

XYRATEX LTD  
Form 6-K  
January 05, 2006

# 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 5, 2006

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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

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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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**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 5, 2006

**NEWS RELEASE**

For Immediate Release

**Xyratex Ltd Announces Results for the Fourth Quarter and Fiscal Year 2005**

Q4 Revenues \$203.6 million, up 74.4% Year over Year

Fiscal year 2005 Revenues \$679.6 million, up 48% Year over Year

**Havant, UK January 5, 2006** 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, 2005. Revenues for the fourth quarter were \$203.6 million, an increase of 74.4% compared to revenues of \$116.7 million for the same period last year and a 24.2% increase compared to \$163.9 million in the prior quarter.

For the fourth quarter, GAAP net income was \$13.8 million, or \$0.48 per diluted share compared to GAAP net income of \$8.2 million in the same period last year. Non-GAAP net income from continuing operations increased 185.3% to \$15.5 million, or a diluted earnings per share of \$0.54, compared to non-GAAP net income of \$5.4 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 21.7%, compared to 20.7% in the same period last year and 20.2% in the prior quarter primarily due to business mix, particularly related to an increased proportion of Storage Infrastructure revenues.

Revenues for fiscal year 2005 were \$679.6 million, an increase of 48%, compared to revenues of \$459 million for fiscal year 2004.

GAAP net income for fiscal year 2005 was \$42.2 million or \$1.45 per diluted share compared to a GAAP net loss of \$135.2 million for fiscal year 2004. The net loss for fiscal year 2004 includes non-cash equity compensation expense of \$181.1 million. Non-GAAP net income from continuing operations for fiscal year 2005 increased 52.2% to \$46.9 million, or a diluted earnings per share of \$1.62, compared to non-GAAP net income from continuing operations of \$30.8 million for fiscal year 2004.

Xyratex posted an excellent performance during the quarter with revenues growing over 74% year over year. Our fiscal year performance was outstanding and reflects the continued strength of our customers in a growing market and the strong industry trends that our technology supports, said Steve Barber, CEO of Xyratex. The markets we serve are continuing to project strong growth and we believe we are well positioned to take advantage of this through our increased technology and growing OEM customer base.

## **Business Highlights**

We achieved record revenues in both divisions while continuing to successfully integrate the recent acquisitions of Oliver Design and nStor.

We expanded our Storage Infrastructure manufacturing facility in Malaysia with the addition of 40,000 square feet. This facility now has the additional manufacturing capability to meet the increased demand for our capital equipment.

We announced the general availability of our Application Platform. This 2U 12 drive ATX based enclosure is the first in a family of products to be offered by Xyratex, specifically targeted at the Small-to-Medium size Business (SMB).

We demonstrated the new 5402 4Gb/s RAID enclosure, which leverages technology from the nStor acquisition.

We secured new design wins with Bright Systems, Compellent Technologies, Concurrent, Lefthand Networks, PowerFile, Rorke Data as well as a number of other Tier 2 and Tier 3 customers.

We shipped 14 Media Precision Cleaning machines in the second half of fiscal year 2005 after the acquisition of Oliver Design as compared to 7 equivalent systems in the whole of 2004. In addition, we broadened the number of products we now ship to Komag to include both Media Precision Cleaning machines and Automation equipment.

## **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 2006 is projected to be in the range \$167 to \$177 million.

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Fully diluted earnings per share is anticipated to be between \$0.10 and \$0.17 on a GAAP basis in the first quarter. On a non-GAAP basis fully diluted earnings per share is anticipated to be between \$0.18 and \$0.25. 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

**Xyratex quarterly results conference call** will be broadcast live via the internet at [www.xyratex.com/investors](http://www.xyratex.com/investors) on Thursday, January 5, 2006 at 1:30 p.m. Pacific Time/4:30 p.m. Eastern Time. You can also access the conference call by dialing +1 (866) 383-7989 in the United States and +1 (617) 597-5328 outside of the United States, passcode 57375246. The press release will be posted to the company web site [www.xyratex.com](http://www.xyratex.com).

A replay will be available through January 12, 2006 following the live call by dialing +1 (888) 286-8010 in the United States and +1 (617) 801-6888 outside the United States, replay code 90950770

#### Safe Harbor Statement

This press release contains forward looking statements that involve risks and uncertainties. These forward-looking statements include projected revenue and fully diluted earnings per share data (on a GAAP and non-GAAP basis) for the first quarter. Such statements are only predictions and involve risks and uncertainties such that actual results and performance may differ materially. Factors that might cause such a difference include successful integration of nStor's assets and employees into Xyratex, building future disk cleaning products, Xyratex's inability to compete successfully in the competitive and rapidly changing marketplace, failure to retain key employees, cancellation or delay of projects and adverse general economic conditions in the U.S. and internationally. These risks and other factors include those listed under "Risk Factors" and elsewhere in Xyratex's 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, 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 enterprise class data storage subsystems and network technology. The company designs and manufactures enabling technology that provides OEM and disk drive manufacturer customers 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 a management buy-out from IBM, and with its 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>2005                                | November 30,<br>2004 | November 30,<br>2005 | November 30,<br>2004 |
|  | (US dollars in thousands, except per share amounts) |                      |                      |                      |
| Revenues   | \$ 203,564  | \$ 116,701           | \$ 679,609           | \$ 459,014           |
| Cost of revenues - non cash equity compensation                    |   | 36                   |                      | 7,827                |
| Cost of revenues - other   | 159,334   | 92,451               | 535,315              | 356,558              |
| Total cost of revenues   | 159,334   | 92,487               | 535,315              | 364,385              |
| Gross profit   | 44,230  | 24,214               | 144,294              | 94,629               |
| Operating expenses:  |   |                      |                      |                      |
| Research and development - development arrangement                 |   |                      |                      | (6,000)              |
| Research and development - non cash equity compensation            |   | 83                   |                      | 23,959               |
| Research and development - other                                   | 16,845  | 10,597               | 54,327               | 37,429               |
| Total research and development                                     | 16,845  | 10,680               | 54,327               | 55,388               |
| Selling, general and administrative - non cash equity compensation | 207   | 478                  | 828                  | 136,363              |
| Selling, general and administrative - other                        | 11,531  | 7,884                | 38,014               | 28,005               |
| Total selling, general and administrative                          | 11,738  | 8,362                | 38,842               | 164,368              |
| Amortization of intangible assets                                  | 1,658   | 397                  | 3,218                | 1,169                |
| In process research and development                                | 1,000   | 852                  | 3,230                | 852                  |
| Other costs  |   | (201)                |                      | 2,388                |
| Total operating expenses   | 31,241  | 20,090               | 99,617               | 224,165              |
| Operating income (loss)  | 12,989  | 4,124                | 44,677               | (129,536)            |
| Interest income, net   | 156   | 147                  | 1,176                | 1,052                |
| Income (loss) from continuing operations before income taxes       | 13,145  | 4,271                | 45,853               | (128,484)            |
| Provision (benefit) for income taxes                               | (394)   | (3,937)              | 3,964                | (6,239)              |
| Net income (loss) from continuing operations                       | 13,539  | 8,208                | 41,889               | (122,245)            |
| Income (loss) from discontinued operations (net of taxes)          | 280   |                      | 280                  | (12,924)             |
| Net income (loss)  | \$ 13,819   | \$ 8,208             | \$ 42,169            | \$ (135,169)         |
| Net earnings (loss) per share - basic:                             |   |                      |                      |                      |
| Net income (loss) from continuing operations                       | \$ 0.48   | \$ 0.29              | \$ 1.48              | \$ (6.72)            |
| Income (loss) from discontinued operations, net of income tax      | 0.01  |                      | 0.01                 | (0.71)               |
| Net earnings (loss) per share                                      | \$ 0.49   | \$ 0.29              | \$ 1.49              | \$ (7.43)            |
| Net earnings (loss) per share - diluted:                           |   |                      |                      |                      |
| Net income (loss) from continuing operations                       | \$ 0.47   | \$ 0.29              | \$ 1.44              | \$ (6.72)            |
| Income (loss) from discontinued operations, net of income tax      | 0.01  |                      | 0.01                 | (0.71)               |
| Net earnings (loss) per share                                      | \$ 0.48   | \$ 0.29              | \$ 1.45              | \$ (7.43)            |

Weighted average common shares and class B preferred ordinary shares (in thousands), used in computing net earnings (loss) per share:

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|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 28,425 | 28,020 | 28,329 | 18,195 |
| Diluted | 28,867 | 28,581 | 29,031 | 18,195 |

Pro forma net earnings (loss) per common share  
from continuing operations (a)

|         |         |         |         |           |
|---------|---------|---------|---------|-----------|
| Basic   | \$ 0.48 | \$ 0.29 | \$ 1.48 | \$ (4.78) |
| Diluted | \$ 0.47 | \$ 0.29 | \$ 1.44 | \$ (4.78) |

Weighted-average common shares (in thousands),  
used in computing the pro forma net earnings (loss)  
per share:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 28,425 | 28,020 | 28,329 | 25,583 |
| Diluted | 28,867 | 28,581 | 29,031 | 25,583 |

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(a) Pro forma net earnings (loss) per share reflects the effect on the year ended November 30, 2004 of the conversion of Xyratex Group Limited class A and class B preferred ordinary shares and class C ordinary shares to common shares of Xyratex Ltd on completion of its initial public offering, on June 29, 2004, by assuming the conversion had taken place at the beginning of the year.

## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

|  | November 30,<br>2005                     | November 30,<br>2004 |
|--|--|----------------------|
|  | (US dollars and amounts in<br>thousands) |                      |
| <b>ASSETS</b>  |  |                      |
| <b>Current assets:</b>   |  |                      |
| Cash and cash equivalents  | \$ 41,240                                | \$ 63,495            |
| Accounts receivable, net   | 82,449                                   | 49,656               |
| Inventories  | 71,543                                   | 43,014               |
| Prepaid expenses   | 2,244                                    | 2,594                |
| Deferred income taxes  | 6,480                                    | 6,774                |
| Other current assets   | 3,236                                    | 2,855                |
| <b>Total current assets</b>  | <b>207,192</b>                           | <b>168,388</b>       |
| Property, plant and equipment, net   | 25,643                                   | 14,495               |
| Intangible assets, net   | 50,904                                   | 7,911                |
| Deferred income taxes  | 17,551                                   | 14,448               |
| <b>Total assets</b>  | <b>\$ 301,290</b>                        | <b>\$ 205,242</b>    |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |  |                      |
| <b>Current liabilities:</b>  |  |                      |
| Accounts payable   | \$ 79,927                                | \$ 47,067            |
| Acquisition note payable   | 3,000                                    | 2,000                |
| Short-term borrowings  | 4,000                                    | 4,000                |
| Employee compensation and benefits payable   | 13,620                                   | 10,811               |
| Deferred revenue   | 16,434                                   | 1,887                |
| Income taxes payable   | 421                                      | 462                  |
| Deferred income taxes  |  | 536                  |
| Other accrued liabilities  | 15,506                                   | 10,778               |
| <b>Total current liabilities</b>   | <b>132,908</b>                           | <b>77,541</b>        |
| Long-term debt   | 7,000                                    | 11,000               |
| <b>Total liabilities</b>   | <b>139,908</b>                           | <b>88,541</b>        |
| <b>Shareholders equity</b>   |  |                      |
| Common shares of Xyratex Ltd (in thousands), par value \$0.01 per share 70,000 authorized,<br>28,437 and 28,043 issued and outstanding | 284                                      | 280                  |
| Additional paid-in capital   | 333,886                                  | 329,267              |
| Accumulated other comprehensive income (loss)  | (1,356)                                  | 755                  |
| Accumulated deficit  | (171,432)                                | (213,601)            |
| <b>Total shareholders equity</b>   | <b>161,382</b>                           | <b>116,701</b>       |
| <b>Total liabilities and shareholders equity</b>   | <b>\$ 301,290</b>                        | <b>\$ 205,242</b>    |

## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Year Ended                |                      |
|--|---------------------------|----------------------|
|  | November 30,<br>2005      | November 30,<br>2004 |
|  | (US dollars in thousands) |                      |
| <b>Cash flows from operating activities:</b>   |                           |                      |
| Net income (loss) from continuing operations   | \$ 41,889                 | \$ (122,245)         |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                           |                      |
| Depreciation   | 6,694                     | 5,336                |
| Amortization of intangible assets  | 3,218                     | 1,169                |
| In process research and development  | 1,000                     | 852                  |
| Non-cash equity compensation   | 828                       | 168,149              |
| Bonus paid by trust  | 144                       |                      |
| Loss (gain) on sale of assets  | 90                        | (36)                 |
| Supplier note receivable   |                           | (6,000)              |
| Changes in assets and liabilities, net of impact of acquisitions and divestitures        |                           |                      |
| Accounts receivable  | (29,272)                  | (6,695)              |
| Inventories  | (16,297)                  | (2,084)              |
| Prepaid expenses and other current assets  | (542)                     | 244                  |
| Accounts payable   | 25,668                    | 4,251                |
| Customer advance   |                           | (1,073)              |
| Employee compensation and benefits payable   | 2,474                     | (1,610)              |
| Deferred revenue   | (2,560)                   | (11,093)             |
| Income taxes payable   | (643)                     | 147                  |
| Deferred income taxes  | 4,403                     | (7,709)              |
| Other accrued liabilities  | (1,558)                   | 1,234                |
| Net cash provided by operating activities  | 35,536                    | 22,837               |
| <b>Cash flows from investing activities:</b>   |                           |                      |
| Investments in property, plant and equipment   | (17,070)                  | (8,985)              |
| Dispositions of property, plant and equipment  |                           | 36                   |
| Acquisition of business, net of cash received  | (32,043)                  | (7,418)              |
| Repayment of supplier note receivable  |                           | 6,000                |
| Net cash used in investing activities  | (49,113)                  | (10,367)             |
| <b>Cash flows from financing activities:</b>   |                           |                      |
| Net payments of short-term borrowings  | (9,133)                   | (4,133)              |
| Payment of acquisition note payable  | (2,000)                   |                      |
| Proceeds from issuance of shares   | 2,175                     | 53,150               |
| Net cash provided by (used in) financing activities                                      | (8,958)                   | 49,017               |
| Net cash provided by discontinued operations   | 280                       |                      |
| Change in cash and cash equivalents  | (22,255)                  | 61,487               |
| Cash and cash equivalents at beginning of period   | 63,495                    | 2,008                |
| Cash and cash equivalents at end of period   | \$ 41,240                 | \$ 63,495            |

## XYRATEX LTD

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

|  | GAAP<br>November 30,<br>2005                        | Three Months Ended<br>Non-GAAP<br>Adjustment<br>(a) | Non-GAAP<br>November 30,<br>2005 |
|--|---|---|----------------------------------|
|  | (US dollars in thousands, except per share amounts) |   |                                  |
| Revenues   | \$ 203,564  |   | \$ 203,564                       |
| Cost of revenues   | 159,334   |   | 159,334                          |
| Gross profit   | 44,230  |   | 44,230                           |
| Operating expenses:  |   |   |                                  |
| Research and development - other   | 16,845  | (830)   | 16,015                           |
| Total research and development   | 16,845  |   | 16,015                           |
| Selling, general and administrative - non cash equity compensation                                     | 207   | (207)   |                                  |
| Selling, general and administrative - other  | 11,531  |   | 11,531                           |
| Total selling, general and administrative  | 11,738  |   | 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 for income taxes   | (394)   | 1,701   | 1,307                            |
| Net income   | \$ 13,539   |   | \$ 15,533                        |
| Pro forma net earnings per common share  |   |   |                                  |
| Basic  | \$ 0.48   |   | \$ 0.55                          |
| Diluted  | \$ 0.47   |   | \$ 0.54                          |
| Weighted-average common shares (in thousands), used in computing the pro forma net earnings per share: |   |   |                                  |
| Basic  | 28,425  |   | 28,425                           |
| Diluted  | 28,867  |   | 28,867                           |

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|  | GAAP<br>November 30,<br>2005                        | Year Ended<br>Non-GAAP<br>Adjustment<br>(a) | Non-GAAP<br>November 30,<br>2005 |
|--|---|---|----------------------------------|
|  | (US dollars in thousands, except per share amounts) |   |                                  |
| Revenues   | \$ 679,609  |   | \$ 679,609                       |
| Cost of revenues   | 535,315   |   | 535,315                          |
| Gross profit   | 144,294   |   | 144,294                          |
| Operating expenses:  |   |   |                                  |
| Research and development - other   | 54,327  | (830)                                       | 53,497                           |
| Total research and development   | 54,327  |   | 53,497                           |
| Selling, general and administrative - non cash equity compensation                                     | 828   | (828)                                       |                                  |
| Selling, general and administrative - other  | 38,014  |   | 38,014                           |
| Total selling, general and administrative  | 38,842  |   | 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   | \$ 41,889   |   | \$ 46,948                        |
| Pro forma net earnings per common share  |   |   |                                  |
| Basic  | \$ 1.48   |   | \$ 1.66                          |
| Diluted  | \$ 1.44   |   | \$ 1.62                          |
| Weighted-average common shares (in thousands), used in computing the pro forma net earnings per share: |   |   |                                  |
| Basic  | 28,329  |   | 28,329                           |
| Diluted  | 29,031  |   | 29,031                           |

|  | <b>GAAP</b>         | <b>Three Months Ended</b> | <b>Non-GAAP</b>     |
|--|---------------------|---------------------------|---------------------|
|  | <b>November 30,</b> | <b>Non-GAAP</b>           | <b>Non-GAAP</b>     |
|  | <b>2004</b>         | <b>Adjustment</b>         | <b>November 30,</b> |
|  |                     | <b>(a)</b>                | <b>2004</b>         |

(US dollars in thousands, except per share amounts)

|  |    |         |       |    |         |
|--|----|---------|-------|----|---------|
| Revenues   | \$ | 116,701 |       | \$ | 116,701 |
| Cost of revenues - non cash equity compensation  |    | 36      | (36)  |    |         |
| Cost of revenues - other   |    | 92,451  |       |    | 92,451  |
| Total cost of revenues   |    | 92,487  |       |    | 92,451  |
| Gross profit   |    | 24,214  |       |    | 24,250  |
| Operating expenses:  |    |         |       |    |         |
| Research and development - non cash equity compensation  |    | 83      | (83)  |    |         |
| Research and development - other   |    | 10,597  |       |    | 10,597  |
| Total research and development   |    | 10,680  |       |    | 10,597  |
| Selling, general and administrative - non cash equity compensation                                 |    | 478     | (478) |    |         |
| Selling, general and administrative - other  |    | 7,884   |       |    | 7,884   |
| Total selling, general and administrative  |    | 8,362   |       |    | 7,884   |
| Amortization of intangible assets  |    | 397     | (397) |    |         |
| In process research and development  |    | 852     | (852) |    |         |
| Other costs  |    | (201)   | 201   |    |         |
| Total operating expenses   |    | 20,090  |       |    | 18,481  |
| Operating income (loss)  |    | 4,124   |       |    | 5,769   |
| Interest income, net   |    | 147     |       |    | 147     |
| Income (loss) from continuing operations before income taxes                                       |    | 4,271   |       |    | 5,916   |
| Provision (benefit) for income taxes   |    | (3,937) | 4,409 |    | 472     |
| Net income (loss) from continuing operations   | \$ | 8,208   |       | \$ | 5,444   |
| Pro forma net earnings per common share  |    |         |       |    |         |
| Basic  | \$ | 0.29    |       | \$ | 0.19    |
| Diluted  | \$ | 0.29    |       | \$ | 0.19    |
| Weighted-average common shares (in thousands), used in computing pro forma net earnings per share: |    |         |       |    |         |
| Basic  |    | 28,020  |       |    | 28,020  |
| Diluted  |    | 28,581  |       |    | 28,581  |



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|  | GAAP<br>November 30,<br>2004 | Year Ended<br>Non-GAAP<br>Adjustment<br>(a) | Non-GAAP<br>November 30,<br>2004 |
|--|------------------------------|---|----------------------------------|
| (US dollars in thousands, except per share amounts)  |                              |   |                                  |
| Revenues   | \$ 459,014                   |   | \$ 459,014                       |
| Cost of revenues - non cash equity compensation  | 7,827                        | (7,827)                                     |                                  |
| Cost of revenues - other   | 356,558                      |   | 356,558                          |
| Total cost of revenues   | 364,385                      |   | 356,558                          |
| Gross profit   | 94,629                       |   | 102,456                          |
| Operating expenses:  |                              |   |                                  |
| Research and development - development arrangement   | (6,000)                      | 6,000                                       |                                  |
| Research and development - non cash equity compensation  | 23,959                       | (23,959)                                    |                                  |
| Research and development - other   | 37,429                       |   | 37,429                           |
| Total research and development   | 55,388                       |   | 37,429                           |
| Selling, general and administrative - non cash equity compensation                                 | 136,363                      | (136,363)                                   |                                  |
| Selling, general and administrative - other  | 28,005                       |   | 28,005                           |
| Total selling, general and administrative  | 164,368                      |   | 28,005                           |
| Amortization of intangible assets  | 1,169                        | (1,169)                                     |                                  |
| In process research and development  | 852                          | (852)                                       |                                  |
| Other costs  | 2,388                        | (2,388)                                     |                                  |
| Total operating expenses   | 224,165                      |   | 65,434                           |
| Operating income (loss)  | (129,536)                    |   | 37,022                           |
| Interest income (expense), net   | 1,052                        | (933)                                       | 119                              |
| Income (loss) from continuing operations before income taxes                                       | (128,484)                    |   | 37,141                           |
| Provision (benefit) for income taxes   | (6,239)                      | 12,534                                      | 6,295                            |
| Net income (loss) from continuing operations   | \$ (122,245)                 |   | \$ 30,846                        |
| Pro forma net earnings per common share  |                              |   |                                  |
| Basic  | \$ (4.78)                    |   | \$ 1.21                          |
| Diluted  | \$ (4.78)                    |   | \$ 1.18                          |
| Weighted-average common shares (in thousands), used in computing pro forma net earnings per share: |                              |   |                                  |
| Basic  | 25,583                       |   | 25,583                           |
| Diluted  | 25,583                       |   | 26,225                           |

(a) Non-GAAP Adjustment for the three and twelve month periods ended November 30, 2005 includes non-cash amortization of intangible assets and in process research and development expense and the related tax effects and non-cash equity compensation expense. Non-GAAP Adjustment in these periods also includes expenses of \$830,000 resulting from withdrawing from a major research and development project and the related tax effect and a tax benefit of \$864,000 resulting from a reorganization of our legal structure. Non-GAAP Adjustment for the three and twelve month periods ended November 30, 2004 includes non cash equity compensation expense and the related tax effect, non-cash amortization of intangible assets and the related tax effect and in process research and development expense and the related tax effect. Non-GAAP Adjustment for the twelve months ended November 30, 2004 also includes elimination of the bad debt allowance on a supplier loan of \$6,000,000 and accrued interest of \$933,000 together with the related tax on the accrued interest and expenses recorded in connection with our preparation for our initial public offering.

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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.

(b) Pro forma net earnings per share reflects the effect on the year ended November 30, 2004 of the conversion of Xyratex Group Limited class A and class B preferred ordinary shares and class C ordinary shares to common shares of Xyratex Ltd on completion of its initial public offering, on June 29, 2004, by assuming the conversion had taken place at the beginning of the year.