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:
x Form 20-F o 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): o

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

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 comp 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.

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.

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

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, 2012	2011	Increase/(Decrease) 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.

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