

XYRATEX LTD  
Form 6-K  
September 20, 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

September 20, 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

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

**20 SEPTEMBER 2006**

**Xyratex Ltd Announces Results for the Third Quarter Fiscal Year 2006**

Q3 Revenues \$263.1 million, up 60.5% Year over Year

**Havant, UK September 20, 2006** Xyratex Ltd (Nasdaq: XRTX), a leading provider of modular enterprise class data storage subsystems and storage process technology, today announced results for the third fiscal quarter ended August 31, 2006. Revenues for the third quarter were \$263.1 million, an increase of 60.5% compared to revenues of \$163.9 million for the same period last year.

For the third quarter, GAAP net income was \$17.8 million, or \$0.60 per diluted share, compared to GAAP net income of \$7.9 million, or \$0.27 per diluted share, in the same period last year. Non-GAAP net income increased 139.3% to \$20.3 million, or a diluted earnings per share of \$0.68, compared to non-GAAP net income of \$8.5 million, or \$0.29 per diluted share, 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 Unaudited Condensed Consolidated Statements of Cash Flows, below.

Gross profit margin on a GAAP basis in the third quarter was 21.1%, compared to 20.2% in the same period last year. The increase in gross margin reflects the increase in Storage Infrastructure revenue as a proportion of total revenue.

Revenues from sales of our Storage and Network Systems products were \$148.6 million as compared to \$104.8 million in the third quarter last year, an increase of 41.8%. Gross profit margin in the Storage and Network Systems business was 14.1% as compared to 15.2% in the third quarter last year. Revenues from sales of our Storage Infrastructure products were \$114.6 million as compared to \$59.2 million in the third quarter last year, an increase of 93.7%. Gross profit margin in the Storage Infrastructure business was 30.5% as compared to 29.1% in the third quarter last year.

Xyratex had another very solid quarter with strong revenue growth across both businesses. We executed well and were able to meet the accelerated installation schedules of our Storage Infrastructure customers, said Steve Barber, CEO of Xyratex. Our new products and customers are gaining momentum in the market. We believe we are well positioned going forward to support our disk drive customers during this period of marketshare adjustment following the Seagate acquisition of Maxtor and we remain confident in the positive industry dynamics that are providing significant opportunities for our storage products over the long-term.

**Business Highlights**

- We secured new design wins with Intel, Bull, EqualLogic, and 3PAR. We continue to be partnered with companies who we believe are well positioned in their respective market spaces; with EqualLogic positioned as a leading provider of enterprise-class iSCSI storage area network (SAN) solutions and 3PAR, a leading provider of Utility Storage.

- We announced in September 2006 the establishment of Nihon Xyratex KK (Xyratex Japan, Ltd.). The company's new Japanese headquarters will be founded through Xyratex's acquisition of Jastam Trading Co. Ltd. of Tokyo, Japan, a full service broker for equipment suppliers to high technology customers. The formation of Xyratex Japan, Ltd. supports Xyratex's strategy to expand its Storage Infrastructure and Storage and Network Systems portfolio of solutions into the Asia-Pacific market.
- We confirmed that Hitachi Global Storage Technologies has started its evaluation of an automated Production Test System. Xyratex has shipped and installed the evaluation unit at Hitachi's Fujisawa, Japan facility.
- We announced the new X700 system high-speed media test automation solution. The X700 is based on many of Xyratex's proven test automation elements, and offers substrate and media manufacturers the benefits of ultra-small footprint and 700 disks per hour output, in a fully self-contained, third-party certified class 10 enclosure.
- We announced that we are the first storage subsystem manufacturer to qualify the new Seagate 300GB Cheetah 15K.5, 4Gbit/sec, Fibre Channel (FC) disc drive. Seagate's Cheetah 15K.5 disc drive has been fully integrated into Xyratex's RS-1600-F4-SBD 4Gb FC SBOD storage system and is also fully qualified in all Xyratex's legacy Fibre Channel RAID, SBOD and JBOD solutions. The Seagate Cheetah 15K.5 disc drive is Seagate's first 4Gbit/sec disc drive to be based on perpendicular recording.
- We confirmed that we are in full compliance with the European directive 2002/95/EC on the Restriction of Hazardous Substances (RoHS) for all of our products placed on the market within the European Union. Fulfillment of the RoHS directive is part of Xyratex's overall strategic initiative to comply with the requirements of ISO14001 and global environmental programs for its worldwide operations.

#### **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, except for the acquisition of Jastam, described above.

- Revenue in the fourth quarter of 2006 is projected to be in the range \$215 to \$230 million.
- Fully diluted earnings per share is anticipated to be between \$0.17 and \$0.27 on a GAAP basis in the fourth quarter. On a non-GAAP basis, fully diluted earnings per share is anticipated to be between \$0.24 and \$0.34.  
Non-GAAP earnings per

share excludes non-cash equity compensation, amortization of intangible assets 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 Wednesday, September 20, 2006.

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) 599-9795 |
| Outside the United States | (617) 786-2905 |
| Passcode                  | 13304474       |

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 September 27, 2006 as follows:

|                           |                |
|---------------------------|----------------|
| United States             | (888) 286-8010 |
| Outside the United States | (617) 801-6888 |
| Passcode                  | 38770400       |

**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 fourth 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, 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, 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 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).

**Contacts:**

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## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Three Months Ended,<br>August 31,<br>2006 | August 31,<br>2005 | Nine Months Ended<br>August 31,<br>2006 | August 31,<br>2005 |
|--|---|--------------------|---|--------------------|
| (US dollars in thousands, except per share amounts)                                      |   |                    |   |                    |
| Revenues:  |   |                    |   |                    |
| Storage and Network Systems  | \$ 148,566                                | \$ 104,757         | \$ 431,134                              | \$ 294,179         |
| Storage Infrastructure   | 114,572                                   | 59,161             | 311,403                                 | 181,866            |
| Total revenues   | 263,138                                   | 163,918            | 742,537                                 | 476,045            |
| Cost of revenues   | 207,488                                   | 130,788            | 587,289                                 | 375,981            |
| Gross profit:  |   |                    |   |                    |
| Storage and Network Systems  | 20,933                                    | 15,895             | 60,948                                  | 46,145             |
| Storage Infrastructure   | 34,999                                    | 17,235             | 94,943                                  | 53,919             |
| Equity compensation  | (282 )                                    |                    | (643 )                                  |                    |
| Total gross profit   | 55,650                                    | 33,130             | 155,248                                 | 100,064            |
| Operating expenses:  |   |                    |   |                    |
| Research and development   | 18,061                                    | 14,062             | 53,925                                  | 37,482             |
| Selling, general and administrative  | 15,764                                    | 9,404              | 44,582                                  | 27,104             |
| Amortization of intangible assets  | 1,318                                     | 834                | 3,693                                   | 1,560              |
| In process research and development  |   |                    |   | 2,230              |
| Total operating expenses   | 35,143                                    | 24,300             | 102,200                                 | 68,376             |
| Operating income   | 20,507                                    | 8,830              | 53,048                                  | 31,688             |
| Other income   |   |                    | 1,965                                   |                    |
| Interest income, net   | 429                                       | 351                | 867                                     | 1,020              |
| Income before income taxes   | 20,936                                    | 9,181              | 55,880                                  | 32,708             |
| Provision for income taxes   | 3,125                                     | 1,324              | 7,056                                   | 4,358              |
| Net income   | 17,811                                    | 7,857              | 48,824                                  | 28,350             |
| Net earnings per share:  |   |                    |   |                    |
| Basic  | \$ 0.62                                   | \$ 0.28            | \$ 1.71                                 | \$ 1.00            |
| Diluted  | \$ 0.60                                   | \$ 0.27            | \$ 1.66                                 | \$ 0.98            |
| Weighted average common shares (in thousands), used in computing net earnings per share: |   |                    |   |                    |
| Basic  | 28,727                                    | 28,413             | 28,635                                  | 28,302             |
| Diluted  | 29,516                                    | 29,079             | 29,499                                  | 29,052             |

## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

|  | August 31,<br>2006<br>(US dollars and amounts in<br>thousands) | November 30,<br>2005 |
|--|--|----------------------|
| <b>ASSETS</b>  |  |                      |
| <b>Current assets:</b>   |  |                      |
| Cash and cash equivalents  | \$ 43,995  | \$ 41,240            |
| Accounts receivable, net   | 114,521  | 82,449               |
| Inventories  | 127,776  | 71,543               |
| Prepaid expenses   | 2,915  | 2,244                |
| Deferred income taxes  | 7,270  | 6,480                |
| Other current assets   | 6,223  | 3,236                |
| <b>Total current assets</b>  | <b>302,700</b>   | <b>207,192</b>       |
| Property, plant and equipment, net   | 33,141   | 25,643               |
| Intangible assets, net   | 58,441   | 50,904               |
| Deferred income taxes  | 9,402  | 17,551               |
| <b>Total assets</b>  | <b>\$ 403,684</b>  | <b>\$ 301,290</b>    |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |  |                      |
| <b>Current liabilities:</b>  |  |                      |
| Accounts payable   | \$ 120,069   | \$ 79,927            |
| Acquisition note payable   |  | 3,000                |
| Short-term borrowings  | 4,000  | 4,000                |
| Employee compensation and benefits payable   | 15,912   | 13,620               |
| Deferred revenue   | 20,056   | 16,434               |
| Income taxes payable   | 476  | 421                  |
| Other accrued liabilities  | 17,071   | 15,506               |
| <b>Total current liabilities</b>   | <b>177,584</b>   | <b>132,908</b>       |
| Long-term debt   | 4,000  | 7,000                |
| <b>Total liabilities</b>   | <b>181,584</b>   | <b>139,908</b>       |
| <b>Shareholders equity</b>   |  |                      |
| Common shares of Xyratex Ltd (in thousands), par value \$0.01 per share<br>70,000 authorized, 28,739 and 28,437 issued and outstanding | 287  | 284                  |
| Additional paid-in capital   | 342,342  | 333,886              |
| Accumulated other comprehensive income (loss)  | 2,079  | (1,356 )             |
| Accumulated deficit  | (122,608 )   | (171,432 )           |
| <b>Total shareholders equity</b>   | <b>222,100</b>   | <b>161,382</b>       |
| <b>Total liabilities and shareholders equity</b>   | <b>\$ 403,684</b>  | <b>\$ 301,290</b>    |

## XYRATEX LTD

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Nine Months Ended<br>August 31,<br>2006<br>(US dollars in thousands) | August 31,<br>2005 |
|---|--|--------------------|
| <b>Cash flows from operating activities:</b>                                      |  |                    |
| Net income from continuing operations   | \$ 48,824  | \$ 28,350          |
| Adjustments to reconcile net income to net cash used in operating activities:     |  |                    |
| Depreciation  | 7,066  | 4,952              |
| Amortization of intangible assets   | 3,693  | 1,560              |
| Non-cash equity compensation  | 5,376  | 621                |
| Bonus paid by trust   |  | 144                |
| Loss on sale of assets  | 265  |                    |
| Changes in assets and liabilities, net of impact of acquisitions and divestitures |  |                    |
| Accounts receivable   | (32,072 )  | (11,376 )          |
| Inventories   | (56,233 )  | (26,689 )          |
| Prepaid expenses and other current assets   | 91   | (2,648 )           |
| Accounts payable  | 40,142   | 14,113             |
| Employee compensation and benefits payable  | 2,292  | 189                |
| Deferred revenue  | 3,622  | 5,604              |
| Income taxes payable  | (760 )   | (183 )             |
| Deferred income taxes   | 7,137  | 5,172              |
| Other accrued liabilities   | 3,775  | 734                |
| Net cash provided by operating activities   | 33,218   | 20,543             |
| <b>Cash flows from investing activities:</b>                                      |  |                    |
| Investments in property, plant and equipment                                      | (15,591 )  | (9,666 )           |
| Loan to acquiree company  |  | (2,500 )           |
| Acquisition of intangible assets  | (4,000 )   |                    |
| Acquisition of business, net of cash received                                     | (7,955 )   | (6,473 )           |
| Net cash used in investing activities   | (27,546 )  | (18,639 )          |
| <b>Cash flows from financing activities:</b>                                      |  |                    |
| Payments of long-term borrowings  | (3,000 )   | (3,000 )           |
| Payment of acquisition note payable   | (3,000 )   | (2,000 )           |
| Proceeds from issuance of shares  | 3,083  | 2,041              |
| Net cash used in financing activities   | (2,917 )   | (2,959 )           |
| Change in cash and cash equivalents   | 2,755  | (1,055 )           |
| Cash and cash equivalents at beginning of period                                  | 41,240   | 63,495             |
| Cash and cash equivalents at end of period  | \$ 43,995  | \$ 62,440          |



## XYRATEX LTD

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

|   | Three Months Ended<br>GAAP<br>August 31,<br>2006<br>(US dollars in thousands, except per share amounts) | Non-GAAP<br>Adjustment<br>(a) | Non-GAAP<br>August 31,<br>2006 |
|---|---|-------------------------------|--------------------------------|
| <b>Revenues:</b>  |   |                               |                                |
| Storage and Network Systems   | \$ 148,566  |                               | \$ 148,566                     |
| Storage Infrastructure  | 114,572   |                               | 114,572                        |
| Total revenues  | 263,138   |                               | 263,138                        |
| Cost of revenues  | 207,488   | (282 )                        | 207,206                        |
| <b>Gross profit:</b>  |   |                               |                                |
| Storage and Network Systems   | 20,933  |                               | 20,933                         |
| Storage Infrastructure  | 34,999  |                               | 34,999                         |
| Equity compensation   | (282 )  | 282                           |                                |
| Total gross profit  | 55,650  |                               | 55,932                         |
| <b>Operating expenses:</b>  |   |                               |                                |
| Research and development  | 18,061  | (586 )                        | 17,475                         |
| Selling, general and administrative   | 15,764  | (1,184 )                      | 14,580                         |
| Amortization of intangible assets   | 1,318   | (1,318 )                      |                                |
| Total operating expenses  | 35,143  |                               | 32,055                         |
| Operating income  | 20,507  |                               | 23,877                         |
| Interest income, net  | 429   |                               | 429                            |
| Income before income taxes  | 20,936  |                               | 24,306                         |
| Provision for income taxes  | 3,125   | 908                           | 4,033                          |
| Net income  | 17,811  |                               | 20,273                         |
| <b>Net earnings per share:</b>  |   |                               |                                |
| Basic   | \$ 0.62   |                               | \$ 0.71                        |
| Diluted   | \$ 0.60   |                               | \$ 0.68                        |
| <b>Weighted average common shares (in thousands), used in computing net earnings per share:</b> |   |                               |                                |
| Basic   | 28,727  |                               | 28,727                         |
| Diluted   | 29,516  | 499                           | 30,015                         |

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|   | <b>Nine Months Ended</b>                                   |                   |                   |
|---|--|-------------------|-------------------|
|   | <b>GAAP</b>  | <b>Non-GAAP</b>   | <b>Non-GAAP</b>   |
|   | <b>August 31,</b>  | <b>Adjustment</b> | <b>August 31,</b> |
|   | <b>2006</b>  | <b>(a)</b>        | <b>2006</b>       |
|   | <b>(US dollars in thousands, except per share amounts)</b> |                   |                   |
| <b>Revenues:</b>  |  |                   |                   |
| Storage and Network Systems   | \$ 431,134   |                   | \$ 431,134        |
| Storage Infrastructure  | 311,403  |                   | 311,403           |
| Total revenues  | 742,537  |                   | 742,537           |
| Cost of revenues  | 587,289  | (643 )            | 586,646           |
| <b>Gross profit:</b>  |  |                   |                   |
| Storage and Network Systems   | 60,948   |                   | 60,948            |
| Storage Infrastructure  | 94,943   |                   | 94,943            |
| Equity compensation   | (643 )   | 643               |                   |
| Total gross profit  | 155,248  |                   | 155,891           |
| <b>Operating expenses:</b>  |  |                   |                   |
| Research and development  | 53,925   | (1,405 )          | 52,520            |
| Selling, general and administrative   | 44,582   | (3,328 )          | 41,254            |
| Amortization of intangible assets   | 3,693  | (3,693 )          |                   |
| Total operating expenses  | 102,200  |                   | 93,774            |
| Operating income  | 53,048   |                   | 62,117            |
| Other income  | 1,965  | (1,965 )          |                   |
| Interest income, net  | 867  |                   | 867               |
| Income before income taxes  | 55,880   |                   | 62,984            |
| Provision for income taxes  | 7,056  | 1,861             | 8,917             |
| Net income  | 48,824   |                   | 54,067            |
| <b>Net earnings per share:</b>  |  |                   |                   |
| Basic   | \$ 1.71  |                   | \$ 1.89           |
| Diluted   | \$ 1.66  |                   | \$ 1.81           |
| <b>Weighted average common shares (in thousands), used in computing net earnings per share:</b> |  |                   |                   |
| Basic   | 28,635   |                   | 28,635            |
| Diluted   | 29,499   | 345               | 29,844            |

|   | <b>Three Months Ended<br/>GAAP<br/>August 31,<br/>2005</b> | <b>Non-GAAP<br/>Adjustment<br/>(a)</b> | <b>Non-GAAP<br/>August 31,<br/>2005</b> |
|---|--|--|---|
| (US dollars in thousands, except per share amounts)   |  |  |   |
| <b>Revenues:</b>  |  |  |   |
| Storage and Network Systems   | \$ 104,757   |  | \$ 104,757                              |
| Storage Infrastructure  | 59,161   |  | 59,161                                  |
| Total revenues  | 163,918  |  | 163,918                                 |
| Cost of revenues  | 130,788  |  | 130,788                                 |
| <b>Gross profit:</b>  |  |  |   |
| Storage and Network Systems   | 15,895   |  | 15,895                                  |
| Storage Infrastructure  | 17,235   |  | 17,235                                  |
| Total gross profit  | 33,130   |  | 33,130                                  |
| <b>Operating expenses:</b>  |  |  |   |
| Research and development  | 14,062   |  | 14,062                                  |
| Selling, general and administrative   | 9,404  | (240 )                                 | 9,164                                   |
| Amortization of intangible assets   | 834  | (834 )                                 |   |
| In process research and development   |  |  |   |
| Total operating expenses  | 24,300   |  | 23,226                                  |
| Operating income  | 8,830  |  | 9,904                                   |
| Interest income, net  | 351  |  | 351                                     |
| Income before income taxes  | 9,181  |  | 10,255                                  |
| Provision for income taxes  | 1,324  | 459                                    | 1,783                                   |
| Net income  | 7,857  |  | 8,472                                   |
| <b>Net earnings per share:</b>  |  |  |   |
| Basic   | \$ 0.28  |  | \$ 0.30                                 |
| Diluted   | \$ 0.27  |  | \$ 0.29                                 |
| <b>Weighted average common shares (in thousands), used in computing net earnings per share:</b> |  |  |   |
| Basic   | 28,413   |  | 28,413                                  |
| Diluted   | 29,079   |  | 29,079                                  |

|   | <b>Nine Months Ended</b>                                   |                   |                   |
|---|--|-------------------|-------------------|
|   | <b>GAAP</b>  | <b>Non-GAAP</b>   | <b>Non-GAAP</b>   |
|   | <b>August 31,</b>  | <b>Adjustment</b> | <b>August 31,</b> |
|   | <b>2005</b>  | <b>(a)</b>        | <b>2005</b>       |
|   | <b>(US dollars in thousands, except per share amounts)</b> |                   |                   |
| <b>Revenues:</b>  |  |                   |                   |
| Storage and Network Systems   | \$ 294,179   |                   | \$ 294,179        |
| Storage Infrastructure  | 181,866  |                   | 181,866           |
| Total revenues  | 476,045  |                   | 476,045           |
| Cost of revenues  | 375,981  |                   | 375,981           |
| <b>Gross profit:</b>  |  |                   |                   |
| Storage and Network Systems   | 46,145   |                   | 46,145            |
| Storage Infrastructure  | 53,919   |                   | 53,919            |
| Total gross profit  | 100,064  |                   | 100,064           |
| <b>Operating expenses:</b>  |  |                   |                   |
| Research and development  | 37,482   |                   | 37,482            |
| Selling, general and administrative   | 27,104   | (621 )            | 26,483            |
| Amortization of intangible assets   | 1,560  | (1,560 )          |                   |
| In process research and development   | 2,230  | (2,230 )          |                   |
| Total operating expenses  | 68,376   |                   | 63,965            |
| Operating income  | 31,688   |                   | 36,099            |
| Interest income, net  | 1,020  |                   | 1,020             |
| Income before income taxes  | 32,708   |                   | 37,119            |
| Provision for income taxes  | 4,358  | 1,346             | 5,704             |
| Net income  | 28,350   |                   | 31,415            |
| <b>Net earnings per share:</b>  |  |                   |                   |
| Basic   | \$ 1.00  |                   | \$ 1.11           |
| Diluted   | \$ 0.98  |                   | \$ 1.08           |
| <b>Weighted average common shares (in thousands), used in computing net earnings per share:</b> |  |                   |                   |
| Basic   | 28,302   |                   | 28,302            |
| Diluted   | 29,052   |                   | 29,052            |

(a) Non-GAAP Adjustment for the three and nine month periods ended August 31, 2006 and August 31, 2005 includes non-cash amortization of intangible assets and non-cash equity compensation expense. Non-GAAP Adjustment for the nine month period ended August 31, 2006 also includes income from the sale of a product line. Non-GAAP Adjustment for the nine month period ended August 31, 2005 also includes in-process research and development expense. 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: September 20, 2006