XYRATEX LTD
Form 6-K
July 15, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

THE SECURITIES EXCHANGE ACT OF 1934

July 15, 2009 **Commission File Number:0001284823**

XYRATEX LTD

(Translation of registrant s name into English)

Langstone Road,
Havant
PO9 1SA
United Kingdom
(Address of principal executive offices)

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

Form 20-F x Form 40-F 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)(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

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 o No x

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

NEWS RELEASE

Havant, UK July 15, 2009 Xyratex Ltd (Nasdaq: XRTX) today released the following financial information for the second quarter of its 2009 fiscal year, ending May 31, 2009:

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

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

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

Our NSS products are primarily storage subsystems, which we provide to OEMs and our SI products consist of disk drive manufacturing process equipment, which we sell directly to manufacturers of disk drives and disk drive components. We form long-term strategic relationships with our customers and we support them through our operations in the United States, Asia and Europe. In our 2008 fiscal year, sales to our top three customers, NetApp, Seagate Technology and Western Digital, accounted for 54%, 9% and 7% of our revenues, respectively. In the six months ended May 31, 2009, sales to NetApp and Dell accounted for 55% and 14% of our revenues, respectively. No other customer accounted for more than 10% of our revenues in the period. We had 46 customers which individually contributed more than $0.5 million to revenues in our 2008 fiscal year. We enter into joint development projects with our key customers and suppliers in order to research and introduce new technologies and products.

Revenues

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

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

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

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

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

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

Foreign Exchange Rate Fluctuations

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

Over our last three fiscal years there has been significant volatility in the exchange rate between the U.K. pound and the U.S. dollar including a dramatic fall in the value of the U.K. pound of 19% in the twelve months ending May 31, 2009. We have hedged the majority of our exposure to this exchange rate movement for approximately one year ahead and we are particularly impacted by the movement in average annual exchange rates. The recent rise in the value of the US dollar, if not reversed, is expected to reduce 2009 operating expenses by approximately $5 million, being approximately $18 million less a $12.9 million impact of forward contracts.

Cost reduction exercise

Following the changed economic environment in the final quarter of 2008 we have been reassessing our cost base in research and development and other areas. In first two quarters of our 2009 fiscal year we have undertaken a cost reduction exercise which is substantially complete and included an 11.1% reduction in our worldwide employee headcount, including a 17.7% reduction in our combined U.S. and U.K. employee headcount. The cost reduction activities have resulted in restructuring costs of $4.2 million and annual cost savings compared to the costs that would have been incurred without the cost reduction exercise, of approximately $31 million, of which approximately $12 million relates to cost of revenues and the remainder relates to other operating expenses.

Costs of Revenues and Gross Profit

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

Research and Development

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

Due to the level of competition in the markets in which we operate and the rapid changes in technology, our future revenues are heavily dependent on the improvements we make to our products and the introduction of new products. During our 2008 fiscal year our research and development expenses related to over 50 separate projects covering improving existing products, meeting customer specific requirements and entering new markets, such as development of the SBB compliant OneStor platform and a production test system designed specifically for 2.5 inch disk drives. Although we have reduced expenditure in 2009 as part of the cost reduction exercise, we intend to ensure that we continue to develop our technology base to support our customers and be able to take advantage of market improvements when they occur. We are committed to developing products based on advanced technologies and designs to support the opportunities for growth in both of our segments.

Selling, General and Administrative

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

Impairment of goodwill and long-lived assets

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

In addition we considered that the market conditions and share price were indicators of the potential impairment of other long lived assets at November 30, 2008. We therefore compared the undiscounted cash flows of our business segments to the carrying value of the related assets over the useful lives of those assets using the same cash flows and asset values as that used to assess the impairment of goodwill. We concluded that there was no impairment of our other long lived assets, being intangible assets with a book value of $11.2 million and property, plant and equipment with a book value of $47.2 million. We considered that the impairment indicators that were present at November 30, 2008 continued to exist at May 31, 2009 and we therefore performed a further impairment review of intangible and tangible long-lived assets. No impairment charge was required at May 31, 2009 as the forecasted undiscounted cash flows for each of the Company s asset groupings exceeded the carrying value of the assets.

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

Equity Share Capital

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

Provision for Income Taxes

We are subject to taxation primarily in the United Kingdom, the United States and Malaysia. Our Malaysian operations relating to SI and NSS products benefit from a beneficial tax status which has provided us with a zero tax rate on substantially all of our income arising in Malaysia. The beneficial tax status relating to SI products was granted in

2006 and ends in 2012. The beneficial tax status relating to NSS products was granted in February 2009 and will cover a period of ten years. The beneficial tax status for both SI and NSS products is subject to meeting certain requirements.

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

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

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

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

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,**	
	2009	**2008**	**2009**	**2008**
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	87.1	84.7	87.8	84.8
Gross profit	12.9	15.3	12.2	15.2
Operating expenses:				
Research and development	9.0	8.1	9.6	8.5
Selling, general and administrative	7.6	5.9	7.6	6.3
Amortization of intangible assets	0.5	0.4	0.5	0.5
Restructuring costs	0.6	0.0	1.1	0.0
Operating income (loss)	(4.8)	0.9	(6.6)	(0.1)
Net income (loss)	(5.0)	0.8	(6.8)	0.0
Segment gross profit as a percentage of segment revenues:				
Networked Storage Solutions	12.7	14.0	12.0	14.3
Storage Infrastructure	18.0	24.9	16.3	22.1

Three Months Ended May 31, 2009 Compared to the three Months Ended May 31, 2008

The following is a tabular presentation of our results of operations for the three months ended May 31, 2009 compared to the three months ended May 31, 2008. Following the table is a discussion and analysis of our business and results of operations for such periods.

	Three months ended		Increase/(Decrease)	
	May 31, 2009	May 31, 2008	Amount	%
	(U.S. dollars in thousands)			
Revenues:				
Networked Storage Solutions	$ 184,257	$ 232,594	$ (48,337)	(20.8)%
Storage Infrastructure	10,482	33,861	(23,379)	(69.0)
Total revenues	194,739	266,455	(71,716)	(26.9)
Cost of revenues	169,540	225,736	(56,196)	(24.9)
Gross profit:				
Networked Storage Solutions	23,469	32,632	(9,163)	(28.1)
Storage Infrastructure	1,892	8,420	(6,528)	(77.5)
Non cash equity compensation	(162)	(333)	(171)	
Total gross profit	25,199	40,719	(15,520)	(38.1