The Company also enters into derivatives in order to manage currency risks arising from the Company's operations. The Company does not hold financial instruments for trading purposes.

Forward Foreign Exchange Contracts and Options

Over 90% of the Company's revenues are denominated in the U.S. dollar, whereas certain expenses are incurred in U.K. pounds and Malaysian ringgits. Therefore, the Company is exposed to foreign currency exchange rate risk which creates volatility in income and cash flows from period to period. In part, the Company manages this exposure through entering into forward foreign exchange contracts and options to reduce the volatility of income and cash flows associated with this risk. The Company designated all of its forward foreign currency contracts as qualifying for cash flow hedge accounting. Changes in the fair value of these instruments are deferred and recorded as a component of accumulated other comprehensive income (AOCI) until the hedged transactions affect earnings, at which time the deferred gains and losses on the forward foreign currency contracts are recognized in the income statement. The Company enters into these foreign exchange contracts to hedge a portion of its forecasted foreign currency denominated expense in the normal course of business and accordingly, they are not speculative in nature. The counterparty to the foreign currency contracts is an international bank. Such contracts are for two years or less at inception.

The following table summarizes the foreign currency derivative contract activity during the period:

| | Number of contracts |
|--|---------------------|
| At November 30, 2011 | 31 |
| Matured during the period | (15) |
| New contracts entered into during the period | 23 |
| At May 31, 2012 | 39 |

The fair value of derivative instruments and their location in the consolidated balance sheet as of May 31, 2012 and November 30, 2011 were as follows:

| Derivatives designated as hedging instruments: | Balance Sheet Location | May 31, 2012 | November 30, 2011 |
|--|---------------------------|-----------------|----------------------|
| Liability derivatives | Other current liabilities | \$ 1,474 | \$ 1,539 |

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The effect of derivative instruments designated as cash flow hedges on the condensed consolidated statement of operations for the six months ended May 31, 2012 was as follows:

| Derivatives in cash flow hedging relationships | Gain (Loss) Recognized (1) | Gain (Loss) Reclassified (2) |
|---|-----------------------------------|-------------------------------------|
| Foreign exchange contracts | \$ (1,474) | \$ (1,539) |

(1) Amount recognized in AOCI (effective portion) net of tax of \$420.

(2) Amount of gain (loss) reclassified from AOCI into income (effective portion) located in expense.

Unrealized gains and losses reported in AOCI will be reclassified to earnings as the forecast expenditures for which the foreign exchange contracts have been entered into arise. It is estimated that all of the unrealized amounts in respect of foreign exchange contracts are expected to be reclassified to earnings during the next 17 months.

The following table shows derivatives existing as of May 31, 2012 and November 30, 2011:

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| | May 31, 2012 | November 30, 2011 |
|---|-----------------|----------------------|
| Derivatives between U.K. pound and U.S. dollar | | |
| Nominal value of forward exchange contracts and options | \$ 56,710 | \$ 53,850 |
| Fair value of contracts liability | \$ (954) | \$ (1,057) |
| Average rate of contract | \$ 1.58 | \$ 1.59 |
| Period end rate | \$ 1.55 | \$ 1.56 |

| | May 31, 2012 | November 30, 2011 |
|--|-----------------|----------------------|
| Derivatives between Malaysian ringgit and U.S. dollar | | |
| Nominal value of forward exchange contracts and options | \$ 18,000 | \$ 18,000 |
| Fair value of contracts liability | \$ (520) | \$ (482) |
| Average rate of contract | \$ 0.32 | \$ 0.32 |
| Period end rate | \$ 0.32 | \$ 0.31 |

Fair values

The carrying values of all financial instruments, including forward foreign exchange contracts, approximate their fair values. Assets and liabilities required to be carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of May 31, 2012 and November 30, 2011 aggregated by the level in the fair-value hierarchy within which those measurements fall:

| | May 31, 2012 | | November 30, 2011 | |
|--|--------------|---|-------------------|---|
| | Total | Significant Other Observable Inputs (Level 2) | Total | Significant Other Observable Inputs (Level 2) |
| Foreign currency forward contracts asset (liability) position | \$ (1,474) | \$ (1,474) | \$ (1,539) | \$ (1,539) |

The Company's forward foreign exchange contracts and options are measured on a recurring basis based on foreign currency spot rates and forward rates quoted by banks (level 2 criteria) and are marked-to-market each period with gains and losses on these contracts recorded in Other

Comprehensive Income with the offsetting amount for unsettled positions being included in either other current assets or other accrued liabilities in the balance sheet.

7. Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents, short-term investments and accounts receivable. The Company places its cash and cash equivalents and short-term investments with high-credit quality financial institutions. Cash deposits are generally placed with either two or three institutions and such deposits generally exceed governmentally insured limits. Concentrations of credit risk, with respect to accounts receivable, exist to the extent of amounts presented in the financial statements. Four customers, each with balances greater than 10% of total accounts receivable, represented 82% of the total accounts receivable balance at May 31, 2012 and three customers represented 77% of the total accounts receivable balance at November 30, 2011. Generally, the Company does not require collateral or other security to support customer receivables. The Company performs periodic credit evaluations of its customers and maintains an allowance for potential credit losses based on historical experience and other information available to management. Losses to date have been within management's expectations.

Revenues from three customers represented 78% of total revenues for the six months ended May 31, 2012 and the six months ended May 31, 2011. No other customer accounted for more than 10% of revenues.

8. Intangible Assets*Identified Intangible Assets*

| | May 31, 2012 | November 30, 2011 |
|-------------------------------------|-----------------|----------------------|
| Existing technology | \$ 4,600 | \$ 4,600 |
| Patents and core technology | 12,700 | 12,700 |
| In process research and development | 2,100 | 2,100 |
| Software | 1,200 | 1,200 |
| Customer relationships | 3,300 | 3,300 |
| | 23,900 | 23,900 |
| Accumulated amortization | (14,792) | (12,872) |
| | \$ 9,108 | \$ 11,028 |

Goodwill

There were no changes in the carrying amount of goodwill for the six months ended May 31, 2012.

9. Inventories

| | May 31, 2012 | November 30, 2011 |
|------------------|-----------------|----------------------|
| Finished goods | \$ 39,760 | \$ 41,190 |
| Work in progress | 27,441 | 19,785 |
| Raw materials | 113,139 | 103,205 |
| | \$ 180,340 | \$ 164,180 |

10. Income Taxes

The provision for income taxes for the three and six month periods ended May 31, 2012 is based on an effective tax rate of 17%. The difference between this rate and the U.K. statutory rate of 25% is primarily related to income tax exemptions for the Company's Malaysian operations and research and development tax credits. Forecasts of income exclude significant unusual and extraordinary items that are separately included in the tax charge.

Included in the income tax charge of \$1,273 in the six months ended May 31, 2012, is a benefit of \$1,489 resulting from the recognition of a deferred tax asset for the Company's Malaysian operations and a benefit of \$495 resulting from the lapse of the applicable statute of limitations for the Company's 2009 U.K. tax return.

The Malaysian deferred tax asset has been recorded due to the assumption that certain timing differences will reverse following the expiry of specific tax incentives. A renewal of the tax incentives has been applied for and if granted this asset will reverse as a tax expense. This amount relates to the 2011 fiscal year and the Company has determined that this amount should have been recognized in its 2011 financial statements. The Company has also determined that this amount was not material relative to the year ended November 30, 2011 and to estimated income for the year ending November 30, 2012 and therefore has corrected this error as an adjustment in the six months ended May 31, 2012.

The benefit for income taxes for the three and six month periods ended May 31, 2011 was based on an effective tax rate of 18%. The difference between this rate and the UK statutory rate of 27% was primarily related to income tax exemptions for the Company's Malaysian operations and research and development tax credits. Forecasts of income exclude significant unusual and extraordinary items that are separately included in the tax charge.

Included in the income tax benefit of \$2,634 in the six months ended May 31, 2011, is an amount of \$2,219 resulting from the completion of an enquiry into U.K. tax returns for 2007 and 2008.

11. Product Warranty Liability

The Company generally offers warranties between one and three years. Estimated future warranty obligations related to product sales are charged to operations in the period in which the related revenue is recognized. These estimates are based on historical warranty experience and other relevant information of which the Company is aware. The following table provides the changes in the product warranty accrual for the six months ended May 31, 2012:

| | Amount of liability | |
|--|----------------------------|---------|
| Balance at November 30, 2011 | \$ | 4,928 |
| Accruals for warranties issued during the period | | 909 |
| Settlements made during the period | | (1,744) |
| Balance at May 31, 2012 | \$ | 4,093 |

12. Segment Information

Description of segments. The Company reports its operations in the following two product groups, each of which comprises a reportable segment.

Enterprise Data Storage Solutions. Provision of HDD based storage enclosures, integrated application platforms and high performance computing data storage solutions to Original Equipment Manufacturers.

HDD Capital Equipment. Provision of process, inspection and test equipment to the HDD industry.

Segment revenue and profit and depreciation and amortization. The following tables reflect the results of the Company's reportable segments under the Company's management reporting system. These results are not necessarily a depiction that is in conformity with accounting principles generally accepted in the U.S. and in particular does not include the equity compensation expense. The performance of each segment is generally measured based on gross profit before non-cash equity compensation.

| | Three Months Ended | | Six Months Ended | |
|---------------------------------------|--------------------|-----------------|------------------|-----------------|
| | May 31, 2012 | May 31, 2011 | May 31, 2012 | May 31, 2011 |
| Revenues: | | | | |
| Enterprise Data Storage Solutions | \$ 278,459 | \$ 301,162 | \$ 550,528 | \$ 635,348 |
| HDD Capital Equipment | \$ 43,657 | \$ 37,386 | \$ 67,254 | \$ 63,699 |
| Total Segments | \$ 322,116 | \$ 338,548 | \$ 617,782 | \$ 699,047 |
| Gross profit (loss): | | | | |
| Enterprise Data Storage Solutions | \$ 45,356 | \$ 44,777 | \$ 92,469 | \$ 92,124 |
| HDD Capital Equipment | \$ 8,278 | \$ (1,024) | \$ 14,305 | \$ 1,527 |
| Total Segments | \$ 53,634 | \$ 43,753 | \$ 106,774 | \$ 93,651 |
| Equity Compensation (note 3) | \$ (359) | \$ (106) | \$ (460) | \$ (550) |
| Total | \$ 53,275 | \$ 43,647 | \$ 106,314 | \$ 93,101 |
| Depreciation and amortization: | | | | |
| Enterprise Data Storage Solutions | \$ 2,385 | \$ 2,905 | \$ 4,671 | \$ 5,637 |
| HDD Capital Equipment | \$ 1,684 | \$ 2,159 | \$ 3,403 | \$ 4,419 |
| Total Segments | \$ 4,069 | \$ 5,064 | \$ 8,074 | \$ 10,056 |
| Corporate | \$ 1,015 | \$ 1,104 | \$ 2,139 | \$ 2,190 |
| Total | \$ 5,084 | \$ 6,168 | \$ 10,213 | \$ 12,246 |

Total segments revenues represent revenues as reported by the Company for all periods presented. Gross profit above represents gross profit as reported by the Company for all periods presented. Income before income taxes as reported by the Company for all periods presented also includes total operating expenses and net interest income. The chief operating decision maker does not review asset information by segment and therefore no asset information is presented.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XYRATEX LTD
(Registrant)

Date: July 16, 2012

By:

/s/ Richard Pearce
Name: Richard Pearce
Title: Chief Financial Officer