

XYRATEX LTD
Form 20-F
February 18, 2009

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XYRATEX LTD
ANNUAL REPORT FOR THE YEAR ENDED
NOVEMBER 30, 2008

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As filed with the Securities and Exchange Commission on February 18, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF
THE SECURITIES EXCHANGE ACT OF 1934**

or

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended November 30, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

or

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Commission file number **000-50799**)

XYRATEX LTD

(Exact Name of Registrant as Specified in Its Charter)

Bermuda

(Jurisdiction of Incorporation or Organization)

**Langstone Road
Havant PO9 1SA
United Kingdom
(011) 44 2392 496000**

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
Common Shares, par value \$0.01 per share	Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report:

29,262,411 common shares, par value \$0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

Xyratex Ltd is a limited liability company incorporated under the laws of Bermuda. Xyratex Ltd was incorporated on April 10, 2002 and is registered with the Registrar of Companies in Bermuda under registration number EC 31989. As a Bermuda company we are governed by the Companies Act 1981 of Bermuda. We maintain a registered office in Bermuda at Clarendon House, Church Street, Hamilton, Bermuda. Our principal executive offices are located at Langstone Road, Havant PO9 1SA, United Kingdom and the telephone number for these offices is (011) 44 2392 496000. Our agent for service of process in the United States is Chris Sharman, 2031 Concourse Drive, San Jose, California 95131-1727, USA (telephone: (408) 894 0800).

We conducted an initial public offering in the United States and listing of our common shares on the Nasdaq National Market on June 29, 2004. Our common shares trade on The NASDAQ Stock Market LLC under the symbol "XRTX" and are listed on the NASDAQ Global Select Market.

Our business began as part of IBM in 1966. We conducted our business as a manufacturing and development operation until December 1994, at which time we separated from IBM in a management buy-out. Today Xyratex is a leading provider of enterprise class data storage subsystems and storage process technology. The Company designs and manufactures enabling technology that provides original equipment manufacturer (OEM) and disk drive manufacturer customers with data storage products to support high-performance storage and data communication networks. Xyratex has over 25 years of experience in research and development relating to disk drives, storage systems and high-speed communication protocols.

In this Annual Report, except as otherwise indicated or as the context otherwise requires, the "Company", "Group", "Xyratex", "we", "us" and "our" refers to Xyratex Ltd and its subsidiaries.

INDUSTRY DATA

In this Annual Report, we refer to information regarding the Networked Storage Solutions Market and the Storage Infrastructure Market from the following independent research companies: Coughlin Associates; International Data Corporation or IDC; and, TrendFocus.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements. All statements other than statements of historical fact included in this Annual Report regarding our business, financial condition, results of operations and certain of our plans, objectives, assumptions, expectations or beliefs with respect to these items and statements regarding other future events or prospects, are forward-looking statements. These statements include, without limitation, those concerning: our strategy and our ability to achieve it; expectations regarding sales, profitability and growth; our possible or assumed future results of operations; capital expenditure and investment plans; adequacy of capital; and financing plans. The words "aim," "may," "expect," "anticipate," "believe," "future," "continue," "help," "estimate," "plan," "intend," "should," "could," "would," "shall" or the negative or other variations thereof as well as other statements regarding matters that are not historical fact, are or may constitute forward-looking statements. In addition, this Annual Report includes forward-looking statements relating to our potential exposure to various types of market risks, such as foreign exchange rate risk, interest rate risks and other risks related to financial assets and liabilities. We have based these forward-looking statements on our management's current view with respect to future events and financial performance. These views reflect the best judgment of our management but involve a number of risks and uncertainties which could cause actual results to differ materially from those predicted in our forward-looking statements and from past results, performance or achievements. Although we believe that the estimates reflected in the forward-looking statements are reasonable, such estimates may prove to be incorrect. By their nature, forward-looking statements involve risk and uncertainty because they relate

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to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from these expressed or implied by these forward-looking statements. For further discussion of these factors and other risks, see "Part I, Item 3D Risk Factors" and "Item 5 Operating and Financial Review and Prospects."

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PART I

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3: KEY INFORMATION

Item 3A: Selected Financial Data

The selected historical consolidated statement of operations data for the years ended November 30, 2006, 2007 and 2008 and balance sheet data for the years ended November 30, 2007 and 2008 presented below have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected historical consolidated statement of operations data for the years ended November 30, 2004 and 2005 and balance sheet data for the years ended November 30, 2004, 2005 and 2006 presented below have been derived from the audited consolidated financial statements not included in this report.

Xyratex Ltd became our parent company immediately prior to the closing of our initial public offering on June 29, 2004. Prior to this date our parent company was Xyratex Group Limited. For the

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periods from December 1, 2003 to June 29, 2004 the selected historical financial data represent the results of operations and financial position of Xyratex Group Limited.

	Year Ended November 30,				
	2008	2007	2006	2005	2004
(U.S. dollars in thousands)					
Consolidated Statement of Operations					
Data:					
Revenues:					
Networked Storage Solutions	\$ 855,770	\$ 693,990	\$ 598,752	\$ 415,379	\$ 318,692
Storage Infrastructure	193,946	237,643	384,881	264,230	140,322
Total revenues	1,049,716	931,633	983,633	679,609	459,014
Gross profit:					
Networked Storage Solutions	107,275	100,573	82,762	64,831	56,282
Storage Infrastructure	52,566	69,716	115,447	79,463	46,174
Non-cash equity compensation(1)	(1,264)	(1,238)	(923)		(7,827)
Total gross profit	158,577	169,051	197,286	144,294	94,629
Operating expenses:					
Research and development:					
Development arrangement(2)					(6,000)
Non-cash equity compensation(1)	2,469	2,477	1,962		23,959
Other	83,428	75,082	69,429	54,327	37,429
Total research and development	85,897	77,559	71,391	54,327	55,388
Selling, general and administrative:					
Non-cash equity compensation(1)	3,913	4,342	4,309	828	136,363
Other	59,773	57,635	56,140	38,014	28,005
Total selling, general and administrative	63,686	61,977	60,449	38,842	164,368
Amortization of intangible assets	4,882	7,304	5,123	3,218	1,169
Impairment of goodwill	34,256				
In process research and development				3,230	852
Other costs(1)					2,388
Total operating expenses	188,721	146,840	136,963	99,617	224,165
Operating income (loss)	(30,144)	22,211	60,323	44,677	(129,536)
Other income					
Interest income (expense), net(3)	1,618	3,283	1,162	1,176	1,052
Income (loss) from continuing operations					
before income taxes	(28,526)	26,384	64,652	45,853	(128,484)
Provision (benefit) for income taxes	19,383	(1,725)	6,474	3,964	(6,239)
Net income (loss) from continuing operations	(47,909)	28,109	58,178	41,889	(122,245)
Income (loss) from discontinued operations				280	(12,924)

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Net income (loss)	\$ (47,909)	\$ 28,109	\$ 58,178	\$ 42,169	\$(135,169)
Net earnings (loss) from continuing operations per common share and class B preferred ordinary share basic(4)	\$ (1.64)	\$ 0.97	\$ 2.03	\$ 1.48	\$ (6.72)
Net earnings (loss) per common share and class B preferred ordinary share basic(4)	\$ (1.64)	\$ 0.97	\$ 2.03	\$ 1.49	\$ (7.43)
Net earnings (loss) from continuing operations per common share and class B preferred ordinary share diluted(5)	\$ (1.64)	\$ 0.94	\$ 1.97	\$ 1.44	\$ (6.72)
Net earnings (loss) per common share and class B preferred ordinary share diluted(5)	\$ (1.64)	\$ 0.94	\$ 1.97	\$ 1.45	\$ (7.43)

(1)

In accordance with U.S. GAAP, we recorded a non-cash equity compensation expense of \$168.1 million in continuing operations and \$12.9 million in discontinued operations in our 2004 fiscal year in connection with our initial public offering. These expenses resulted from the removal of transferability restrictions on the

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shares and options as a consequence of the initial public offering. We also recorded expenses of this transaction totaling \$2.4 million in our 2004 fiscal year.

- (2) Relates to a loan of \$6.0 million and other payments of \$1.8 million associated with a development arrangement with a supplier. These payments were recorded as an expense in our fiscal year ended November 30, 2002 as it was believed that repayment was dependent on the successful efforts of the related research and development. In February 2004, this supplier was acquired by another company and in August 2004 the loan was repaid. Accordingly, we have reduced operating expenses by \$6.0 million in our 2004 fiscal year.
- (3) Interest income in our 2004 fiscal year includes interest received of \$1.1 million on the \$6.0 million loan described in footnote (2) above.
- (4) Based on the weighted average (in thousands) of 29,157, 28,985, 28,663, 28,329 and 18,195 Xyratex Ltd common shares and Xyratex Group Limited, class B preferred ordinary shares outstanding for the years ended November 30, 2008, 2007, 2006, 2005 and 2004, respectively. The computation of earnings per share in the year ended November 30, 2004 does not include outstanding Xyratex Group Limited class A preferred ordinary shares, which were subject to transferability restrictions that lapsed on the earlier of an initial public offering or a sale or liquidation of Xyratex Group Limited. Under U.S. GAAP, these shares are not treated as outstanding when computing net earnings per share.
- (5) Based on the weighted average (in thousands) of 29,157, 29,866, 29,604 and 29,031 Xyratex Ltd common shares outstanding for the years ended November 30, 2008, 2007, 2006 and 2005, respectively. The number of shares used in the computation of diluted earnings per share for the year ended November 30, 2004 is the same as that used in the computation of basic earnings per share.

	As of November 30,				
	2008	2007	2006	2005	2004
	(U.S. dollars in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 28,013	\$ 70,678	\$ 56,921	\$ 41,240	\$ 63,495
Working capital	145,653	161,922	129,320	74,284	90,847
Total assets	373,187	410,275	375,680	301,290	205,242
Short-term borrowings and current portion of acquisition note payable			4,000	7,000	6,000
Long-term debt and acquisition note payable, net of current portion			3,000	7,000	11,000
Total debt			7,000	14,000	17,000
Total shareholders' equity	\$213,589	\$273,261	\$234,494	\$161,382	\$116,701
Number of shares issued and outstanding:					
Common shares	29,146	29,117	28,793	28,437	28,043

Item 3B: Capitalization and Indebtedness

Not applicable.

Item 3C: Reason for the Offer and Use of Proceeds

Not applicable.