

XYRATEX LTD  
Form 6-K  
January 04, 2007

# U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 6-K

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

January 4, 2007

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## XYRATEX LTD

(Registrant's name)

Langstone Road

Havant

PO9 ISA

(Address of Principal Executive Offices)

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

Form 20-F  Form 40-F

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

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**NEWS RELEASE**

For Immediate Release

**Xyratex Ltd Announces Results for the Fourth Quarter and Fiscal Year 2006**

Q4 Revenues \$241.1 million, up 18.4% Year over Year

Fiscal year 2006 Revenues \$983.6 million, up 44.7% Year over Year

**Havant, UK January 4, 2007** Xyratex Ltd (Nasdaq: XRTX), a leading provider of modular enterprise class data storage subsystems and storage process technology, today announced results for the fourth quarter and fiscal year ended November 30, 2006. Revenues for the fourth quarter were \$241.1 million, an increase of 18.4% compared to revenues of \$203.6 million for the same period last year and down 8.4% compared to \$263.1 million in the prior quarter.

For the fourth quarter, GAAP net income was \$9.4 million, or \$0.32 per diluted share compared to GAAP net income of \$13.8 million in the same period last year. Non-GAAP net income from continuing operations decreased 30% to \$10.9 million, or a diluted earnings per share of \$0.36, compared to non-GAAP net income of \$15.5 million in the same quarter a year ago. A reconciliation between net income on a GAAP basis and net income on a non-GAAP basis is provided in a table immediately following the Consolidated Statements of Cash Flows, below.

Gross profit margin in the fourth quarter was 17.4%, compared to 21.7% in the same period last year and 21.1% in the prior quarter. These movements primarily result from a lower proportion of Storage Infrastructure revenues and product mix within each business.

Revenues for fiscal year 2006 were \$983.6 million, an increase of 44.7%, compared to revenues of \$679.6 million for fiscal year 2005.

GAAP net income for fiscal year 2006 was \$58.2 million or \$1.97 per diluted share compared to a GAAP net income of \$42.2 million for fiscal year 2005. Non-GAAP net income from continuing operations for fiscal year 2006 increased 38.3% to \$64.9 million, or a diluted earnings per share of \$2.17, compared to non-GAAP net income of \$46.9 million for fiscal year 2005.

I am very pleased with our outstanding performance for the 2006 Fiscal Year. The results for the year support our strong position in the industries we serve and our on-going effort and focus in expanding our partnership with our existing customers and in developing partnerships with new customers, said Steve Barber, CEO of Xyratex. Though there is some additional uncertainty related to the capital spending plans of our customers in 2007, we are confident that the fundamentals within the markets we serve are strong and that our technology and strong execution will benefit us over the longer term.

### **Business Highlights**

- We announced that the E5402E 3Gb SAS - SAS/SATA RAID system is now shipping. The 2U 12 drive E5402E provides end-users with high performance, system flexibility and simplified management and integration.
- We announced that Hammer will integrate Xyratex's latest E5402E SAS RAID system into its V2 branded storage solutions. The Xyratex E5402E RAID array is a 2U, 12-drive SAS-to-SAS subsystem that supports 3Gbps SAS and SATA disk drives and can be expanded to support up to 60 SAS/SATA drives.
- We entered into an extensive patent cross license agreement with IBM, and acquired key skills, assets and IP from ARIO Data Networks. Both the agreement and acquisition enhance our storage systems technology roadmap capability.
- We shipped our two millionth disk drive production test slot. In March 2005, we announced that we had shipped our one millionth test slot and we have recently doubled that milestone which reflects our exceptional growth and strong position within the drive industry.
- We secured new design wins with DVS and Dallmeier in Germany as well as a number of other Tier 2 and Tier 3 customers.

### **Business Outlook**

The following statements are based on current expectations. These statements are forward-looking, and actual results may differ materially. These statements do not include the potential impact of any future acquisitions or divestitures.

- Revenue in the first quarter of 2007 is projected to be in the range \$220 to \$235 million.
- Fully diluted earnings per share is anticipated to be between \$0.16 and \$0.26 on a GAAP basis in the first quarter. On a non-GAAP basis fully diluted earnings per share is anticipated to be between \$0.23 and \$0.33. Non-GAAP earnings per share excludes non-cash equity compensation, amortization of intangible assets, certain other acquisition related charges and related taxation expense.

### **Conference Call/Webcast Information**

The company will host a conference call to discuss its results at 2:00 p.m. PT/5:00 p.m. ET on Thursday, January 4, 2007.

The conference call can be accessed online via the company's website

[www.xyratex.com/investors](http://www.xyratex.com/investors), or by telephone as follows:

United States (800) 295-3991  
Outside the United States (617) 614-3924  
Passcode 46851769

A replay will be available via the company's website

[www.xyratex.com/investors](http://www.xyratex.com/investors), or can be accessed by telephone through

January 11, 2007 as follows:

United States (888) 286-8010  
Outside the United States (617) 801-6888  
Passcode 45746111

#### **Safe Harbor Statement**

This press release contains forward looking statements. These statements relate to future events or our future financial performance, including our projected revenue and fully diluted earnings per share data (on a GAAP and non-GAAP basis) for the first quarter. These statements are only predictions 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. Factors that might cause such a difference include our inability to compete successfully in the competitive and rapidly changing marketplace in which we operate, failure to retain key employees, changes in our customers volume requirements, cancellation or delay of projects and adverse general economic conditions in the United States and internationally. 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 (File No. 000-50799). 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.

#### **About Xyratex**

Xyratex is a leading provider of modular enterprise class data storage subsystems and storage process technology. The company designs and manufactures enabling technology that provides OEMs, Solution Integrators and

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disk drive manufacturers with data storage products to support high-performance storage and data communication networks. Xyratex has over 20 years of experience in research and development relating to disk drives, storage systems and high-speed communication protocols.

Founded in 1994 in an MBO from IBM, and with headquarters in the UK, Xyratex has an established global base with R&D and operational facilities in Europe, the United States and South East Asia. For more information, visit [www.xyratex.com](http://www.xyratex.com).

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## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Three Months Ended,                                 |                      | Year Ended           |                      |
|---|---|----------------------|----------------------|----------------------|
|   | November 30,<br>2006                                | November 30,<br>2005 | November 30,<br>2006 | November 30,<br>2005 |
|   | (US dollars in thousands, except per share amounts) |                      |                      |                      |
| <b>Revenues:</b>  |   |                      |                      |                      |
| Storage and Network Systems   | \$ 167,618  | \$ 121,200           | \$ 598,752           | \$ 415,379           |
| Storage Infrastructure  | 73,478  | 82,364               | 384,881              | 264,230              |
| Total revenues  | 241,096   | 203,564              | 983,633              | 679,609              |
| Cost of revenues  | 199,058   | 159,334              | 786,347              | 535,315              |
| <b>Gross profit:</b>  |   |                      |                      |                      |
| Storage and Network Systems   | 21,814  | 18,686               | 82,762               | 64,831               |
| Storage Infrastructure  | 20,504  | 25,544               | 115,447              | 79,463               |
| Equity compensation   | (280 )  |                      | (923 )               |                      |
| Total gross profit  | 42,038  | 44,230               | 197,286              | 144,294              |
| <b>Operating expenses:</b>  |   |                      |                      |                      |
| Research and development  | 17,466  | 16,845               | 71,391               | 54,327               |
| Selling, general and administrative   | 15,867  | 11,738               | 60,449               | 38,842               |
| Amortization of intangible assets   | 1,430   | 1,658                | 5,123                | 3,218                |
| In process research and development   |   | 1,000                |                      | 3,230                |
| Total operating expenses  | 34,763  | 31,241               | 136,963              | 99,617               |
| Operating income  | 7,275   | 12,989               | 60,323               | 44,677               |
| Other income  | 1,202   |                      | 3,167                |                      |
| Interest income, net  | 295   | 156                  | 1,162                | 1,176                |
| Income before income taxes  | 8,772   | 13,145               | 64,652               | 45,853               |
| Provision (benefit) for income taxes  | (582 )  | (394 )               | 6,474                | 3,964                |
| Net income from continuing operations   | 9,354   | 13,539               | 58,178               | 41,889               |
| Income from discontinued operations (net of taxes)  |   | 280                  |                      | 280                  |
| Net income  | \$ 9,354  | \$ 13,819            | \$ 58,178            | \$ 42,169            |
| <b>Net earnings per share - basic:</b>  |   |                      |                      |                      |
| Net income from continuing operations   | \$ 0.33   | \$ 0.48              | \$ 2.03              | \$ 1.48              |
| Income from discontinued operations, net of income tax  |   | 0.01                 |                      | 0.01                 |
| Net earnings per share  | \$ 0.33   | \$ 0.49              | \$ 2.03              | \$ 1.49              |
| <b>Net earnings per share - diluted:</b>  |   |                      |                      |                      |
| Net income from continuing operations   | \$ 0.32   | \$ 0.47              | \$ 1.97              | \$ 1.44              |
| Income from discontinued operations, net of income tax  |   | 0.01                 |                      | 0.01                 |
| Net earnings per share  | \$ 0.32   | \$ 0.48              | \$ 1.97              | \$ 1.45              |
| <b>Weighted average common shares (in thousands), used in computing net earnings per share:</b> |   |                      |                      |                      |
| Basic   | 28,762  | 28,425               | 28,663               | 28,329               |
| Diluted   | 29,505  | 28,867               | 29,604               | 29,031               |



## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

|  | November 30,<br>2006                     | November 30,<br>2005 |
|--|--|----------------------|
|  | (US dollars and amounts in<br>thousands) |                      |
| <b>ASSETS</b>  |  |                      |
| <b>Current assets:</b>   |  |                      |
| Cash and cash equivalents  | \$ 56,921                                | \$ 41,240            |
| Accounts receivable, net   | 105,324                                  | 82,449               |
| Inventories  | 93,111                                   | 71,543               |
| Prepaid expenses   | 2,390                                    | 2,244                |
| Deferred income taxes  | 2,513                                    | 6,480                |
| Other current assets   | 7,247                                    | 3,236                |
| <b>Total current assets</b>  | <b>267,506</b>                           | <b>207,192</b>       |
| Property, plant and equipment, net   | 34,471                                   | 25,643               |
| Intangible assets, net   | 58,109                                   | 50,904               |
| Deferred income taxes  | 15,594                                   | 17,551               |
| <b>Total assets</b>  | <b>\$ 375,680</b>                        | <b>\$ 301,290</b>    |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |  |                      |
| <b>Current liabilities:</b>  |  |                      |
| Accounts payable   | \$ 84,896                                | \$ 79,927            |
| Acquisition note payable   |  | 3,000                |
| Short-term borrowings  | 4,000                                    | 4,000                |
| Employee compensation and benefits payable   | 16,645                                   | 13,620               |
| Deferred revenue   | 16,303                                   | 16,434               |
| Income taxes payable   | 1,641                                    | 421                  |
| Other accrued liabilities  | 14,701                                   | 15,506               |
| <b>Total current liabilities</b>   | <b>138,186</b>                           | <b>132,908</b>       |
| Long-term debt   | 3,000                                    | 7,000                |
| <b>Total liabilities</b>   | <b>141,186</b>                           | <b>139,908</b>       |
| <b>Shareholders equity</b>   |  |                      |
| Common shares of Xyratex Ltd (in thousands), par value \$0.01 per share 70,000 authorized,<br>28,793 and 28,437 issued and outstanding | 288                                      | 284                  |
| Additional paid-in capital   | 344,686                                  | 333,886              |
| Accumulated other comprehensive income (loss)  | 2,774                                    | (1,356)              |
| Accumulated deficit  | (113,254)                                | (171,432)            |
| <b>Total shareholders equity</b>   | <b>234,494</b>                           | <b>161,382</b>       |
| <b>Total liabilities and shareholders equity</b>   | <b>\$ 375,680</b>                        | <b>\$ 301,290</b>    |



## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended<br>November 30,<br>2006<br>(US dollars in thousands) | November 30,<br>2005 |
|---|---|----------------------|
| <b>Cash flows from operating activities:</b>                                      |   |                      |
| Net income from continuing operations   | \$ 58,178   | \$ 41,889            |
| Adjustments to reconcile net income to net cash used in operating activities:     |   |                      |
| Depreciation  | 10,105  | 6,694                |
| Amortization of intangible assets   | 5,123   | 3,218                |
| Non-cash equity compensation  | 7,194   | 828                  |
| Bonus paid by trust   |   | 144                  |
| In process research and development   |   | 3,230                |
| Loss on sale of assets  | 265   | 90                   |
| Changes in assets and liabilities, net of impact of acquisitions and divestitures |   |                      |
| Accounts receivable   | (21,098 )   | (29,272 )            |
| Inventories   | (21,528 )   | (16,297 )            |
| Prepaid expenses and other current assets   | 1,138   | (542 )               |
| Accounts payable  | 4,302   | 25,668               |
| Employee compensation and benefits payable  | 3,025   | 2,474                |
| Deferred revenue  | (131 )  | (2,560 )             |
| Income taxes payable  | 80  | (643 )               |
| Deferred income taxes   | 5,824   | 4,403                |
| Other accrued liabilities   | 2,016   | (986 )               |
| Net cash used for operating activities of discontinued operations                 |   | 280                  |
| Net cash provided by operating activities   | 54,493  | 38,618               |
| <b>Cash flows from investing activities:</b>                                      |   |                      |
| Investments in property, plant and equipment                                      | (19,932 )   | (17,070 )            |
| Dispositions in property, plant and equipment                                     | 762   |                      |
| Acquisition of intangible assets  | (4,000 )  |                      |
| Acquisition of business, net of cash received                                     | (12,252 )   | (34,845 )            |
| Net cash used in investing activities   | (35,422 )   | (51,915 )            |
| <b>Cash flows from financing activities:</b>                                      |   |                      |
| Payments of short-term borrowings   | (4,000 )  | (9,133 )             |
| Payment of acquisition note payable   | (3,000 )  | (2,000 )             |
| Proceeds from issuance of shares  | 3,610   | 2,175                |
| Net cash used in financing activities   | (3,390 )  | (8,958 )             |
| Change in cash and cash equivalents   | 15,681  | (22,255 )            |
| Cash and cash equivalents at beginning of period                                  | 41,240  | 63,495               |
| Cash and cash equivalents at end of period  | \$ 56,921   | \$ 41,240            |

## XYRATEX LTD

## UNAUDITED RECONCILIATION OF GAAP NET INCOME FROM CONTINUING OPERATIONS TO NON-GAAP NET INCOME

|   | Three Months Ended<br>GAAP<br>November 30,<br>2006<br>(US dollars in thousands, except per share amounts) | Non-GAAP<br>Adjustment<br>(a) | Non-GAAP<br>November 30,<br>2006 |
|---|---|-------------------------------|----------------------------------|
| <b>Revenues:</b>  |   |                               |                                  |
| Storage and Network Systems   | \$ 167,618  |                               | \$ 167,618                       |
| Storage Infrastructure  | 73,478  |                               | 73,478                           |
| Total revenues  | 241,096   |                               | 241,096                          |
| Cost of revenues  | 199,058   | (280 )                        | 198,778                          |
| <b>Gross profit:</b>  |   |                               |                                  |
| Storage and Network Systems   | 21,814  |                               | 21,814                           |
| Storage Infrastructure  | 20,504  |                               | 20,504                           |
| Equity compensation   | (280 )  | 280                           |                                  |
| Total gross profit  | 42,038  |                               | 42,318                           |
| <b>Operating expenses:</b>  |   |                               |                                  |
| Research and development  | 17,466  | (557 )                        | 16,909                           |
| Selling, general and administrative   | 15,867  | (981 )                        | 14,886                           |
| Amortization of intangible assets   | 1,430   | (1,430 )                      |                                  |
| Total operating expenses  | 34,763  |                               | 31,795                           |
| Operating income  | 7,275   |                               | 10,523                           |
| Other income  | 1,202   | (1,202 )                      |                                  |
| Interest income, net  | 295   |                               | 295                              |
| Income before income taxes  | 8,772   |                               | 10,818                           |
| Provision (benefit) for income taxes  | (582 )  | 523                           | (59 )                            |
| Net income from continuing operations   | 9,354   |                               | 10,877                           |
| <b>Net earnings per share from continuing operations:</b>                                       |   |                               |                                  |
| Basic   | \$ 0.33   |                               | \$ 0.38                          |
| Diluted   | \$ 0.32   |                               | \$ 0.36                          |
| <b>Weighted average common shares (in thousands), used in computing net earnings per share:</b> |   |                               |                                  |
| Basic   | 28,762  |                               | 28,762                           |
| Diluted   | 29,505  | 416                           | 29,921                           |

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|   | Year Ended<br>GAAP<br>November 30,<br>2006<br>(US dollars in thousands, except per share amounts) | Non-GAAP<br>Adjustment<br>(a) | Non-GAAP<br>November 30,<br>2006 |
|---|---|-------------------------------|----------------------------------|
| <b>Revenues:</b>  |   |                               |                                  |
| Storage and Network Systems   | \$ 598,752  |                               | \$ 598,752                       |
| Storage Infrastructure  | 384,881   |                               | 384,881                          |
| Total revenues  | 983,633   |                               | 983,633                          |
| Cost of revenues  | 786,347   | (923 )                        | 785,424                          |
| <b>Gross profit:</b>  |   |                               |                                  |
| Storage and Network Systems   | 82,762  |                               | 82,762                           |
| Storage Infrastructure  | 115,447   |                               | 115,447                          |
| Equity compensation   | (923 )  | 923                           |                                  |
| Total gross profit  | 197,286   |                               | 198,209                          |
| <b>Operating expenses:</b>  |   |                               |                                  |
| Research and development  | 71,391  | (1,962 )                      | 69,429                           |
| Selling, general and administrative   | 60,449  | (4,309 )                      | 56,140                           |
| Amortization of intangible assets   | 5,123   | (5,123 )                      |                                  |
| Total operating expenses  | 136,963   |                               | 125,569                          |
| Operating income  | 60,323  |                               | 72,640                           |
| Other income  | 3,167   | (3,167 )                      |                                  |
| Interest income, net  | 1,162   |                               | 1,162                            |
| Income before income taxes  | 64,652  |                               | 73,802                           |
| Provision for income taxes  | 6,474   | 2,384                         | 8,858                            |
| Net income from continuing operations   | 58,178  |                               | 64,944                           |
| <b>Net earnings per share from continuing operations:</b>                                       |   |                               |                                  |
| Basic   | \$ 2.03   |                               | \$ 2.27                          |
| Diluted   | \$ 1.97   |                               | \$ 2.17                          |
| <b>Weighted average common shares (in thousands), used in computing net earnings per share:</b> |   |                               |                                  |
| Basic   | 28,663  |                               | 28,663                           |
| Diluted   | 29,604  | 289                           | 29,893                           |

|   | <b>Three Months Ended<br/>GAAP<br/>November 30,<br/>2005</b> | <b>Non-GAAP<br/>Adjustment<br/>(a)</b> | <b>Non-GAAP<br/>November 30,<br/>2005</b> |
|---|--|--|---|
| (US dollars in thousands, except per share amounts)   |  |  |   |
| <b>Revenues:</b>  |  |  |   |
| Storage and Network Systems   | \$ 121,200   |  | \$ 121,200                                |
| Storage Infrastructure  | 82,364   |  | 82,364                                    |
| Total revenues  | 203,564  |  | 203,564                                   |
| Cost of revenues  | 159,334  |  | 159,334                                   |
| <b>Gross profit:</b>  |  |  |   |
| Storage and Network Systems   | 18,686   |  | 18,686                                    |
| Storage Infrastructure  | 25,544   |  | 25,544                                    |
| Total gross profit  | 44,230   |  | 44,230                                    |
| <b>Operating expenses:</b>  |  |  |   |
| Research and development  | 16,845   | (830 )                                 | 16,015                                    |
| Selling, general and administrative   | 11,738   | (207 )                                 | 11,531                                    |
| Amortization of intangible assets   | 1,658  | (1,658 )                               |   |
| In process research and development   | 1,000  | (1,000 )                               |   |
| Total operating expenses  | 31,241   |  | 27,546                                    |
| Operating income  | 12,989   |  | 16,684                                    |
| Interest income, net  | 156  |  | 156                                       |
| Income before income taxes  | 13,145   |  | 16,840                                    |
| Provision (benefit) for income taxes  | (394 )   | 1,701                                  | 1,307                                     |
| Net income from continuing operations   | 13,539   |  | 15,533                                    |
| <b>Net earnings per share from continuing operations:</b>                                       |  |  |   |
| Basic   | \$ 0.48  |  | \$ 0.55                                   |
| Diluted   | \$ 0.47  |  | \$ 0.54                                   |
| <b>Weighted average common shares (in thousands), used in computing net earnings per share:</b> |  |  |   |
| Basic   | 28,425   |  | 28,425                                    |
| Diluted   | 28,867   |  | 28,867                                    |

|   | Year Ended<br>GAAP<br>November 30,<br>2005<br>(US dollars in thousands, except per share amounts) | Non-GAAP<br>Adjustment<br>(a) | Non-GAAP<br>November 30,<br>2005 |
|---|---|-------------------------------|----------------------------------|
| <b>Revenues:</b>  |   |                               |                                  |
| Storage and Network Systems   | \$ 415,379  |                               | \$ 415,379                       |
| Storage Infrastructure  | 264,230   |                               | 264,230                          |
| Total revenues  | 679,609   |                               | 679,609                          |
| Cost of revenues  | 535,315   |                               | 535,315                          |
| <b>Gross profit:</b>  |   |                               |                                  |
| Storage and Network Systems   | 64,831  |                               | 64,831                           |
| Storage Infrastructure  | 79,463  |                               | 79,463                           |
| Total gross profit  | 144,294   |                               | 144,294                          |
| <b>Operating expenses:</b>  |   |                               |                                  |
| Research and development  | 54,327  | (830 )                        | 53,497                           |
| Selling, general and administrative   | 38,842  | (828 )                        | 38,014                           |
| Amortization of intangible assets   | 3,218   | (3,218 )                      |                                  |
| In process research and development   | 3,230   | (3,230 )                      |                                  |
| Total operating expenses  | 99,617  |                               | 91,511                           |
| Operating income  | 44,677  |                               | 52,783                           |
| Interest income, net  | 1,176   |                               | 1,176                            |
| Income before income taxes  | 45,853  |                               | 53,959                           |
| Provision for income taxes  | 3,964   | 3,047                         | 7,011                            |
| Net income from continuing operations   | 41,889  |                               | 46,948                           |
| <b>Net earnings per share from continuing operations:</b>                                       |   |                               |                                  |
| Basic   | \$ 1.48   |                               | \$ 1.66                          |
| Diluted   | \$ 1.44   |                               | \$ 1.62                          |
| <b>Weighted average common shares (in thousands), used in computing net earnings per share:</b> |   |                               |                                  |
| Basic   | 28,329  |                               | 28,329                           |
| Diluted   | 29,031  |                               | 29,031                           |

(a) Non-GAAP Adjustment for the three and twelve month periods ended November 30, 2006 and November 30, 2005 includes non-cash amortization of intangible assets, non-cash equity compensation expense and income from the sale of a product line. Non-GAAP Adjustment for the three and twelve month periods ended November 30, 2005 also includes in-process research and development expense, expenses of \$830,000 resulting from withdrawing from a major research and development project and a tax benefit of \$864,000 resulting from a reorganization of our legal structure.. The Non-GAAP Adjustment for these periods also include the related tax effects.

We believe these Non-GAAP measures are useful to investors because they provide an alternative method of measuring the operating performance of our business by excluding certain expenses, gains and losses which we believe are not indicative of our core operating results.

**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)

By

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

Date: January 4, 2007

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