XYRATEX LTD
Form 6-K
October 15, 2007

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

October 15, 2007 **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 October 15, 2007 - Xyratex Ltd (Nasdaq: XRTX) today released the following financial information for the third quarter of its 2007 fiscal year, ending August 31, 2007:

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 and Storage Infrastructure.

Our Networked Storage Solutions products are primarily storage subsystems, which we provide to OEMs and our Storage Infrastructure 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 2006 fiscal year, sales to our top two customers, Network Appliance and Seagate Technology accounted for 46% and 28% of our revenues respectively. In the nine months ended August 31, 2007, sales to these customers accounted for 71% of our revenues. We had 49 customers which individually contributed more than $0.5 million to revenues in our 2006 fiscal year and at August 31, 2007 we had over 150 active customers. We enter into joint development projects with our key customers and suppliers in order to research and introduce new technologies and products.

On September 4, 2006, we completed the acquisition of Jastam Trading Co. Ltd. of Tokyo, a full service broker for equipment suppliers to high technology customers. The consideration for the acquisition of $1.7 million was paid in full in cash on completion and approximately represents the fair value of the tangible net assets acquired. The purchase of Jastam will enable us to better support current and potential future customers in Japan and is not expected to have a significant effect on future earnings in the short term.

We have recently completed a number of transactions to enhance the intellectual property base within our Networked Storage Solutions segment and generate income from our existing patent portfolio. These included the acquisition of a specific portfolio of patents from IBM in July 2006, a general patent cross license arrangement with IBM in December 2006 and the acquisition of certain key assets and intellectual property from Ario Data Networks Inc, also in December 2006. This represents a significant injection of intellectual property and will enable us to build more value add features and functions to the technology acquired as part of the acquisition of nStor Technologies, Inc. in September 2005. We also concluded two intellectual property licenses relating to the Xyratex portfolio of patents and filings. In March 2006 we licensed our network analysis patent portfolio and transferred the related product line to Napatech, a programmable network adapter company based in Denmark and in August 2006 we licensed our cross bar switching patent portfolio to Virtensys, a U.K. technology start up. In total these transactions resulted in us recording purchases of intangible and other assets totaling approximately $9.0 million, of which $5.0 million was recorded during the nine months ended August 31, 2007. We recorded other income of $4.1 million related to our license to Napatech, of which a $0.9 million final payment was recorded during the nine months ended August 31, 2007 and the remainder was recorded in our 2006 fiscal year.

Revenues

We derive revenues primarily from the sale of our Networked Storage Solutions products and our Storage Infrastructure products.

Our Networked Storage Solutions products consist primarily of storage subsystems which address three market segments through our OEM customers; Network Attached Storage or NAS, Storage Area Networks or SAN and Capacity Optimized storage. We have continued to see strong growth in each of these market segments over recent fiscal years, particularly through Network Appliance, our main customer addressing these marketplaces. Our customers typically operate across multiple market segments. Capacity Optimized storage is a relatively new segment within the external storage systems market. It is primarily driven by magnetic tape technology being replaced by storage systems containing low cost disk drive technology in the back up and recovery processes within enterprises. The deployment of low cost disk drives is also taking place within the SAN and NAS market segments as IT departments begin to classify their data as part of an information life cycle or corporate data management strategy. Our customers in each market segment currently use the Fibre Channel protocol to access the storage subsystem which can incorporate either high performance Fibre Channel or lower cost ATA/SATA disk drives.

Our Storage Infrastructure revenues are derived from the sale of disk drive manufacturing process equipment directly to manufacturers of disk drives and disk drive components. We have seen growth in these revenues over recent fiscal years, primarily through sales to Seagate Technology. We supply three main product lines in this segment: production test systems, servo track writers and media process technology (comprising media cleaning and media handling automation 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.

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 have reduced in the last two full 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.

Sales of the major portion of our Storage Infrastructure products include an installation element. Revenue for these products is recognized upon installation except that, where there is objective and reliable evidence to support the fair value of installation, or where there is a separate arrangement for the installation, product revenue is recognized upon delivery. In addition, some of our sales contracts provide that a certain percentage of payments are to be made in advance of product delivery, in which case we record these payments as deferred revenue until the product is actually delivered.

We believe that both of our business segments present the opportunity for growth over the next several years. Over the last five fiscal years we have seen growth in demand from our major customers, which we believe relates to factors including increases in the amount of digitally stored information, increased information technology spending, growth in the specific markets which our customers address, the trend towards outsourcing and an increased market share of our customers. Growth in our Storage Infrastructure revenues can also be specifically affected by the growth in shipped volume and increases in the individual storage capacity of disk drives.

The acquisition of Maxtor by Seagate Technology in May 2006 represented a significant consolidation among disk drive suppliers and caused significant changes in market share. We believe these market share changes resulted in an exceptional level of purchases of our equipment in our 2006 fiscal year as our customers invested in new capacity to capture increased market share. In addition we believe Seagate are reutilizing certain Maxtor owned equipment, which was previously planned to be replaced by Xyratex equipment. This surplus capacity and planned reutilization of Maxtor owned equipment has resulted in a significant decline in our revenues during the nine months ended August 31, 2007 relative to the previous fiscal year and whilst the opportunity for growth in the longer term remains, we anticipate that revenues from our Storage Infrastructure products will continue be impacted by these factors during our 2008 fiscal year.

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 $75 million in our 2006 fiscal year) of our non-U.S. dollar operating expenses relate 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 four fiscal years there has been significant volatility in the exchange rate between the U.K. pound and the U.S. dollar. Overall in this period the U.S. dollar has fallen by approximately 18% relative to the U.K. pound. The effect of this volatility and movement is reduced because we have hedged the majority of our exposure to this exchange rate movement for approximately one year ahead. Our 2007 operating expenses will increase by approximately $3.0 million from our 2006 fiscal year as a result this movement, the effect primarily being in the second half of the year. Excluding the effect of future movements in the exchange rate, we anticipate a further increase in our operating expenses of $5.0 million in our 2008 fiscal year.

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, manufacturing volumes and costs of components. The gross margins for our Networked Storage Solutions products tend to be lower than the margins of our Storage Infrastructure 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 2006 fiscal year our research and development expenses related to approximately 46 separate projects covering improving existing products, meeting customer specific requirements and entering new markets, such as development of the Storage Bridge Bay (SBB) compliant Application Storage System.

As of November, 2006 26% of our employees were engaged in our research and development activities. Over recent fiscal years research and development expenses have risen approximately at the level of increase in revenue. Over the longer term we expect this trend to continue. In our 2007 fiscal year, although revenues have declined, we have continued to increase our research and development expenditure. This reflects our continuing commitment to developing products based on advanced technologies and designs to support growth in Networked Storage Solutions revenues and the longer term opportunities for growth of our Storage Infrastructure revenues.

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, information technology 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. To the extent our business continues to grow we would expect these expenses to continue to increase approximately in line with our revenues.

Equity Compensation Expense

We record equity compensation expense using the fair value method required by Financial Accounting Standard (FAS) 123R Share Based Payment . Equity compensation expense calculated under FAS 123R for the nine month periods ended August 31, 2007 and August 31, 2006 was $5.8 million and $5.4 million respectively. We anticipate recording $10.6 million in equity compensation expense over our next four fiscal years for share and option awards outstanding as of August 31, 2007. We also anticipate that this will increase as a result of the granting of additional share based awards in future periods and change as a result of changes in the assumptions on which the calculation of the equity compensation expense is based.

Provision for Income Taxes

We are subject to taxation primarily in the United Kingdom, the United States and Malaysia. Over 90% of our income before income taxes in the last two fiscal years has arisen in the United Kingdom or Malaysia. Since 1998, our Malaysian operations benefited from high-tech pioneer status which provided us with a zero tax rate on substantially all of our income arising in Malaysia. In 2006 we were granted a tax exempt status for our operations in Malaysia until 2012, provided that we meet certain requirements. As of November 30, 2006, we recorded a deferred tax asset of $9.9 million related to loss-carry forwards and other timing differences in the United Kingdom. As a result of loss carry-forwards we have not been required to make any significant U.K. tax payments in recent fiscal years. Of the remaining deferred tax balance of $8.1 million, $4.5 million related to equity compensation expense as described in the next paragraph and $3.3 million related to net operating loss carryforwards recorded in connection with our acquisition of nStor Technologies Inc. in 2005.

Following the introduction of FAS 123R in our 2006 fiscal year, we have recorded equity compensation expense using the fair value method. This has resulted in the recording of a tax benefit of $1.8 million which is included in the deferred tax asset at

November 30, 2006. We also recorded a deferred tax asset of $4.4 million related to equity compensation expense calculated under the intrinsic method prior to our 2006 fiscal year. The realization of these elements of our deferred tax asset is dependent on future share price movements over the next four fiscal years. We anticipate recording any variation to the value of this asset as an adjustment to Additional Paid in Capital.

Tax payments in our 2006 fiscal year amounted to $1.0 million and, due to the beneficial Malaysian tax status and U.K. tax losses, these tax payments related primarily to our U.S. operations. We do not anticipate a significant change in the level of our tax payments in our 2007 fiscal year. The tax expense we recorded in our 2006 fiscal year, primarily related to a reduction in the deferred tax asset arising from the usage of U.K. operating loss carryforwards.

Results from Operations

The following table sets forth, for the periods indicated, selected operating data as a percentage of revenues.

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2007	**2006**	**2007**	**2006**
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	82.1	78.9	82.0	79.1
Gross profit	17.9	21.1	18.0	20.9
Operating expenses:				
Research and development	8.6	6.9	8.5	7.3
Selling, general and administrative	6.9	6.0	6.6	6.0
Amortization of intangible assets	0.6	0.5	0.7	0.5
Operating income	1.8	7.8	2.2	7.1
Net income	1.8	6.8	2.4	6.6
Segment gross profit as a percentage of segment revenues:				
Networked Storage Solutions	14.9	14.1	14.3	14.1
Storage Infrastructure	27.2	30.5	29.2	30.5

Three Months Ended August 31, 2007 Compared to Three Months Ended August 31, 2006

The following is a tabular presentation of our results of operations for the three months ended August 31, 2007 compared to the three months ended August 31, 2006. Following the table is a discussion and analysis of our business and results of operations for such periods.

	Three Months Ended August 31, 2007	Three Months Ended August 31, 2006	Increase / (Decrease) Amount	Increase / (Decrease) %
	US dollars in thousands			
Revenues:				
Networked Storage Solutions	$ 174,004	$ 148,566	$ 25,438	17.1%
Storage Infrastructure	60,210	114,572	(54,362)	(47.4)
Total revenues	234,214	263,138	(28,924)	(10.8)

Cost of revenues		192,274		207,488		(15,214)	(7.3)
Gross profit:							
Networked Storage Solutions		25,847		20,933		4,914	23.5
Storage Infrastructure		16,403		34,999		(18,596)	(53.1)
Equity compensation		(310)		(282)		(28)	
Total gross profit		41,940		55,650		(13,710)	(24.6)
Operating expenses:							
Research and development		20,187		18,061		2,126	11.8
Selling, general and administrative		16,061		15,764		297	1.9
Amortization of intangible assets		1,517		1,318		199	
Operating income		4,175		20,507		(16,332)	(79.6)
Interest income, net		824		429		395	
Provision for income taxes		733		3,125		(2,392)	
Net income	$	4,266	$	17,811	$	(13,545)	(76.0%)

Revenues

The 10.8% decrease in our revenues in the three months ended August 31, 2007 compared to the three months ended August 31, 2006 was attributable to decreased sales of our Storage Infrastructure products being partially offset by an increase in sales of our Networked Storage Solutions products.

Of the $25.4 million, or 17.1%, increase in revenues from sales of our Networked Storage Solutions management estimates that $16.0 million was contributed by a 36% increase in revenues from products incorporating low-cost disk drives. The remaining increase related primarily to growth of approximately 14% in sales of our storage subsystem products incorporating Fibre Channel disk drives. Both of these increases reflected continued growth in our sales to Network Appliance together with increased volumes from other customers, the introduction of new products and the contribution of new customers. We believe this reflects the increasing requirements for storage of digital information, particularly networked storage.

The $54.4 million or 47.4% decrease in revenues from sales of Storage Infrastructure products primarily related to a decrease in demand due to the investment by Seagate Technology in an exceptional level of production capacity in 2006 in connection with its acquisition of Maxtor as described in the overview. As also described in the overview, our revenues from our Storage Infrastructure products are subject to significant fluctuations, particularly between quarters, resulting from our major customers capital expenditure decisions and installation schedules.

Cost of Revenues and Gross Profit

The decrease in cost of revenues and gross profit in the three months ended August 31, 2007 compared to the three months ended August 31, 2006 was primarily due to lower Storage Infrastructure revenues. As a percentage of revenues our gross profit was 17.9% for the three months ended August 31, 2007 compared to 21.1% for the three months ended August 31, 2006. This change was primarily attributable to the increased proportion of revenues from the sales of lower margin Networked Storage Solutions products.

The gross margin for our Networked Storage Solutions products increased to 14.9% in the three months ended August 31, 2007 from 14.1% in the three months ended August 31, 2006, as a result of a number of changes in product and customer mix, none of which were individually significant. These include the effect of improved margins on a number of newer products which now benefit from lower component costs.

The gross margin for Storage Infrastructure products was 27.2% in the three months ended August 31, 2007, compared to 30.5% in the three months ended August 31, 2006. This was primarily a result of fixed costs relative to lower volumes.

In measuring the performance of our business segments from period to period we focus on gross profit by product group, which excludes a non-cash equity compensation charge of $0.3 million for the three months ended August 31, 2007 and $0.3 million for the three months ended August 31, 2006. See Note 11 to our condensed consolidated financial statements for a description of our segments and how we measure segment performance.

Research and Development

The $2.1 million increase in research and development expense in the three months ended August 31, 2007 compared to the three months ended August 31, 2006 primarily relates to increased investment in a number of our Storage Infrastructure product lines, particularly media automation. The increase also included approximately $0.5 million resulting from a change in exchange rates and an increase in the number of employees supporting development of Networked Storage Solutions products. These effects were partially offset by a decrease in employee performance bonuses of $0.9 million.

Selling, General and Administrative

The $0.3 million increase in our selling, general and administrative expense in the three months ended August 31, 2007 compared to the three months ended August 31, 2006 primarily related to an increase of $0.8 million resulting from a change in exchange rates, partially offset by a decrease in employee performance bonuses of $0.7 million.

Amortization of Intangible Assets

The $0.2 million increase in amortization of intangible assets in the three months ended August 31, 2007 relates primarily to the effects of our acquisitions of patents and other specific intellectual property from IBM and Ario Data Networks Inc as described above.

Interest Income, Net

We recorded net interest income of $0.8 million in the three months ended August 31, 2007 compared to $0.4 million in the three months ended August 31, 2006. This primarily resulted from an increase in average cash balances.

Provision for Income Taxes

During the three months ended August 31, 2007 we recorded a provision for income taxes of $0.7 million compared with a $3.1 million provision for income taxes in the three months ended August 31, 2006. This was primarily as a result of the decrease in income before income taxes.

Net Income

The decrease in net income for the three months ended August 31, 2007 compared to the three months ended August 31, 2006 resulted primarily from a decrease in Storage Infrastructure revenues.

Nine months ended August 31, 2007 Compared to Nine months ended August 31, 2006

The following is a tabular presentation of our results of operations for the nine months ended August 31, 2007 compared to the nine months ended August 31, 2006. Following the table is a discussion and analysis of our business and results of operations for such periods.

	Nine Months Ended		Increase / (Decrease)	
	August 31, 2007	August 31, 2006	Amount	%
	US dollars in thousands			
Revenues:				
Networked Storage Solutions	$ 506,774	$ 431,134	$ 75,640	17.5%
Storage Infrastructure	176,871	311,403	(134,532)	(43.2)
Total revenues	683,645	742,537	(58,892)	(7.9)
Cost of revenues	560,449	587,289	(26,840)	(4.6)
Gross profit:				
Networked Storage Solutions	72,408	60,948	11,460	18.8
Storage Infrastructure	51,670	94,943	(43,273)	(45.6)
Equity compensation	(882)	(643)	(239)	
Total gross profit	123,196	155,248	(32,052)	(20.6)
Operating expenses:				
Research and development	58,189	53,925	4,264	7.9
Selling, general and administrative	45,445	44,582	863	1.9
Amortization of intangible assets	4,819	3,693	1,126	
Operating income	14,743	53,048	(38,305)	(72.2)
Other income	890	1,965	(1,075)	
Interest income, net	2,253	867	1,386	
Provision for income taxes	1,504	7,056	(5,552)	(78.7)
Net income	$ 16,382	$ 48,824	$ (32,442)	(66.4)%

Revenues

The 7.9% decrease in our revenues in the nine months ended August 31, 2007 compared to the nine months ended August 31, 2006 was attributable to decreased sales of our Storage Infrastructure products being partially offset by an increase in sales of our Networked Storage Solutions products.

Of the $75.6 million increase in revenues from sales of our Networked Storage Solutions products, management estimates that $40.0 million was contributed by a 34% increase in revenues from products incorporating low-cost disk drives. The remaining increase related primarily to growth of approximately 16% in sales of our storage subsystem products incorporating Fibre Channel disk drives. Both of these increases were driven largely by a continued growth in our sales to Network Appliance and also resulted from increased volumes from other customers, the introduction of new products and the contribution of new customers. We believe this reflects the increasing requirements for storage of digital information, particularly networked storage.

The $134.5 million decrease in revenues from sales of Storage Infrastructure products primarily related to a decrease in demand due to the investment by Seagate Technology in an exceptional level of production capacity in 2006 in connection with its acquisition of Maxtor as described in the overview. As also described in the overview, our revenues from our Storage Infrastructure products are subject to significant fluctuations, particularly between quarters, resulting from our major customers capital expenditure decisions and installation schedules. Additionally, revenues for the nine months ended August 31, 2006 included a $10.5 million charge to Maxtor for the cancellation of an order for production test systems, being compensation for product development costs and supply chain liabilities.

Cost of Revenues and Gross Profit

The decrease in cost of revenues and gross profit in the nine months ended August 31, 2007 compared to the nine months ended August 31, 2006 was primarily due to lower Storage Infrastructure revenues. As a percentage of revenues gross profit was 18.0% in the nine months ended August 31, 2007 compared to 20.9% for the nine months ended August 31, 2006. This change was primarily attributable to the increased proportion of revenues from the sales of lower margin Networked Storage Solutions products.

The gross margin for our Networked Storage Solutions products increased to 14.3% in the nine months ended August 31, 2007 from 14.1% in the nine months ended August 31, 2006. The gross margin in each quarter varies primarily with changes in product mix. There were no individually significant factors resulting in changes to gross margin in these periods.

The gross margin for Storage Infrastructure products was 29.2% in the nine months ended August 31, 2007, compared to 30.5% in the nine months ended August 31, 2006. This was primarily due to a decrease in margin as a result of fixed costs relative to lower volumes. This was partially offset by favorable changes in product and customer mix during the period.

In measuring the performance of our business segments from period to period we focus on gross profit by product group, which excludes a non-cash equity compensation charge of $0.9 million for the nine months ended August 31, 2007 and $0.6 million for the nine months ended August 31, 2006. See Note 11 to our condensed consolidated financial statements for a description of our segments and how we measure segment performance.

Research and Development

The $4.3 million increase in research and development expense in the nine months ended August 31, 2007 compared to the nine months ended August 31, 2006 primarily related to increased investment in a number of our Storage Infrastructure product lines, particularly media automation. The increase also included approximately $0.5 million resulting from a change in exchange rates and an increase in the number of employees supporting development of Networked Storage Solutions products. These effects were partially offset by a decrease in employee performance bonuses of $1.6 million.

Selling, General and Administrative

Our selling, general and administrative expense increased by $0.9 million in the nine months ended August 31, 2007 compared to the nine months ended August 31, 2006. This primarily reflected an increase in the number of employees engaged in support activities to the Networked Storage Solutions business and also included an increase of $0.8 million resulting from a change in exchange rates. These increases were partially offset by a decrease in employee performance bonuses of $2.1 million, and the inclusion of an accounts receivable provision of $0.8 million in the nine months ended August 31, 2006.

Amortization of Intangible Assets

The $1.1 million increase in amortization of intangible assets in the nine months ended August 31, 2007 relates primarily to the effects of our acquisitions of patents and other specific intellectual property from IBM and Ario Data Networks Inc as described above.

Other Income

We recorded income of $0.9 million in the nine months ended August 31, 2007 compared to $2.0 million in the nine months ended August 31, 2006 relating to the disposal of a product line to Napatech as described in the overview above.

Interest Income, Net

We recorded net interest income of $2.3 million in the nine months ended August 31, 2007 compared to $0.9 million in the nine months ended August 31, 2006. This primarily resulted from an increase in average cash balances.

Provision for Income Taxes

During the nine months ended August 31, 2007 we recorded a provision for income taxes of $1.5 million compared with $7.1 million in the nine months ended August 31, 2006. This was primarily as a result of the decrease in income before income taxes.

Net Income

The decrease in net income for the nine months ended August 31, 2007 compared to the nine months ended August 31, 2006 resulted primarily from a decrease in revenues from our Storage Infrastructure products.

Liquidity and Capital Resources

Cash flows

Net cash provided by operating activities was $29.8 million for the nine months ended August 31, 2007 compared to $33.2 million for the nine months ended August 31, 2006.

Cash provided by operating activities of $29.8 million for the nine months ended August 31, 2007 resulted primarily from the positive contribution of net income of $16.4 million after excluding net non-cash charges totaling $20.8 million together with a decrease in inventory of $4.0 million and an increase in accounts payable of $23.7 million. The decrease in inventory primarily related to the lower revenues in the period. The increase in accounts payable primarily related to the timing of Storage Infrastructure revenues in our third quarter being concentrated at the end of the quarter. These positive effects on cashflow were partially offset by increases in accounts receivable and other current assets of $19.8 million and $3.6 million, and decreases in employee compensation and benefits payable and deferred revenue of $4.9 million and $5.8 million respectively. The increase in accounts receivable resulted from the timing of Storage Infrastructure revenues as explained above. The increase in other currents assets related primarily to the timing of payments of U.K. sales taxes. The decrease in employee compensation and benefits payable related to the payment of 2006 fiscal year bonuses. The decrease in deferred revenue relates to a reduction in orders on hand in our Storage Infrastructure segment. Deferred revenue represents advance payments from customers for Storage Infrastructure products and varies with the level of orders on hand for these products.

Cash provided by operating activities of $33.2 million for the nine months ended August 31, 2006 resulted primarily from the positive contribution of net income of $48.8 million after excluding net non-cash charges totaling $16.4 million together with increases in accounts payable and deferred revenue of $40.1 million and $3.6 million respectively. The increase in accounts payable resulted primarily from the increase in revenues. A decrease in deferred income taxes of $7.1 million and an increase in other accrued liabilities of $3.8 million also contributed to operating cash flow. The decrease in deferred income taxes related primarily to the usage of U.K. net operating loss carry-forwards. The increase in other accrued liabilities resulted primarily from an increase in liabilities to suppliers for an order cancellation. These positive effects on cash flows were partially offset by increases in accounts receivable and inventories of $32.1 million and $56.2 million, respectively. The increase in inventories resulted from an increase in the levels of revenue and changes to installation schedules by our disk drive manufacturer customers. The increase in accounts receivable resulted from an increase in revenues.

Net cash used in investing activities for the nine months ended August 31, 2007 included $4.9 million related to the purchase of intellectual property from IBM and Ario Data Networks Inc as described in the overview above, $1.7 million deferred consideration related to our acquisition of ZT Automation in 2004 and $11.3 million related to capital expenditure.

Net cash used in investing activities for the nine months ended August 31, 2006 included $8.0 million deferred consideration related to our acquisition of ZT Automation in 2004, $15.6 million related to capital expenditure and $4.0 million related to the acquisition of a portfolio of patents from IBM on June 30, 2006.

Our capital expenditures relate primarily to purchases of equipment such as tooling, production lines and test equipment. In addition, in July 2005 we commenced a new project to replace our Enterprise and Resource Planning (ERP) system. This will result in additional capital expenditure of approximately $9.0 million in our 2005, 2006 and 2007 fiscal years, of which $6.8 million was included in capital expenditure in our 2005 and 2006 fiscal years. With this exception, we do not anticipate any significant changes in the nature or level of our capital expenditures and we would expect these to generally change in line with our revenues. We currently have no material commitments for capital expenditures.

Net cash used in our financing activities was $4.7 million in the nine months ended August 31, 2007 and $2.9 million in the nine months ended August 31, 2006.

Net cash used in financing activities for the nine months ended August 31, 2007 comprises repayments of the $7.0 million remaining under our HSBC term loan partially offset by $2.3 million proceeds from the exercise of employee share options.

Net cash used in financing activities for the nine months ended August 31, 2006 comprises quarterly repayments totaling $3.0 million under our HSBC term loan and payments of $3.0 million deferred consideration for the acquisition of Oliver Design offset by $3.1 million proceeds from the exercise of employee share options.

Liquidity

As of August 31, 2007, our principal sources of liquidity consisted of cash and cash equivalents of $64.2 million and our multi-currency credit facilities with HSBC. The HSBC credit facilities include a revolving line of credit which expires in December 2008, and a short-term overdraft facility. The revolving line of credit is for an aggregate principal amount of up to $30.0 million and bears interest at a rate of between 0.6% and 1.25% above LIBOR, depending on the level of debt relative to operating income. The overdraft facility is for an aggregate principal amount of $15.0 million and bears interest at a rate equal to 0.75% above LIBOR. As of August 31, 2007 we had no debt outstanding under our revolving line of credit or our overdraft facility. The HSBC credit facilities provide for a security interest on substantially all of our assets.

Our future financing requirements will depend on many factors, but are particularly affected by our operating results, our level of revenues and associated working capital requirements, changes in the payment terms with our major customers and suppliers of disk drives, and quarterly fluctuations in our revenues. Additionally, our cash flow could be significantly affected by any acquisitions we have made or might choose to make or alliances we have entered or might enter into. We believe that our cash and cash equivalents together with our credit facilities with HSBC will be sufficient to meet our cash requirements at least through the next 12 months. We cannot assure you that additional equity or debt financing will be available to us on acceptable terms or at all.

Accounting Policies

Critical Accounting Policies

Our critical accounting policies are set out in our Annual Report on form 20-F as filed with the Securities and Exchange Commission on February 20, 2007. By critical accounting policies we mean policies that are both important to the portrayal of our financial condition and financial results and require critical management judgments and estimates about matters that are inherently uncertain. Although we believe that our judgments and estimates are appropriate, actual future results may differ from our estimates.

Recent Accounting Pronouncements

In May 2005, the FASB issued FAS No. 154, Accounting Changes and Error Corrections (FAS 154), which replaced APB No. 20, Accounting Changes and FAS No. 3, Reporting Accounting Changes in Interim Financial Statements . FAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle by requiring voluntary changes in accounting principles to be reported using retrospective application, unless impractical to do so. FAS 154 is effective for accounting changes and corrections of errors made in our 2007 fiscal year.

In June 2005, the FASB issued Staff Position FAS 143-1, Accounting for Electronic Equipment Waste Obligations (FSP 143-1), which provides guidance on the accounting for certain obligations associated with the Waste Electrical and Electronic Equipment Directive (the Directive), adopted by the European Union (EU). Under the Directive, the waste management obligation for historical equipment remains with the commercial user until the customer replaces the equipment. FSP 143-1 is required to be applied in our 2007 fiscal year. Adoption of this standard did not have a material impact on our financial position or results of operations.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FAS No. 109 . FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with FAS No. 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. We will adopt FIN 48 in our 2008 fiscal year and are currently evaluating the effect FIN 48 will have on our consolidated financial position or results of operations.

In September 2006, the FASB issued FAS No. 157 (FAS 157), Fair Value Measurements . FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for our 2008 fiscal year. We are in the process of assessing the effect FAS 157 may have on our consolidated financial statements.

In February 2007, the FASB issued FAS No. 159 (FAS 159), The Fair Value Option for Financial Assets and

Financial Liabilities including an amendment of FAS No. 115 . FAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses for that item shall be reported in current earnings at each subsequent reporting date. FAS 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the company elects for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the effect FAS 159 may have on our consolidated financial statements.

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

		August 31, 2007		November 30, 2006
		(US dollars and amounts in thousands)		
ASSETS				
Current assets:				
Cash and cash equivalents	$	64,213	$	56,921
Accounts receivable, net		125,160		105,324
Inventories		89,067		93,111
Prepaid expenses		3,738		2,390
Deferred income taxes		3,000		2,513
Other current assets		7,731		7,247
Total current assets		**292,909**		**267,506**
Property, plant and equipment, net		35,657		34,471
Intangible assets, net		57,422		58,109
Deferred income taxes		16,070		15,594
Total assets	**$**	**402,058**	**$**	**375,680**
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	108,552	$	84,896
Short-term borrowings				4,000
Employee compensation and benefits payable		11,747		16,645
Deferred revenue		10,476		16,303
Income taxes payable		1,591		1,641
Other accrued liabilities		11,941		14,701
Total current liabilities		**144,307**		**138,186**
Long-term debt				3,000
Total liabilities		**144,307**		**141,186**
Shareholders equity				
Common shares of Xyratex Ltd (in thousands), par value $0.01 per share 70,000 authorized, 29,092 and 28,793 issued and outstanding		291		288
Additional paid-in capital		352,822		344,686
Accumulated other comprehensive income		1,510		2,774
Accumulated deficit		(96,872)		(113,254)
Total shareholders equity		**257,751**		**234,494**
Total liabilities and shareholders equity	**$**	**402,058**	**$**	**375,680**

The accompanying notes are an integral part of these consolidated financial statements.

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	August 31, 2007	August 31, 2006	August 31, 2007	August 31, 2006
	(US dollars in thousands, except per share amounts)			
Revenues:	234,214	263,138	683,645	742,537
Cost of revenues	192,274	207,488	560,449	587,289
Gross profit:	41,940	55,650	123,196	155,248
Operating expenses:				
Research and development	20,187	18,061	58,189	53,925
Selling, general and administrative	16,061	15,764	45,445	44,582
Amortization of intangible assets	1,517	1,318	4,819	3,693
Total operating expenses	37,765	35,143	108,453	102,200
Operating income	4,175	20,507	14,743	53,048
Other income			890	1,965
Interest income, net	824	429	2,253	867
Income before income taxes	4,999	20,936	17,886	55,880
Provision for income taxes	733	3,125	1,504	7,056
Net income	$ 4,266	$ 17,811	$ 16,382	$ 48,824
Net earnings per share:				
Basic	$ 0.15	$ 0.62	$ 0.57	$ 1.71
Diluted	$ 0.14	$ 0.60	$ 0.55	$ 1.66
Weighted average common shares (in thousands), used in computing net earnings per share:				
Basic	29,048	28,727	28,873	28,635
Diluted	29,941	29,516	29,840	29,499

The accompanying notes are an integral part of these consolidated financial statements.

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

(US dollars and amounts, in thousands)

	Number of Common Shares	Par value	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balances as of November 30, 2005	**28,437**	**$ 284**	**$ 333,886**	**$ (171,432)**	**$ (1,356)**	**$ 161,382**
Issuance of common shares	302	3	3,080			$ 3,083
Non-cash equity compensation			5,376			$ 5,376
Components of comprehensive income, net of tax:						
Net income				48,824		
Unrealized loss on forward foreign currency contracts net of reclassification adjustment:					3,435	
Total comprehensive income						$ 52,259
Balances as of August 31, 2006	**28,739**	**$ 287**	**$ 342,342**	**$ (122,608)**	**$ 2,079**	**$ 222,100**

	Number of Common Shares	Par value	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balances as of November 30, 2006	**28,793**	**$ 288**	**$ 344,686**	**$ (113,254)**	**$ 2,774**	**$ 234,494**
Issuance of common shares	299	3	2,316			$ 2,319
Non-cash equity compensation			5,820			$ 5,820
Components of comprehensive income, net of tax:						
Net income				16,382		
Unrealized gain on forward foreign currency contracts net of reclassification adjustment:					(1,264)	
Total comprehensive income						$ 15,118
Balances as of August 31, 2007	**29,092**	**$ 291**	**$ 352,822**	**$ (96,872)**	**$ 1,510**	**$ 257,751**

The accompanying notes are an integral part of these consolidated financial statements.

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	August 31, 2007	August 31, 2006
	(US dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 16,382	$ 48,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,115	7,066
Amortization of intangible assets	4,819	3,693
Non-cash equity compensation	5,820	5,376
Loss on sale of assets		265
Changes in assets and liabilities, net of impact of acquisitions and divestitures		
Accounts receivable	(19,836)	(32,072)
Inventories	4,044	(56,233)
Prepaid expenses and other current assets	(3,638)	91
Accounts payable	23,656	40,142
Employee compensation and benefits payable	(4,898)	2,292
Deferred revenue	(5,827)	3,622
Income taxes payable	(50)	(760)
Deferred income taxes	839	7,137
Other accrued liabilities	(1,636)	3,775
Net cash provided by operating activities	29,790	33,218
Cash flows from investing activities:		
Investments in property, plant and equipment	(11,301)	(15,591)
Acquisition of intangible assets	(4,855)	(4,000)
Acquisition of business, net of cash received	(1,661)	(7,955)
Net cash used in investing activities	(17,817)	(27,546)
Cash flows from financing activities:		
Payments of long-term borrowings	(7,000)	(3,000)
Payment of acquisition note payable		(3,000)
Proceeds from issuance of shares	2,319	3,083
Net cash provided by (used in) financing activities	(4,681)	(2,917)
Change in cash and cash equivalents	7,292	2,755
Cash and cash equivalents at beginning of period	56,921	41,240
Cash and cash equivalents at end of period	$ 64,213	$ 43,995

The accompanying notes are an integral part of these consolidated financial statements.

XYRATEX LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(US dollars and amounts in thousands, except per share data, unless otherwise stated)

1. The Company and its Operations

Xyratex Ltd together with its subsidiaries (the Company) is a leading provider of modular enterprise-class data storage subsystems and storage process technology with principal operations in the United Kingdom (U.K.), the United States of America (U.S.) and Malaysia. We design, develop and manufacture enabling technology in support of high-performance storage and data communication networks.

2. Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

These condensed consolidated financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which the Company s management considers necessary for a fair presentation of the financial position as of such dates and the operating results and cash flows for those periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In addition, the results of operations for the interim periods may not necessarily be indicative of the operating results that may be incurred for the entire year.

The November 30, 2006 balance sheet was derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements included in the Company s Form 20-F as filed with the Securities and Exchange Commission on February 20, 2007.

3. Equity compensation plans

With effect from December 1, 2005, the Company adopted Statement of Financial Accounting Standards No.123 (revised 2004), Share-Based Payment (FAS 123R), which established accounting for share-based awards exchanged for employee services. Accordingly, equity compensation cost is measured at grant date, based on the fair value of the award, over the requisite service period.

The following table summarizes equity compensation expense related to share-based awards under FAS 123R for the three and nine month periods ended August 31, 2007 and 2006.

	Three Months Ended		Nine Months Ended	
	August 31, 2007	August 31, 2006	August 31, 2007	August 31, 2006
Equity compensation:				
Cost of revenues	$ 310	$ 282	$ 882	$ 643
Research and development	620	586	1,766	1,405
Selling, general and administrative	1,060	1,184	3,172	3,328
Total equity compensation	1,990	2,052	5,820	5,376
Related income tax benefit	$ 597	$ 513	$ 1,640	$ 1,344

The Company s share-based awards include restricted stock units, share options, an Employee Stock Purchase Plan and restricted shares. Based on an agreement with the Company s managing underwriter for the Initial Public Offering in 2004, there are 3,101 shares authorized for future grants under the plans. Option exercises are satisfied through the issue of new shares or where previously agreed with the trustee, through the transfer of shares from an employee benefit trust.

Restricted Stock Units

In March 2006, the Company began issuing restricted stock units (RSUs) to certain employees. These units require that shares be awarded over four years from the date of grant, subject to continued service. The vesting of certain of these units is also subject to the achievement of certain performance conditions in the year of grant. The specific performance goals related to grants in 2006 were reviewed by management and as a result 85 RSUs were forfeited on February 1, 2007. Equity compensation expense relating to RSUs totaling $4,260 has been recorded in the nine months ended August 31, 2007. Restricted stock units granted, exercised, canceled and expired are summarized as follows:

	RSU	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Non-vested restricted stock units at November 30, 2006	511	$ 25.18		
Granted	481	22.91		
Vested	(93)	25.41		
Cancelled/forfeited	(95)	26.30		
Non-vested restricted stock units at August 31, 2007	804	$ 23.66	3.0	$ 16,737
Non-vested restricted stock units expected to vest at August 31, 2007	733		3.0	$ 15,265

Share Option Activity

The Company has five plans under which employees have been granted options to purchase Xyratex Ltd shares. Options granted, exercised, canceled and expired under all of the Company s share option plans, excluding the Sharesave Plan, are summarized as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at November 30, 2006	2,337	$ 10.26	6.3	$ 27,601
Exercised	(302)	8.42		
Forfeited	(206)	13.38		
Outstanding at August 31, 2007	1,829	10.25	6.0	$ 19,353
Exercisable at August 31, 2007	1,419	8.73	5.6	$ 17,163

Exercise prices of option activity and options outstanding denominated in U.K. pounds have been converted to the U.S. dollar equivalent in the above table using the U.K. pound/U.S. dollar exchange rate as of each transaction date or period end date as appropriate.

The aggregate intrinsic value of options outstanding at August 31, 2007 is calculated as the difference between the market price of the underlying common share and the exercise price of the options. All outstanding options had exercise prices that were lower than the $20.82 closing market price of the Company s common shares at August 31, 2007. The total intrinsic value of options exercised during the nine month period ended August 31, 2007 was $3,403 determined as of the date of exercise. The total fair value of options forfeited during the nine month period ended August 31, 2007 was $1,643.

There were no movements in options outstanding under the Sharesave Plan during the three months ended August 31, 2007.

Employee Stock Purchase Plan and Restricted Shares

23 shares were granted under the Employee Stock Purchase Plan in the nine months ended August 31, 2007. In addition a total of 65 unvested shares were outstanding at both August 31, 2007 and November 30, 2006.

4. Net earnings per share

Basic net earnings per share for the three and nine month periods ended August 31, 2007 is computed by dividing net income by the weighted-average number of Xyratex Ltd common shares. Diluted net earnings per share gives effect to all potentially dilutive ordinary share equivalents outstanding during the period.

		Common shares			
		Three Months Ended		Nine Months Ended	
		August 31 2007	August 31, 2006	August 31 2007	August 31, 2006
Total weighted average common shares	basic	29,048	28,727	28,873	28,635
Dilutive effect of share options		709	603	767	705
Dilutive effect of restricted stock units		184	186	200	159
Total weighted average common shares	diluted	29,941	29,516	29,840	29,499

5. Other income

On March 6, 2006, the Company concluded the disposal of a product line through a license agreement of intellectual property of certain network analysis technology and the transfer of the related customer base to Napatech, a programmable network adapter company based in Denmark. The Company is continuing to manufacture the related product lines for Napatech under a separate Supply Agreement. Under the license agreement a total of $4,093 became payable, of which $890 has been recorded in the statement of operations as other income in the nine months ended August 31, 2007.

6. Derivative financial instruments

The Company manages its exposure to foreign currency exchange rate risk between the U.K. pound to the U.S. dollar and the Malaysian ringgit to the U.S. dollar through entering into forward exchange contracts and options. The Company designated all of its forward foreign currency contracts as qualifying for hedge accounting. Changes in the fair value of these instruments are deferred and recorded as a component of accumulated other comprehensive income (AOCI) until the hedged transactions affect earnings, at which time the deferred gains and losses on the forward foreign currency contracts are recognized in the income statement.

The Company reclassified a gain of $2,385 and $1,204, net of tax of $1,022 and $516, from AOCI to earnings during the nine months ended August 31, 2007 and August 31, 2006, respectively due to the realization of the underlying transactions. The Company recorded the increase in fair market value of derivatives related to its cash flow hedges of $1,121 and $2,231, net of tax of $480 and $956, to AOCI for the nine months ended August 31, 2007 and August 31, 2006, respectively. Any remaining unrealized amounts are expected to be reclassified to earnings during the next fifteen months. The fair value of these foreign currency contracts represents the amount the Company would receive or pay to terminate the contracts, considering first, quoted market prices of comparable agreements, or in the absence of quoted market prices, such factors as interest rates, currency exchange rates and remaining maturity.

The following table shows derivatives existing as of August 31, 2007 and November 30, 2006:

Derivatives between U.K. pound and U.S. dollar		**August 31, 2007**		**November 30, 2006**
Forward exchange contracts and options	$	58,249	$	43,294
Fair value of contracts	$	2,101	$	3,762
Carrying value of contracts	$	2,101	$	3,762
Average rate of contract	$	1.94	$	1.80
Period end rate	$	2.02	$	1.95
Maximum period of contracts (months)		15		12

Derivatives between Malaysian ringgit and U.S. dollar		**August 31, 2007**		**November 30, 2006**
Forward exchange contracts and options	$	5,500	$	6,500
Fair value of contracts	$	25	$	46
Carrying value of contracts	$	25	$	46
Average rate of contract	$	0.29	$	0.28
Period end rate	$	0.29	$	0.28
Maximum period of contracts (months)		9		12

7. Concentration of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents, short-term investments and accounts receivable. The Company places its cash and cash equivalents and short-term investments with high-credit quality financial institutions. Cash deposits are generally placed with either one or two institutions and such deposits, at times, exceed governmentally insured limits. Concentrations of credit risk, with respect to accounts receivable, exist to the extent of amounts presented in the financial statements. Two customers, each with balances greater than 10% of total accounts receivable, represented 70% of the total accounts receivable balance at August 31, 2007 and two customers represented 66% of the total accounts receivable balance at November 30, 2006. Generally, the Company does not require collateral or other security to support customer receivables. The Company performs periodic credit evaluations of its customers and maintains an allowance for potential credit losses based on historical experience and other information available to management. Losses to date have been within management s expectations.

During the nine months ended August 31, 2007 and August 31, 2006, revenues from two customers, represented 71% and 79% of total revenues, respectively. No other customer accounted for more than 10% of revenues.

8. Acquisitions and intangible assets

During the nine months ended August 31, 2007, the Company enhanced the intellectual property base within its Networked Storage Solutions segment through the purchase of intellectual property from Ario Data Networks Inc. of Colorado, and the entry into a patent cross license agreement with IBM. The Ario transaction also involved the recruitment of certain Ario employees and the purchase of certain non-material tangible assets. The amounts paid for these intangible assets was cash totaling $4,790.

In September 2006, the Company completed an acquisition that was not significant to the operating results and financial position. The cash purchase price for the acquisition was $1,704. The Company estimated the fair values of the acquired assets and liabilities and the allocation of the purchase price to intangible assets. Pro forma operating results have not been presented for the acquisition because the effect of the acquisition was not material. No goodwill has been recognized on the above transaction. $329 has been allocated to intangible assets as existing customer relationships to be amortized over two years.

In June 2006, the Company also acquired a portfolio of US patents and related filings in other countries for consideration of $4,000. This has been allocated to intangible assets as patents and core technology to be amortized over five years.

Each of these intangible assets are expected to be deductible for tax purposes.

Identified intangible assets

Identified intangible asset balances are summarized as follows:

	August 31, 2007	November 30, 2006
Existing technology	$ 11,698	$ 11,300
Patents and core technology	11,887	8,887
Non-competition agreements	1,000	1,000
Order backlog	2,100	2,100
Supplier contracts	39	39
Assembled workforce	1,516	124
Customer relationships	4,629	4,629
	32,869	28,079
Accumulated amortization	(14,313)	(9,494)
	$ 18,556	$ 18,585

Goodwill

The changes in the carrying amount of goodwill for the nine month period ended August 31, 2007 are as follows:

	Networked Storage Solutions	Storage Infrastructure	Total
Balance at November 30, 2006	$ 17,330	$ 22,194	$ 39,524
Tax benefit of goodwill		(1,260)	(1,260)
Contingent consideration		602	602
Balance at August 31, 2007	$ 17,330	$ 21,536	$ 38,866

9. Inventories

	August 31, 2007	November 30, 2006
Finished goods	$ 19,485	$ 7,528
Work in progress	22,940	26,275
Raw materials	46,642	59,308
	$ 89,067	$ 93,111

10. Income Taxes

The provision for income taxes for the three and nine month periods ended August 31, 2007 and for the three and nine month periods ended August 31, 2006 is based on an effective tax rate of 9% and 15% respectively, the rates being based on a forecast of income before income taxes in the years ended November 30, 2007 and November 30, 2006.

The difference between the provision for income taxes recorded in the financial statements and income tax based upon the UK statutory rate of 30% is primarily related to income tax exemptions for the Company s Malaysian operations and research and development tax credits. In addition, the nine months ended August 31, 2007 included a benefit of $856 relating to the agreement of a previous year s computation and a provision of $703, being a reduction in the deferred tax asset resulting from a change in the income tax rate in the United Kingdom to 28%, effective from April 2008. The nine months ended August 31, 2006 included a benefit of $1,469 relating to further tax exemptions for the Company s Malaysian operations and an agreement of a previous year s computation.

11. Segment Information

Description of segments. The Company designs, develops and manufactures enabling technology in support of high-performance storage and data communication networks. The Company organizes its business operations into two product groups Networked Storage Solutions and Storage Infrastructure, each of which comprises a reportable segment.

Description of the Company s segments:

Networked Storage Solutions. Provision of high performance, high density, network storage subsystem technology to OEMs supplying the network storage and data networking market places.

Storage Infrastructure. Provision of high-performance, high density disk drive, process & test technology to the major disk drive companies and their component suppliers for the development and production of highly reliable disk drives.

Segment revenue and profit. The following tables reflect the results of the Company s reportable segments under the Company s management reporting system. These results are not necessarily a depiction that is in conformity with accounting principles generally accepted in the United States and in particular does not include the equity compensation expense. The performance of each segment is generally measured based on gross profit.

	Three Months Ended		Nine Months Ended	
	August 31, 2007	August 31, 2006	August 31, 2007	August 31, 2006
Revenues:				
Networked Storage Solutions	$ 174,004	$ 148,566	$ 506,774	$ 431,134
Storage Infrastructure	$ 60,210	$ 114,572	$ 176,871	$ 311,403
Total Segments	$ 234,214	$ 263,138	$ 683,645	$ 742,537
Gross profit:				
Networked Storage Solutions	$ 25,847	$ 20,933	$ 72,408	$ 60,948
Storage Infrastructure	$ 16,403	$ 34,999	$ 51,670	$ 94,943
Total Segments	$ 42,250	$ 55,932	$ 124,078	$ 155,891
Equity Compensation (note 3)	$ (310)	$ (282)	$ (882)	$ (643)
Total	$ 41,940	$ 55,650	$ 123,196	$ 155,248
Depreciation and amortization:				
Networked Storage Solutions	$ 2,955	$ 2,028	$ 8,405	$ 5,523
Storage Infrastructure	$ 1,803	$ 1,647	$ 5,305	$ 4,566
Total Segments	$ 4,758	$ 3,675	$ 13,710	$ 10,089
Corporate	$ 442	$ 291	$ 1,224	$ 671
Total	$ 5,200	$ 3,966	$ 14,934	$ 10,760

Total segments revenues represent revenues as reported by the Company for all periods presented. Gross profit above represents gross profit as reported by the Company for all periods presented. The chief operating decision maker does not review asset information by segment and therefore no asset information is presented.

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)

Date: October 15, 2007

By: /s/ Richard Pearce
Name: Richard Pearce
Title: Chief Financial Officer