

XYRATEX LTD
Form 20-F
August 29, 2014
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XYRATEX LTD
ANNUAL REPORT FOR THE YEAR ENDED
NOVEMBER 30, 2013

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As filed with the Securities and Exchange Commission on August 29, 2014

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

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

OR

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended November 30, 2013**

OR

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

OR

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

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

XYRATEX LTD
(Exact name of Registrant as specified in its charter)

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Bermuda

(Jurisdiction of incorporation or organization)

Langstone Road

Havant PO9 1SA

United Kingdom

(011) 44 2392 496000

(Address of principal executive offices)

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

Title of each class
None

Name of each exchange on which registered
None

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

Common Shares, par value \$0.01 per share
(Title of Class)

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

None
(Title of Class)

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

27,562,789 common shares, par value \$0.01 per share

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

Yes No

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

Yes No

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

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

Item 17 Item 18

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

Yes No

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INTRODUCTION

Xyratex Ltd is a limited liability company incorporated under the laws of Bermuda. Xyratex Ltd was incorporated on April 10, 2002 and is registered with the Registrar of Companies in Bermuda under registration number EC 31989. As a Bermuda company, we are governed by the Companies Act 1981 of Bermuda. We maintain a registered office in Bermuda at Clarendon House, Church Street, Hamilton, Bermuda. Our principal executive offices are located at Langstone Road, Havant PO9 1SA, United Kingdom and the telephone number for these offices is (011) 44 2392 496000. Our agent for service of process in the United States is Brad Driver, 46831 Lakeview Blvd, Fremont, California 94538, USA (telephone: (510) 687 5200).

We conducted an initial public offering in the United States and listing of our common shares on the NASDAQ National Market on June 29, 2004. Our common shares trade on The NASDAQ Stock Market LLC under the symbol **XRTX** and were listed on the NASDAQ Global Select Market until our acquisition by Seagate Technology International on March 31, 2014.

Our business began as part of IBM Corporation in 1966. We conducted our business as a manufacturing and development operation until December 1994, at which time we separated from IBM in a management buy-out. Today Xyratex is a leading provider of data storage technology, including modular solutions for the enterprise data storage industry and hard disk drive (HDD) capital equipment for the HDD industry. Xyratex has over 25 years of experience in research and development relating to disk drives, storage systems and manufacturing process technology.

On March 31, 2014, Seagate Technology International, an indirect subsidiary of Seagate Technology plc, acquired Xyratex Ltd at a price of \$13.25 per share, and is now the sole shareholder of Xyratex Ltd.

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

INDUSTRY DATA

In this Annual Report, we refer to information regarding the enterprise data storage market and the HDD capital equipment market from the following independent research companies: Gartner and International Data Corporation or IDC.

The Gartner Report described herein (the **Gartner Report**) represents data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. (**Gartner**), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Annual Report) and the opinions expressed in the Gartner Report are subject to change without notice.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements. All statements other than statements of historical fact included in this Annual Report regarding our business, financial condition, results of operations and certain of our plans, objectives, assumptions, expectations or beliefs with respect to these items and statements regarding other future events or prospects, are forward-looking statements. These statements include, without limitation, those concerning: our strategy and our ability to achieve it; anticipated product launches; expectations regarding sales, profitability and growth; our possible or assumed future results of operations; capital expenditure, the impact of cost reduction efforts and investment plans; adequacy of capital; continued beneficial tax status and ability to use deferred tax assets; and financing plans. The words aim, may, will, expect, anticipate, believe, future, continue, help, estimate, predict, project, potential, plan, intend, should, could, or other variations thereof as well as other statements regarding matters that are not historical fact, are or may constitute forward-looking statements. In addition, this Annual Report includes forward-looking statements relating to our potential exposure to various types of market risks, such as foreign exchange rate risk, interest rate risks and other risks related to financial assets and liabilities. We have based these forward-looking statements on our management's current view with respect to future events and financial performance. These views reflect the best judgment of our management but involve a number of risks and uncertainties which could cause actual results to differ materially from those predicted in our forward-looking statements and from past results, performance or achievements. Although we believe that the estimates reflected in the forward-looking statements are reasonable, such estimates may prove to be incorrect. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. For further discussion of these factors and other risks, see Part I, Item 3.D Risk Factors and Part I, Item 5 Operating and Financial Review and Prospects (Management's Discussion and Analysis of Financial Condition and Results of Operations).

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PART I

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

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The following selected consolidated financial data, set forth below for each of the last five fiscal years, is not necessarily indicative of results of future operations and should be read in conjunction with Part I, Item 5: Operating and Financial Review and Prospects (Management's Discussion and Analysis of Financial Condition and Results of Operations) and the Consolidated Financial Statements and related notes thereto included in Part III, Item 18: Financial Statements, to fully understand factors that may affect the comparability of the information presented below.

The selected historical consolidated statement of operations data for the years ended November 30, 2013, 2012 and 2011 and balance sheet data as of November 30, 2013 and 2012 presented below have been derived from our consolidated financial statements included elsewhere in this Annual Report. The selected historical consolidated statement of operations data for the years ended November 30, 2010 and 2009 and balance sheet data as of November 30, 2011, 2010 and 2009 presented below have been derived from the consolidated financial statements not included in this report.

	Year Ended November 30,					
	2013	2012	2011	2010	2009	
	(U.S. dollars in thousands except share and per share data)					
Consolidated Statement of Operations Data:						
Revenues:						
Enterprise Data Storage Solutions	\$ 655,184	\$ 974,043	\$ 1,324,547	\$ 1,258,940	\$ 762,028	
HDD Capital Equipment	159,134	184,855	123,929	342,943	105,863	
Total revenues	814,318	1,158,898	1,448,476	1,601,883	867,891	
Gross profit:						
Enterprise Data Storage Solutions	122,212	155,326	212,654	166,882	97,981	
HDD Capital Equipment	49,093	41,475	10,242	114,427	28,202	
Non-cash equity compensation	(224)	(965)	(824)	(1,541)	(907)	
Total gross profit	171,081	195,836	222,072	279,768	125,276	
Operating expenses:						
Research and development	98,101	103,667	115,558	92,705	71,062	
Selling, general and administrative	69,466	68,432	66,377	60,002	56,463	
Amortization of intangible assets	2,057	3,154	4,176	3,669	3,939	
Impairment of intangible assets			2,230			
Restructuring costs	3,672	4,120	2,750		5,898	
Total operating expenses	173,296	179,373	191,091	156,376	137,362	
Operating income (loss)	(2,215)	16,463	30,981	123,392	(12,086)	
Interest income, net	257	799	392	45	114	
Income (loss) before income taxes	(1,958)	17,262	31,373	123,437	(11,972)	
Provision (benefit) for income taxes	19,253	(398)	3,076	(15,991)	4,442	
Net income (loss)	\$ (21,211)	\$ 17,660	\$ 28,297	\$ 139,428	\$ (16,414)	
Net earnings (loss) per common share basic	\$ (0.77)	\$ 0.64	\$ 0.96	\$ 4.63	\$ (0.56)	
Net earnings (loss) per common share diluted	\$ (0.77)	\$ 0.63	\$ 0.92	\$ 4.46	\$ (0.56)	
Cash dividends declared per share	\$ 2.30	\$ 0.29	\$ 0.11			

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Weighted average common shares (in thousands) used in calculating net earnings (loss) per share:

Basic	27,463	27,513	29,605	30,101	29,402
Diluted	27,463	28,199	30,631	31,270	29,402

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	2013	2012	As of November 30, 2011	2010	2009
	(U.S. dollars in thousands except share data)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 102,992	\$ 117,174	\$ 132,630	\$ 90,842	\$ 51,935
Working capital	232,372	295,436	292,355	297,405	161,277
Total assets	404,196	511,277	593,703	580,982	354,250
Total shareholders' equity	\$ 294,824	\$ 374,534	\$ 369,174	\$ 367,331	\$ 219,238
Number of shares issued and outstanding:					
Common shares (in thousands)	27,563	27,024	27,568	30,276	29,461

Item 3.B: Capitalization and Indebtedness

Not applicable.

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

Not applicable.

Item 3.D: Risk Factors

The key risks relating to our business and industry are included below. Additional risks of which we are presently not aware or that we currently deem immaterial may also impair our business.

Sales to a small number of customers represent a substantial portion of our revenues. The loss of any of our major customers could significantly harm our financial condition.

We derive a substantial portion of our revenues from a relatively small number of customers. In our 2013 fiscal year, sales to our top six customers accounted for 86% of our revenues with sales to IBM, NetApp Inc., Dell Inc., HP and Seagate Technology accounting for 25%, 20%, 12%, 11% and 11% of our revenues respectively. In our 2012 fiscal year, sales to our top six customers accounted for 88% of our revenues with sales to NetApp, Dell and IBM accounting for 38%, 19% and 15% of our revenues respectively. It is likely that a small number of customers will continue to account for a substantial portion of our revenues in the future. If we were to lose any one or more of our major customers, experience any material reduction in orders from any of these customers or experience a deterioration in our relationships with any of these customers, our financial condition could be significantly harmed.

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Additionally, if there is further consolidation within our industry or among our customer base, this may lead to reduced demand for our products, replacement of our products by the combined entity with those of our competitors and cancellations of orders. These consolidated customers may have increased leverage in negotiating prices and other terms of sale. For example, we believe the acquisition of Hitachi Global Storage Technologies by Western Digital could lead to reduced demand for our capital equipment products.

In 2008, we reached an agreement with NetApp which enables them to utilize contract manufacturers, under license, as an alternative source for the products we supply. As a result, we have experienced a significant reduction in sales to NetApp and expect to experience further reduction in such sales, as our agreement with NetApp allows NetApp to alternatively source an increasing proportion of our products each year. This proportion was set at a maximum of 25% for our 2011 fiscal year, increasing to 50% in our 2012 fiscal year, 75% in our 2013 fiscal year and 100% in our 2014 fiscal year. Any further penetration of contract manufacturers into our major customers could adversely affect our revenues and financial condition.

Our customers operate in an industry that experiences frequent volatility. If any of our top customers were to suffer financial difficulties, whether as a result of downturns in the markets, loss of market share in which they operate or otherwise, our financial condition could be significantly harmed.

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The markets in which we operate are cyclical and a reduction in customer demand in any particular financial period could significantly harm our financial condition.

Customer demand is cyclical in the technology industry in general, and the HDD capital equipment market in particular. One reason for the particular variability in demand for these products is that, for our customers, the decision to invest in new or upgraded production facilities is a strategic decision that involves a significant commitment of their financial resources. A customer's decision is dependent upon several factors, including its financial condition, the condition and obsolescence of its existing production facilities, the expected demand for its products, product or technology changes and general confidence in its business. Our revenues are likely to continue to reflect the cyclical nature of the technology industry.

Demand for our HDD capital equipment products is also linked to developments in the disk drive market. The market for disk drives has historically experienced periods of production over-capacity which have in turn led to the deterioration of market prices for data storage products. Consolidation activity could impact the normal pattern of demand versus supply as the hard disk drive customers move business away from the consolidated entity to achieve an independent dual source strategy. Competitive activity usually increases during this period of market share realignment as each company tries to grow its share which often results in increased disk drive inventories in the channel. The confidence of our customers to invest in new disk drive production equipment does not usually recover until supplies of disk drives are reduced or new technologies are introduced. Future over-capacity and further consolidation in the disk drive market could result in a significant decrease in demand for our products, and this could significantly harm our financial condition.

Because original equipment manufacturers comprise a substantial portion of our customer base, we have limited control over the volume and pricing of our products, which could significantly harm our financial condition.

We sell our enterprise data storage products primarily to original equipment manufacturers, or OEMs, and our capital equipment products primarily to disk drive manufacturers. As a result, the quantity of products that we sell is significantly affected by our OEM customers' volume requirements, over which we have little control. We are subject to continued pricing pressures from our customers, particularly our OEM customers. If these volume requirements decrease or pricing pressures increase, our financial condition could be significantly harmed.

Our operating results are subject to substantial quarterly and annual fluctuations, our period to period comparisons are not necessarily meaningful and we may not meet the expectations of public market analysts and investors.

Our revenues in any quarter are substantially dependent upon customer orders in that quarter. We attempt to project future orders based in part on estimates from our major customers. For this purpose, arrangements with major customers will usually include the estimated future volume requirements of that customer. Our customers' estimated requirements are not always accurate and we therefore cannot predict our quarterly revenues with any degree of certainty.

Our typical pricing model is based on several variables (including overall volume of products ordered and the type and cost of components) which also makes it difficult for us to accurately predict future revenues. In addition, we regularly develop new products. Revenues from new products are difficult for us to predict accurately and are usually at a higher initial cost due to the low initial volumes. Any delay in the development of new products could further complicate revenue predictions and result in a reduction in our expected revenues.

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Our quarterly operating results have fluctuated significantly in the past, as shown in the table below for our 2013 and 2012 fiscal years.

Quarter	Revenues		Net Income (Loss)	
	(unaudited)			
(U.S. dollars in thousands)				
First Quarter 2012	\$	295,666	\$	10,861
Second Quarter 2012		322,116		6,996
Third Quarter 2012		275,670		7,746
Fourth Quarter 2012		265,446		(7,943)
First Quarter 2013		195,597		(5,135)
Second Quarter 2013		216,185		2,945
Third Quarter 2013		217,282		2,350
Fourth Quarter 2013	\$	185,254	\$	(21,371)

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In addition, we may derive a significant portion of our revenues in each quarter from a small number of relatively large orders. If one or more of our major customers decides to defer a purchase order or delays product acceptance in any given quarter, this is likely to result in reduced total revenues for that quarter. Accordingly, comparisons of our quarterly results of operations or other period to period comparisons are not necessarily meaningful and should not be relied on as an indication of our future performance.

Our quarterly and annual revenues and results of operations may also fluctuate significantly if one or more of the risk factors identified in this Annual Report occurs and, depending upon the timing of that event, may have a disproportionate effect in any given quarter or year. In addition, it is possible that some future results of operations may be below the expectations of public market analysts and investors, which could cause a decline in our share price.

Our gross margins may vary based on the configuration of our products and the mix in a period.

We derive a significant proportion of our sales from the sale of disk drives as components of our enterprise storage systems and the market is highly competitive and subject to intense pricing pressures. Our sales related to disk drives generate lower gross margins than other components of our enterprise storage systems. As a result, if we sell systems with greater disk drive content our overall gross margins may be negatively affected.

Our gross margins have been and may continue to be affected by a variety of other factors, including:

- Product and customer mix.
- HDD and other component costs.
- Changes in component content of products.
- Shipment volumes a proportion of our cost of sales is fixed and therefore increases or decreases in volumes result in increases or decreases in gross margins.
- New product introductions or product enhancements.
- Inventory valuation adjustments as a result of changes in demand forecasts or product defects as we transition our product.

- Additional freight, transportation and other one-time costs to expedite component purchases or move finished product between locations to satisfy short term changes in demand.
- Commoditization of hardware. As the hardware we sell becomes more commoditized our overall margins are affected. Without significant differentiation, services and software, our margins will be impacted in the future.

Decreases in our gross margin from any of these factors could significantly harm our financial condition.

Our market is highly competitive and we may not be able to compete effectively.

We operate in markets that are highly competitive and subject to rapid change and that are significantly affected by new product introductions and other market activities of industry participants. We expect competition to persist and intensify in the future. Our principal sources of competition include:

- companies providing storage subsystems and components to OEMs, including MiTAC Holdings Corporation, Quanta Storage Inc. and Sanmina Corporation (doing business as Newisys), together with larger suppliers such as EMC Corporation and Hitachi, Ltd.;

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- electronic manufacturing services (EMS) companies acquiring the necessary skills and intellectual property to enter the enterprise data storage marketplace;
- other high performance computing (HPC) data storage providers including Data Direct Networks and Panasas, Inc., together with larger suppliers such as EMC, NetApp and IBM;
- companies providing capital equipment to disk drive manufacturers, including existing suppliers of products such as Hitachi High-Technologies Corp. and Teradyne, Inc.;
- in-house development efforts by existing and potential customers; and
- collaborations between in-house development teams and a combination of EMS, contract electronic manufacturing (CEM) or emerging technology companies.

In addition, we face potential competition from new entrants including our current technology suppliers.

Some of our current and potential competitors may have longer operating histories, lower operating costs, or greater financial, technical, marketing or other resources than we do and we cannot assure you that we will have the resources to compete successfully in the future. In addition, some of our competitors have the resources to enable them to adopt aggressive pricing policies to gain market share or to shift production to lower cost regions. If we are unable to compete successfully against our current and future competitors, we could experience profit margin reductions or loss of market share, which could significantly harm our financial condition.

Our competitors may consolidate or form alliances with each other in the future. The successful consolidation of two or more of our competitors could result in the combination of their resources and technological capabilities. This could result in a more formidable competitor with improved access to a wider customer base and improved economies of scale and could result in the loss by us of significant market share. In addition, any future consolidation between any of our competitors and any of our suppliers could result in increased costs for the supply of components from that supplier or the need to find an alternative source for the supply of those components. If we are unable to identify an alternative supplier then our ability to manufacture our products at acceptable prices or to deliver our products on time could be impaired. Moreover, future consolidation between any of our competitors and any of our customers could result in a decrease in the volume of purchases from that customer or the loss of that customer altogether. Industry consolidation within the markets in which we operate could adversely affect our revenues and negatively impact our competitive position.

Continuing weakness or further deterioration in global economic conditions may have an adverse impact on our results of our operations and financial condition.

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The impact of the global financial crisis continues to be a cause of concern despite concerted efforts by certain governments and international institutions to contain the adverse effect of these events on the global economy. Global financial and credit markets have been extremely unstable and unpredictable and economic conditions in some of the countries in which we operate have been weak. The instability of the credit markets and weakness of the global economy could continue to adversely affect the demand for our products and our customers' products, the amount, timing and stability of their orders from us, the financial strength of our customers and suppliers, their ability or willingness to do business with us, our willingness to do business with them, our suppliers' and customers' ability to fulfill their obligations to us and the ability of our customers, our suppliers and us to obtain credit. These factors could adversely affect our operations and financial condition.

The success of our business depends on the continued high growth of the volume of digital information. If this growth does not occur at the rate anticipated, our business may be significantly harmed.

All of our products find application in the data storage market. If the growth that we and others have forecasted in the data storage market does not occur at the rate we expect, our business may be significantly harmed.

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Claims by third parties that we infringe their intellectual property or that patents on which we rely are invalid could significantly harm our financial condition, and the enforcement of our intellectual property rights may be expensive and could divert valuable company resources.

We operate in an industry characterized by frequent disputes over intellectual property. Third parties have in the past asserted, and in the future may assert, patent, copyright, trademark and other intellectual property rights to technologies that are important to our business and make claims that our products and technologies infringe their intellectual property, which could result in infringement lawsuits being filed against us. Any claims, whether made directly against us or through the arrangements we often enter into with our customers, could result in costly litigation, divert the attention of our technical and management personnel from operating our business, cause product shipment delays, or prevent us from making or selling certain products. In addition, we cannot give assurances that we would prevail in any litigation related to infringement claims against us. Generally, our liability insurance does not cover claims of this type. Moreover, as a result of these sorts of claims, we could be required to enter into royalty or licensing agreements which, if available, may not be available on commercially reasonable terms. We expect that providers of storage products will increasingly be subject to infringement claims as the number of products and competitors increases.

We may also need to assert claims against others in the future to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others, and we cannot be certain that we would prevail in any future litigation. Any litigation of this nature, whether or not determined in our favor or settled by us, would be costly and could divert valuable company resources. The enforcement by third parties of their intellectual property rights against us or the failure to successfully protect our intellectual property rights could significantly harm our financial condition.

Claims by third parties that we infringe their intellectual property may arise through our use of open source technologies within our products.

We increasingly use open source software technologies within our products. Although we have taken steps to keep open source technologies separated, our use of open source software could subject us to claims of ownership of, or demands for the release of, the source code, the open source software and/or derivative works that were developed using such software, or claims that otherwise seek to enforce the terms of the applicable open source license. These claims could also result in litigation or require us to purchase a costly license, devote additional research and development resources to change our products or discontinue the sale of certain products, any of which would have a negative effect on our business, financial condition and operating results.

The markets for our products are characterized by frequent technological innovation. If we do not successfully develop new products in a timely manner, or the market for our products declines, our future operating results and competitive position could be significantly harmed.

The markets for our products are characterized by rapid technological change, frequent new product introductions and technology enhancements, uncertain product life cycles and changes in customer demand. We cannot assure you that the design of future products will be completed as scheduled, that we will not experience difficulties that delay or prevent successful development, introduction, marketing and licensing of new products, or that any new products that we may introduce will achieve market acceptance or commercial success. In addition, the introduction of products based on new technologies and new industry standards could render our existing products obsolete and unmarketable and could devalue our previous investment in research and development. If we do not successfully develop new products in a timely manner our future profitability and competitive position could be significantly harmed. As a result of rapid technological changes, we may have to exit markets in which we operate. If we cannot manage the impact of the disruption on our existing customer base, our financial condition could be harmed.

The markets for our products are also characterized by technological change driven in part by the adoption of new industry standards. These standards coordinate the natural competitive behavior within the technology spaces and provide mechanisms to ensure technology component interoperability can occur. If any of our markets or technology space becomes completely defined by such standards it would reduce any capability for differentiation or innovation and our affected products would revert to commodity status. This could lower the barriers to entry to our market away from our specialist research and development skills and enable entry for the general-purpose design skills found in some large EMS and CEM companies. Commodity markets are driven by extremely low margins and very aggressive

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competitive pricing. If our market becomes more commoditized and we fail to deliver innovative value-added alternatives to our customers, we will have great difficulty competing against the larger EMS and CEM companies and our financial condition could be harmed.

In addition, cloud computing has emerged whereby applications and data are hosted, accessed and processed through a third-party provider over a broadband internet connection, potentially reducing the need for among other things, the amount of storage needed within personal computers. This trend could cause the market for our HDD capital equipment to decline over time, which could harm our business.

We are dependent on single source suppliers and limited source suppliers for certain key components and subassemblies.

Our manufacturing process depends on the availability and timely supply of components and subassemblies which meet our specifications and quality demands. Some of the components that we integrate into our own products are highly specialized and may only be available from a single source or a limited number of suppliers, particularly semiconductor and HDD suppliers. In addition, we depend on Flextronics International Ltd. as our sole source supplier for the provision of electronic printed circuit board assemblies (PCBAs). We are dependent on a number of other companies as sole source suppliers for certain subassemblies. Our reliance on Flextronics reduces our control over the manufacturing process, exposing us to risks including reduced control over quality assurance, increased production costs and reduced product supply. If we fail to manage effectively our relationship with Flextronics, or if Flextronics experiences delays, disruptions, capacity constraints or quality control problems in their manufacturing operations, our ability to ship products to our customers could be impaired and our competitive position and reputation could be damaged. Moreover, if any of our suppliers were to cancel or materially change their commitments to us or fail to meet the quality or delivery requirements needed to satisfy customer demand for our products, we could lose time-sensitive orders, be unable to develop or sell some products cost-effectively or on a timely basis, if at all, and have significantly decreased revenues, margins and earnings, which would have a material adverse effect on our business. In addition, our suppliers may go out of business, be impacted by natural disasters or may cease production of components, and it can take a substantial period of time to qualify a new supplier of components. Moreover, we obtain these components through purchase order arrangements and do not have long-term supply agreements in place with our suppliers.

We often aim to lead the market in new technology deployments and leverage unique technology from single source suppliers who are early adopters in the emerging market. Our options in supplier selection in these cases are limited and the supplier based technology may consequently be single sourced until wider adoption of the technology occurs. In such cases any technical issues in the supplier's technology may cause us to delay shipments of our new technology deployments and therefore harm our financial position.

We are heavily dependent on our proprietary technology and our competitors may gain access to this technology.

We depend heavily on our proprietary technology and rely on a combination of patent, copyright and trade secret laws to protect our intellectual property and expertise. We also attempt to protect our trade secrets and other proprietary information through confidentiality agreements with our customers, suppliers and employees and through other security measures. Despite these efforts, we cannot give assurances that others will not gain access to our trade secrets or that we can fully protect our intellectual property. In addition, effective trade secret protection may be unavailable or limited in certain countries in which we operate. Nor can we guarantee that our competitors will not independently develop comparable technologies. We cannot rely on our patents to provide us with any significant competitive advantage. Failure to protect our proprietary rights could significantly harm our financial condition.

Our products are complex and may contain defects that are detected only after deployment in complex networks and systems.

Our products are highly complex and are designed to form part of larger complex networks and systems. Defects in our products, or in the networks and systems of which they form a part, may directly or indirectly result in:

- increased costs and product delays until complex solution level interoperability issues are resolved;

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- costs associated with the remediation of any problems attributable to our products;
- loss of or delays in revenues;
- loss of customers;
- failure to achieve market acceptance and loss of market share;
- increased service and warranty costs; and
- increased insurance costs.

Defects in our products could also result in legal actions by our customers for property damage, injury or death. Product liability claims could exceed the level of insurance coverage that we have obtained to cover defects in our products. Any significant uninsured claims could significantly harm our financial condition.

Our future growth may depend in part on our successfully identifying and executing acquisitions, joint ventures and strategic relationships.

Our growth strategy may involve acquisitions, strategic alliances or joint ventures. These transactions involve certain risks resulting from the difficulties of integrating employees, operations, technologies and products. We may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to the integration of acquired or restructured businesses. In order to successfully integrate acquired operations into our business we may be required to expend significant funds, incur debt or assume liabilities, any of which could negatively affect our operations. In addition, the successful integration of acquired operations may also require substantial attention from our senior management, which may limit the amount of time available to be devoted to the day-to-day operations of our business or the execution of our business strategy. There can be no assurances that any of the businesses we acquire can be successfully integrated or that they will perform well once integrated. Additionally, we may be required to record expenses for write-downs of goodwill or other intangible assets associated with our acquisitions.

We have a long and unpredictable sales cycle.

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Our products are technically complex and we typically supply them in high quantities to a small number of customers. Many of our products are also tailored to meet the specific requirements of individual customers, and are often integrated by our customers into the systems and products that they sell. Factors that affect the length of our sales cycle include:

- the time required for testing and evaluating our products before they are deployed;
- the size of the deployment; and
- the degree of system configuration necessary to deploy our products.

As a result, our sales cycle is often in excess of one year, and the length of our sales cycle is frequently unpredictable. In addition, the emerging and evolving nature of the market for the products that we sell may lead prospective customers to postpone their purchasing decisions. We invest resources and incur costs during this cycle that may not be recovered if we do not successfully conclude sales. These factors lead to difficulty in matching revenues with expenses, and to increased expenditures which together may contribute to declines in our results of operations and our share price.

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Certain of our products are subject to U.S. export control laws and other international laws affecting the countries in which our products and services may be sold, distributed, or delivered. If we were found to have violated these laws, the consequences of such a determination could have a material and adverse effect on our business, financial condition and results of operations.

Due to the global nature of our business, we are subject to import and export restrictions and regulations, including the Export Administration Regulations (EAR) administered by the Commerce Department's Bureau of Industry and Security (BIS) and the trade and economic sanctions regulations administered by the Treasury Department's Office of Foreign Assets Control (OFAC). The United States, through the BIS and OFAC, places restrictions on the sale or export of certain products and services to certain countries and persons. Violators of these export control and sanctions laws may be subject to significant penalties, which may include significant monetary fines, criminal proceedings against us and our officers and employees, a denial of export privileges, and suspension or debarment from selling products to the federal government. We take a variety of precautions to prevent our products from being shipped to U.S. sanctioned targets; however, our products could be shipped to those targets by third parties, including potentially our customers.

We operate in North America, Asia and Europe and we cannot predict the impact that risks typically associated with conducting business internationally will have on our business.

We have operations in North America, Asia and the United Kingdom. We market and sell our products throughout the world. As a result, we are exposed to risks typically associated with conducting business internationally, many of which are beyond our control. These risks include:

- significant currency fluctuations between the U.S. dollar (in which our revenues are principally denominated) and the U.K. pound and Malaysian ringgit (in which certain of our costs are denominated);
- complexities of managing our operations in North America, Asia and the United Kingdom;
- uncertainty owing to the overlap of different legal regimes, a possibly disadvantageous legal position due to the application of foreign law as well as problems in asserting contractual or other rights across international borders, for example, warranty claims against suppliers and claims for payment against customers;
- potentially adverse tax consequences, such as transfer pricing arrangements between the countries in which we operate or a deemed change in the tax residence of one or more of our subsidiaries;
- potential tariffs and other trade barriers;

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- unexpected changes in regulatory requirements;
- the burden and expense of complying with the laws and regulations of various jurisdictions, including increasing liability under data privacy requirements and anti-corruption regulations;
- the impact of an outbreak of a viral pandemic, such as swine flu, severe acute respiratory syndrome or the avian flu virus, on our employees or suppliers; and
- the impact of a natural disaster or severe weather affecting a large geographical region, such as the flooding in Thailand in 2011, which could affect either supply lines, our ability to produce products internally, deliver our products or our customers' ability to pay or purchase new products and require us to invest in extensive plant and machinery to protect our buildings and production operations.

The occurrence of any of these events could significantly harm our financial condition.

We have experienced operating losses in the past and there can be no assurance that we will be profitable in the future.

We have experienced operating losses in the past, including operating losses of \$2.2 million and \$12.1 million in our 2013 and 2009 fiscal years, respectively. We expect to continue to incur significant product development, administrative and sales and marketing expenses as well as costs associated with potential future acquisitions and therefore we will need to generate significant revenues in order to achieve and maintain profitability. We cannot assure you that we can achieve operating income on a quarterly or annual basis in the future.

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We are dependent upon hiring and retaining highly qualified management and technical personnel.

We operate in the data storage technology market. Our key management and technical staff are currently located in the United Kingdom, the United States and Asia. There is strong competition for the highly qualified management and technical personnel with experience in our markets that we need to run our business and to develop new technologies and products. In California, in particular, the rate of turnover of key personnel in our markets is high. Our future success depends in part on our continued ability to hire and retain well-qualified technical personnel. We also rely heavily on our senior management and their ability to maintain relationships with our key customers. Many of our senior managers would be difficult to replace. In addition, we do not maintain key-person life insurance on any member of our senior management. The loss of any of our key management or technical personnel could significantly harm our financial condition.

We may incur expenses related to obsolescence or devaluation of unsold inventory, or to reserves necessary to protect us against future write-offs of unsold inventory.

Failure by us to accurately estimate product demand could cause us to incur expenses related to obsolescence or devaluation of unsold inventory. Due to the nature of our sales arrangements and supply and production arrangements, we may carry a significant amount of unsold inventory. As part of our internal controls, we have comprehensive inventory controls which include management approval for significant inventory purchases and monthly reviews of inventory levels and obsolescence. In our 2011 fiscal year, we recorded reserves related to inventory obsolescence of approximately \$7 million as a result of reduced forecast demand for our products. Historically, our costs related to obsolescence have been less than 0.5% of revenues. If we fail to accurately estimate product demand in the future, our inventory may lose value or become obsolete before it is sold. This may require us to increase our reserves for obsolete inventory, which could significantly harm our financial condition.

Our principal shareholders own a significant percentage of our Company and are able to exercise significant influence over our Company, and their interests may differ from those of our other shareholders.

Our principal shareholders and their affiliated entities together control approximately 30.0% of our issued and outstanding common shares. Accordingly, these shareholders, if they were to act together, would have significant influence over our affairs. They may exercise this influence by voting at a meeting of the shareholders in a manner that advances their best interests and not necessarily those of other shareholders. This concentration of ownership also could have the effect of delaying or preventing a change in control of our Company or otherwise discouraging a potential acquirer from attempting to obtain control of us.

If our Malaysian subsidiary ceases to receive favorable tax treatment by the Malaysian government we may be subject to tax liability that could significantly harm our financial condition.

A significant proportion of our enterprise data storage product revenues are recorded by our Malaysian subsidiary, which benefits from tax incentives granted by the Malaysian government. These are currently in force until 2017. Our favorable tax treatment in Malaysia is dependent upon the success of meeting certain requirements set out by the Malaysian authorities and demonstrating to both the Malaysian and the U.K. tax authorities that transactions between the relevant parties take place on an arm's-length basis. The loss of these tax benefits could increase our tax liabilities for past, current and future years, which could significantly harm our financial condition.

Geopolitical military conditions, including terrorist attacks and other acts of war, may materially and adversely affect the markets on which our common shares trade, the markets in which we operate our operations and our financial condition.

Terrorist attacks and other acts of war, and any response to them, may lead to armed hostilities and such developments would likely cause instability in financial markets. Armed hostilities and terrorism may directly impact our facilities, personnel and operations which are located in the United States and internationally, as well as those of our customers and suppliers. Furthermore, severe terrorist attacks or acts of war may result in temporary halts of commercial activity in the affected regions, and may result in reduced demand for our products. These developments could have a material adverse effect on our business and the trading price of our common shares.

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We could incur substantial costs, including clean-up costs, fines and civil or criminal sanctions, as a result of violations of or liabilities under environmental laws.

Our operations inside and outside the United States are subject to laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the clean-up of contaminated sites. Certain of our operations involve the use of substances regulated under various federal, state and international environmental laws. It is our policy to apply strict standards for environmental protection to sites inside and outside the United States, even if not subject to regulations imposed by local governments. We could incur substantial costs, including clean-up costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims if we were to violate or become liable under environmental laws or become non-compliant with environmental permits required at our facilities.

Increasing environmental legislation could adversely affect our business if we are unable to comply with regional legislation and hence be unable to supply products to certain global regions.

The business in which we operate is governed by environmental laws and regulations. European examples include the WEEE (waste electrical and electronic equipment), RoHS (restriction of hazardous substances) and REACH (registration, evaluation and authorisation of chemicals) Directives. Increasingly, more countries are introducing environmental legislation. Also, our major customers are introducing their own restrictions and requirements on the substances we can use within the products we supply to them.

We may be required to expend significant amounts of both time and money to ensure that we are in compliance with these new country and customer requirements. In addition, any changes to these laws or requirements (or their interpretation and enforcement) may require us to make significant changes to our products or our manufacturing processes.

If we fail to comply with environmental laws and regulations that affect our products, we could incur criminal or civil fines, penalties or other damages, which could be substantial. We might also have restrictions or limitations placed on our business operations that could have an adverse effect on our financial results. Failure to comply with our customers' environmental requirements could result in the loss of one or more of our customers or reduced orders from our customers, which could significantly harm our financial condition.

Failure to comply with increasing corporate social responsibility (CSR) legislation and the CSR requirements of our customers could result in fines and civil or criminal sanctions and adversely affect our business.

There is an increasing amount of CSR legislation which affects the business in which we operate. Recent examples include the Dodd-Frank Wall Street Reform Act of 2010 and the California Transparency in Supply Chains Act of 2010.

The Dodd-Frank Wall Street Reform Act of 2010 holds U.S. companies responsible for tracing and auditing their supply chain for minerals and derivative metals from the Democratic Republic of Congo and adjoining countries to ensure that they are not funding armed groups. We are required to trace, audit, and certify minerals used within our products that are supplied from conflict-free mines and complete form SD for the

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Securities and Exchange Commission (SEC). We may incur significant costs to comply with these diligence and disclosure requirements. In addition, we may have to change the supplier for certain components, if they cannot be proven to be conflict-free minerals. We may also face reputational harm, or reduced revenues, if our customers or other stakeholders conclude that we are unable to verify sufficiently the origins of the minerals used in the products we sell.

The California Transparency in Supply Chains Act of 2010 became effective on January 1, 2012. This act requires retailers and manufacturers who do business in the State of California and have gross worldwide sales of more than \$100 million to be transparent about the efforts (if any) they have undertaken to eradicate slavery and human trafficking in their supply chain. Failure to comply with this act could lead to an injunction brought by the California Affiliate Attorney General and reputational harm.

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In addition, our customers are increasingly imposing conditions on us related to CSR.

If we fail to comply with all CSR related laws and regulations that affect our products, or if we cannot comply with our customers' CSR requirements, we might have restrictions or limitations placed on our business operations, be subject to fines and penalties or be subject to the loss of customers or reduced orders, any of which could have an adverse effect on our financial results.

We are continually seeking ways to make our cost structure, business processes and systems more efficient, including moving activities from higher cost to lower cost locations, outsourcing certain business process functions and implementing new business information systems. Problems with the execution of these activities could have an adverse effect on our business or results of operations.

We continuously seek to make our cost structure and business processes more efficient. We are focused on increasing workforce flexibility and scalability, and improving overall competitiveness by leveraging our global capabilities, as well as external talent and skills, worldwide. For example, certain engineering activities and projects that were formerly performed in the U.S. and the U.K. have been moved to lower cost international locations and we rely on partners or third-party service providers for the provision of certain development activities.

The challenges involved with moving or outsourcing activities include executing business functions in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures. We are also subject to increased business continuity risks as we increase our reliance on outsource providers. For example, we may no longer be able to exercise control over some aspects of the future development, support or maintenance of outsourced operations and processes, including the management and internal controls associated with those outsourced business operations and processes, which could adversely affect our business. If we are unable to effectively utilize or integrate and operate with external resources or if our partners or third-party service providers experience business difficulties or are unable to provide business services as anticipated, we may need to seek alternative service providers or resume providing these business processes internally, which could be costly and time-consuming and have a material adverse effect on our operating results. In addition, we may not achieve the expected benefits of our outsourced development and information systems process improvements.

We may be subject to disruptions or failures in our information technology systems and network infrastructures that could have a material adverse effect on us.

We rely on the efficient and uninterrupted operation of complex information technology systems and network infrastructures to operate our business. We also hold large amounts of data in various data center facilities upon which our business depends. A disruption, infiltration or failure of our information technology systems or any of our data centers as a result of software or hardware malfunctions, system implementations or upgrades, computer viruses, third-party security breaches, employee error, theft or misuse, malfeasance, power disruptions, natural disasters or accidents could cause breaches of data security, loss of intellectual property and critical data and the release and misappropriation of sensitive competitive information and partner, customer and employee personal data.

We have recently implemented changes to our business information systems and are now using cloud computing for e-mail and storage of business data. An interruption in service, or unavailability of our cloud based systems, could result in an interruption to our business processes.

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Any of these events could harm our competitive position, result in a loss of customer confidence, cause us to incur significant costs to remedy any damages and ultimately materially adversely affect our business and financial condition.

While we have implemented a number of protective measures, including firewalls, antivirus, patches, data encryption, audit logs, routine back-ups with offsite retention of storage media, system audits, data partitioning, routine password modifications and disaster recovery procedures, such measures may not be adequate or implemented properly to prevent or fully address the adverse effect of such events.

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We may identify weaknesses and/or deficiencies with our controls over financial reporting when evaluating these controls for compliance with section 404 of the Sarbanes-Oxley Act.

We are required by Section 404 of the Sarbanes-Oxley Act of 2002 to report annually on our evaluation of our internal controls over financial reporting. Although our assessment, testing, and evaluation resulted in our conclusion that as of November 30, 2013, our internal controls over financial reporting were effective, we cannot predict the outcome of our testing in future periods. If our internal controls are ineffective in future periods, our business and reputation could be harmed. We may incur additional expenses and commitment of management's time in connection with further evaluations, either of which could materially increase our operating expenses and accordingly reduce our net income.

There are inherent uncertainties involved in estimates, judgments and assumptions used in the preparation of financial statements in accordance with U.S. GAAP. Any changes in estimates, judgments and assumptions could have a material adverse effect on our business, financial position and results of operations.

The consolidated financial statements included in the periodic reports we file with the SEC are prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operations.

Changes in securities laws and regulations have increased and may continue to increase our costs and make it more difficult to attract and retain qualified board members and executive officers.

Changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act and rules promulgated by the SEC and the NASDAQ Stock Market LLC, have increased and may continue to increase our expenses as we evaluate the implications of these rules and devote resources to respond to their requirements. The NASDAQ Stock Market LLC, on which our shares are listed, has comprehensive rules and regulations relating to corporate governance. These laws, rules and regulations have increased and will continue to increase the scope, complexity and cost of our corporate governance, reporting and disclosure practices. These developments may also make it more difficult and more expensive for us to obtain director and officer liability insurance in the future, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. Further, our board members, Chief Executive Officer and Chief Financial Officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which would adversely affect our business.

If securities or industry analysts do not publish research or reports about our business, or if they change their recommendations regarding our shares adversely, our share price and trading volume could decline.

The trading market for our common shares will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of the analysts who cover us downgrade our shares, our share price would likely decline. If one or more of these

analysts cease coverage of our Company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our share price or trading volume to decline.

Fluctuations in the price and volume of shares of technology companies or of listed companies generally could result in the volatility of our share price.

We are a data storage technology company. Stock markets generally have recently experienced extensive price and volume fluctuations, and the market prices of securities of technology companies in particular have experienced fluctuations that often have been unrelated or disproportionate to the operating results of those companies. Our share price has been subject to significant volatility, with a closing price per share on The NASDAQ Stock Market LLC as high as \$17.96 and as low as \$6.96 during our 2013 and 2012 fiscal years. These market fluctuations are likely to continue to result in extreme volatility in the price of our common shares. You should also be aware that price volatility may be more pronounced if the trading volume of our common shares is low.

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We are incorporated in Bermuda and, as a result, it may not be possible for shareholders to enforce civil liability provisions of the securities laws of the United States.

We are incorporated under the laws of Bermuda and a substantial portion of our assets and the majority of our executive officers and directors are located outside the United States. As a result, it may not be possible for the holders of our common shares to effect service of process upon us or our directors or officers within the United States or to enforce against us or our directors or officers in the United States court judgments based on the civil liability provisions of the securities laws of the United States. In addition, there is significant doubt as to whether the courts of Bermuda would recognize or enforce judgments of United States courts obtained against us or our directors or officers based on the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, there is also significant doubt as to whether the courts of Bermuda would be prepared to entertain an original action in Bermuda based on those laws. We have been advised by our United States and Bermuda legal advisors that the United States and Bermuda do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not based on United States federal or state securities laws, would not be automatically enforceable in Bermuda.

Bermuda law differs from the laws in effect in the United States and may afford less protection to shareholders.

Holders of our common shares may have more difficulty in protecting their interests than would shareholders of a corporation incorporated in a jurisdiction of the United States. We are a Bermuda company and, accordingly, we are governed by the Companies Act 1981 of Bermuda, as amended. The Companies Act differs in certain material respects from laws generally applicable to U.S. corporations and shareholders, including:

- ***Interested director transactions:*** Under the terms of our bye-laws, any director, or any director's firm, partner or any company with whom any director is associated, may act in a professional capacity for the company, other than as auditor, and such director or such director's firm, partner or such company is entitled to remuneration for professional services. Our bye-laws require that a director who is directly or indirectly interested in a proposed contract or arrangement declare the nature of that interest as required by the Companies Act 1981, but after such a declaration, unless disqualified by the Chairman of the relevant board meeting, such director may vote in respect of any contract or proposed contract or arrangement in which he or she is interested and may be counted in the quorum at such meeting. U.S. companies are generally required to obtain the approval of a majority of disinterested directors or the approval of shareholders before entering into any transaction or arrangement in which any of their directors has an interest, unless the transaction or arrangement is fair to the company at the time it is authorized by the company's board of directors or shareholders.
- ***Business combinations with interested shareholders:*** U.S. companies in general may not enter into business combinations with interested shareholders, namely certain large shareholders and affiliates, unless the business combination has been approved by the board of directors in advance or by a supermajority of shareholders or the business combination meets specified conditions. Under Bermuda law, and under our bye-laws, our board of directors may approve certain business combinations with interested shareholders without the need for a shareholder vote although certain business combinations, such as amalgamations, an arrangement under Bermuda law whereby two corporate entities combine and continue as a combined corporate entity but where neither of the original corporate entities cease to exist, usually require shareholder approval.

- *Shareholder suits:* The circumstances in which a shareholder may bring a derivative action in Bermuda are significantly more limited than in the United States. In general, under Bermuda law, derivative actions are permitted only when the act complained of is alleged to be beyond the corporate power of the company, is illegal or would result in the violation of the company's memorandum of association or bye-laws. In addition, Bermuda courts would consider permitting a derivative action for acts that are alleged to constitute a fraud against the minority shareholders or, for instance, acts that require the approval of a greater percentage of the company's shareholders than those who actually approved them.

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- *Limitations on directors' liability:* Our bye-laws provide that each shareholder agrees to waive any claim or right of action he or she may have, whether individually or in the right of the Company, against any director, except with respect to claims or rights of action arising out of the fraud or dishonesty of a director. This waiver may have the effect of barring certain claims against directors arising under U.S. federal securities laws. In general, U.S. companies may limit the personal liability of their directors as long as they acted in good faith and without knowing violation of law.

Our shareholder rights plan and certain provisions of our bye-laws may discourage a change of control.

On December 17, 2012, we adopted a shareholder rights plan that provides for one right for each of our outstanding common shares. The rights are designed to assure that all of our shareholders receive fair and equal treatment in the event of any proposed takeover and to guard against partial tender offers, open market accumulations and other abusive or coercive tactics to gain control of the Company without paying all shareholders a control premium. The rights will cause substantial dilution to a person or group that acquires 15% or more of the common shares on terms not approved by our board of directors.

Our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These provisions include:

- a classified board of directors with staggered three-year terms;
- the ability of our board of directors to determine the rights, preferences and privileges of our preference shares and to issue the preference shares without shareholder approval; and
- the need for an affirmative vote of the holders of not less than 66% of our voting shares for certain business combination transactions which have not been approved by our board of directors.

These provisions could make it more difficult for a third party to acquire us, even if the third party's offer may be considered beneficial by many shareholders. As a result, shareholders may be limited in their ability to obtain a premium for their shares.

ITEM 4: INFORMATION ON THE COMPANY

Item 4.A: History and Development of the Company

See Introduction.

Item 4.B: Business Overview

The following disclosure applies prior to our acquisition by Seagate Technology. In connection with the acquisition of Xyratex by Seagate on March 31, 2014, Xyratex is operated as a wholly-owned subsidiary of Seagate and this disclosure does not include changes made to the business as part of Seagate.

Company Overview

Xyratex is a leading provider of data storage technology, including modular solutions for the enterprise data storage industry and hard disk drive (HDD) capital equipment for the HDD industry.

Our product and solution portfolio for the enterprise data storage industry includes storage enclosures, integrated application platforms and high performance computing (HPC) data storage solutions. Our HDD based storage subsystems support a range of high-speed interconnect technologies to meet demanding cost and performance specifications. Our modular subsystem architecture allows us to support many segments within the networked storage market by enabling different specifications of storage subsystem designs, including Solid State Drives (SSDs), to be created from a standard set of interlocking technology modules. For example, our ClusterStor HPC data storage

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solutions leverage our storage enclosure and application platforms as the hardware basis for the solution. Using data published by an independent research company on the number of petabytes shipped in 2012 and 2013, we estimate that we are responsible for 8% to 10% of the annual worldwide enterprise storage system storage capacity shipments through our original equipment manufacturer (OEM) customer base. (A petabyte is a unit of measure equal to one million gigabytes (GBs) of data.) According to IDC, Xyratex is recognized as the world's largest OEM supplier by revenue for the last five years (2008-2012) and represented 49.9% of the OEM market share (Source: Worldwide Enterprise Storage Systems 2012 Vendor Shares, IDC, Document #241821, August 2013).

Our capital equipment product portfolio for the HDD industry includes process, inspection and test equipment utilized in drive processing systems (DPS) and drive component technologies (DCT). Our DPS product range includes both fully automated and manual solutions for controlling the HDD operating environment during the final assembly and test of both 2.5 inch and 3.5 inch HDDs. Our DCT product range is composed of automated solutions to process and test HDD components during the manufacturing process. The product range includes substrate and media inspection systems, servo track writers, and head testing, automation, surface attitude measurement, and defect detection systems. We estimate that approximately 50% of the industry's hard drives are processed on our equipment.

We have over 25 years of experience in research and development relating to HDDs, data storage systems and manufacturing process technology. This experience has enabled us to establish long-term strategic relationships with customers and related technology suppliers. We believe that we have developed a leadership position in the market with a consistent focus on innovation. We have delivered compelling market advantages to our customers through innovation in data storage system and capital equipment products that complement our customers' core competencies and objectives such as an automated test process solution for the HDD industry and new storage system interface technologies for enterprise data storage systems. Our customers have been able to leverage the time to market and cost/performance benefits of these technologies before many of their competitors. Our leadership position continues to be enhanced with innovation in all of our data storage solutions. These innovations include scalable HPC data storage architectures, integrated power and memory protection modules, greater data center level efficiencies through denser product design, high availability application controllers and software that provides a common interface for an appliance and management software design that can be leveraged across current and new products.

Our patent portfolio continues to reflect our innovation with 327 filings worldwide as of November 30, 2013. In addition, we manage a number of research consortia, with industrial and academic partners, focusing on long term needs of storage system users and markets. Our involvement with these organizations helps to provide insight to the emerging needs of the storage market.

Our technology and design capabilities are complemented by our global manufacturing and configuration services to deliver a customer package unique to the industry. We support our customers through production facilities in; Guadalajara, Mexico; Seremban, Malaysia; and Havant, United Kingdom.

Our design capabilities are complemented by our strategic alliances and partnerships that provide industry technology leadership through organizations such as Open Scalable File Systems (OpenSFS), the European Open File System (EOFS), the Storage Bridge Bay (SBB) working group, the SCSI Trade Association (STA), the Storage Network Industry Association (SNIA) and the International Disk Drive Equipment and Materials Association (IDEMA). We operate close partnerships with key suppliers of both technology and manufacturing services. To expand our available markets and increase interoperability, we embrace international industry standards, including the American National Standards Institute (ANSI) and industry collaborative standards, driving specifications such as SBB working alongside other leaders of the storage industry including Dell, EMC, IBM, NetApp and Seagate Technology.

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We sell our enterprise data storage solutions primarily to OEMs, and our HDD capital equipment products primarily to HDD manufacturers or their component suppliers. We form long-term strategic relationships with our customers, which include companies such as Cray, Dell, HP, Hitachi, IBM, Microsoft, NetApp, Seagate Technology and Western Digital. We enter into joint development projects with our key customers and suppliers in order to research and introduce new technologies and products.

We believe that we derive advantages from the technology and skill synergies and requirements throughout our product and solutions portfolio. All of our products require the integration of many types of high-speed HDD technologies into a range of high-density, high-availability, scalable solutions.

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Industry Overview

Worldwide storage demand continues to increase, driving the HDD capacity growth from 393,800 petabytes in 2012 to an expected 1.69 million petabytes by 2017 (Source: Market Trends: Evolving HDD and SSD Storage Landscapes, John Monroe and Joseph Unsworth, Gartner, October 2013). Our customers continue to view data storage as strategic to their business. This is largely driven by the volume of data that is being captured, processed, stored and manipulated as digital information. This information is generated from many sources, including critical business applications (such as e-mail communications and databases) and vertical applications (such as medical imaging, multimedia, cloud computing and HPC), which have collectively fueled an increase in demand for data storage capacity.

The adoption of virtualized technologies, the replication of information to improve recoverability, availability, data retention mandates, as well as the significant growth in the creation and archiving of unstructured data (fixed content) in both traditional business and emerging cloud-based businesses changes the scope and the type of storage systems that need to be deployed to customers. This growing diversification of markets and customers, coupled with the volatility in the market, creates both challenges and opportunities for Xyratex. Additionally, regulatory requirements and company policies requiring data preservation are expanding the use of storage resources in the enterprise. According to recent Gartner data, shipments of enterprise storage in terms of petabytes are expected to increase at a compound annual growth rate (CAGR) of 78.1% from 2012 through 2017; reaching over 923,571 petabytes in 2017 (Source: Forecast: Hard Disk Drives, Worldwide, 2010-2017 4Q13 Update, John Monroe, Gartner, December 2013). The increased demand for electronic data storage is primarily being satisfied by hardware solutions incorporating HDDs, driving an increase in both HDD unit volumes and average storage capacities. NAND Flash based drives, called SSDs, continue to ship in Xyratex and competitive storage systems. While we believe that HDDs will continue to provide the best value for mass storage and will remain the dominant technology for large capacity storage applications for many years to come, SSDs provide a higher performance option for our storage systems. Given the capacity limitations on SSDs, the capacity impact is currently expected to be minimal to the overall forecast, with SSDs expected to contribute approximately 9,433 petabytes, or 7% of enterprise storage, in 2017 (Source: Worldwide Solid State Drive 2013-2017 Update, IDC, Document #240871, May 2013).

In addition to the growth in data volume, the market for data storage products and services is also affected by the variety in data sources and purposes within the enterprise and consumer markets. Businesses face the challenge of managing the accessibility, prioritization, and protection of data in a cost-efficient manner. We believe that the realization that not all data is of equal value is driving a proliferation of disk drive storage and networking technologies developed to address different data management requirements. We also believe that businesses are now increasingly focusing on the issues surrounding increasing power consumption and thermal management to maintain compliance with emerging environmental legislation and to reduce energy costs. Because of the increased storage requirement and proliferation of storage technologies, we believe that there is a growing opportunity for outsourced product and service offerings within the data storage and Information Technology (IT) marketplace.

There are a number of macro drivers that affect the markets we serve and fuel the demand for enterprise data storage solutions and capital equipment, some of which are as follows:

- *Cloud Computing:* We believe cloud computing brings new architecture demands that are influencing the data storage market. Emerging public cloud service providers have a diverse range of storage requirements which could provide large opportunities for existing OEM customers and potentially a new market opportunity for Xyratex and bulk storage providers. In order to address the needs of cloud computing, cloud service providers must build new data centers that focus on scalability, availability and efficiency. IDC predicts the investment that providers will make in IT cloud services will represent approximately 16% of IT spending in five key areas: applications, system infrastructure software, platform-as-a-service, servers and storage, which will grow the fastest. The spending for public cloud IT Services is expected to increase from \$47.4 billion in 2013 to over \$100 billion in 2017 (Source: Worldwide and Regional Public IT Cloud Services 2013-2017 Forecast, IDC Document #242464, August 2013). Our data storage solutions are suitable for cloud-based service providers that incrementally

need to scale-up or scale-out or both (scale-up means to add storage resources without adding compute/ performance nodes in a system, scale-out means adding compute/performance nodes and often storage resources in a system).

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- *Big Data:* The emergence of Big Data is increasing the focus on maximizing the value of data collected in the normal course of business. According to research firm Gartner, Big data in general is defined as high volume, velocity and variety information assets that demand cost-effective, innovative forms of information processing for enhanced insight and decision making. Research firm IDC reports that the Big Data Technology and Services market is expected to grow to \$32.4 billion in 2017 (Source: Worldwide Big Data Technology and Services 2013 2017, IDC Document #244979, December 2013). Company estimates suggest that the market for data storage is approximately \$864 million based on using the same ratio of data storage to Technology and Services that is used in HPC (18%). The Company sees a convergence between Big Data analytics and the analytics performed in an HPC environment. This is creating demand for flexible compute and storage infrastructure that can serve the needs of both types of applications. The Company expects to address this opportunity with new and enhanced ClusterStor products in 2014.
- *High Performance Computing:* Storage for HPC is the fastest growing subcategory in the broader HPC market (server, storage, middleware, applications and services) and represents a significant growth opportunity for Xyratex. IDC predicts that storage revenue in the HPC market will grow at 8.2% CAGR through 2017 which will account for \$6 billion in revenue and approximately 20% of all HPC expenditures (Source: The Broader HPC Market 2012 - 2017 Forecast, IDC, Document #242742, August 2013). To address this market, Xyratex introduced the ClusterStor 3000 in 2011, the ClusterStor 6000 in 2012 and the ClusterStor 1500 in 2013. The HPC market consists of large government research organizations, educational institutions, defense and intelligence applications. HPC and technical computing is experiencing high levels of adoption in commercial research and development applications such as drug discovery, product development, energy exploration, financial modeling and cloud data analytics.
- *Tablet and Smart Phone Proliferation:* Mobile devices are driving a change in the IT infrastructure and are also providing new avenues for users to create and consume content. Mobile devices (such as tablets, smart phones and eBook readers) are expected to grow approximately 13% in 2014 and contribute as much as 60% of the overall IT industry's growth (Source: IDC Predictions 2014: Battles for Dominance and Survival on the 3rd Platform, IDC, Document #244606, December 2013). Given the limited storage capacity on these devices, we believe the content created and consumed by tablets and smart phones must be stored on either a separate personal device, on an enterprise storage system or in the cloud. We believe this trend is a net positive for Xyratex, as data created by these devices is driving storage demand.
- *Social Media:* Social networking sites like Facebook, Twitter, Google Plus, YouTube and LinkedIn, provide an outlet for consumers to post user generated content, which is driving significant storage growth. The addition of new users and uploaded content has increased significantly over the last several years. Facebook claims over 1.3 billion users worldwide as of January 1, 2014, up 22% from prior year, who combined post over 300 million photos every day. LinkedIn claims over 200 million active users in 2013, and YouTube claims that users upload 100 hours of new video every minute. The storage needs of this market are served by the traditional storage market as well as the expanding cloud storage environment.
- *Media and Entertainment:* As with the traditional data center market, the media and entertainment industry has also been experiencing a transition over the last several years with the adoption of high definition (HD) and three-dimensional (3D) technologies, improved computer-generated imagery (CGI), the addition of alternative delivery models (such as video on demand) and digitization and archive of movies and television shows. We believe that the creation and distribution of entertainment content is the largest driver in the growth of digital storage. Acquiring, editing, archiving and distributing digital content together with increasing distribution over the internet and digital cinema technology deployment all require large amounts of storage. Our Integrated Application Platform and storage enclosures allow OEMs to deliver customizable solutions that address the demands of the media and entertainment industry.
- *Increasing HDD Shipped Capacity:* HDD unit volumes as well as the industry's transition to higher capacity HDDs directly affect our sales of Drive Processing Systems. Personal computers, personal storage devices, consumer electronics as well as enterprise drives

accounted for 579 million units shipped

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in 2012 (Source: Forecast: Hard Disk Drives, Worldwide, 2010-2017 4Q13 Update, John Monroe, Gartner, December 2013). The industry is expected to continue to grow as a result of digital content demand creating a need for low-cost, high capacity solutions which are provided by HDDs. While the number of HDD units sold remains relatively flat at 1.5% CAGR from 2012 to 623 million units in 2017, increases in average drive capacity fuel significant petabyte growth; 33.8% CAGR from 2012 through 2017 (source: Forecast: Hard-Disk Drives, Worldwide, 2010-2017, 4Q13 Update, John Monroe, Gartner, December 2013). Specifically, the transition to higher capacity HDDs increases demand for our DPS equipment because these drives require longer process test and characterization times which results in an increase in the number of servo-fill, serial input-output and interface test cells. We estimate the average HDD capacity to be 681GB in 2012 with forecast growth to 2.72TB in 2017 (source: Forecast: Hard-Disk Drives, Worldwide, 2010-2017, 4Q13 Update, John Monroe, Gartner, December 2013). (A terabyte (TB) is a unit of measure equal to one thousand gigabytes.)

- *Increasing HDD Component Volumes:* HDD component unit volumes are driven by industry demand for HDD units as well as the number of components per drive. As reported by IDC (source: Worldwide Hard Disk Drive Quarterly Update 3Q13, Summary and Outlook, John Rydning, IDC, Document #244451, November 2013) with slower HDD technology transitions such as heat assisted magnetic recording (HAMR), areal density growth slows down; therefore it seems likely that HDD manufacturers will need to increase the components per drive in order to continue to provide higher capacity drives and keep pace with digital content growth. We believe that this phenomenon will drive further demand for our DCT equipment. (Areal density is the storage capacity per square inch on the recording surface of a disk.)
- *Introduction of New HDD Technologies:* Enabling the industry to continue providing increasing disk capacities will require innovations such as shingled writing, HAMR, microwave assisted magnetic recording (MAMR), dual stage actuators (DSA) and bit patterned media (BPM). Technologies such as these will enable the continuing growth of areal density while continuing to increase production capacity to satisfy the capacity demand and will therefore require significant capital investments by the industry.
- *Server Virtualization:* Server virtualization allows for one-to-many virtual servers to be created within one physical server which allows organizations to achieve an earlier return on investment. The adoption of server virtualization has caused server growth to slow down significantly; however, it has increased spending on data storage. We believe that for every dollar that is spent on server virtualization, organizations spend an additional \$5 or more on data storage.

Company Products

Our product and technology portfolio includes products designed for the enterprise data storage industry and the HDD industry. Our deep understanding of disk drive technologies, together with the innovation needed to manage and integrate disk drives into test platforms and enterprise systems, is core to Xyratex's technology and expertise, building on over 25 years of product development. We are seeing increasing advantages from the technology and skill synergies and requirements across our product and solutions portfolio.

Enterprise Data Storage Market

We design, develop and manufacture modular, scalable, high performance, high-density, high-availability, reliable and flexible enterprise data storage solutions. Our products are generally aimed at the enterprise and high performance computing markets where the need for reliability,

availability and serviceability (RAS) is important to the viability of the overall solution. These solutions are available as storage enclosures, application platforms and HPC data storage solutions.

OneStor Storage Enclosures are modular enclosures that currently house between 12 to 84 enterprise and/or solid state disk drives and support 6Gb/s and 12Gb/s serial attached SCSI (SAS) input/output (I/O) modules that can be updated as new technologies are made available to carry even higher bandwidth from solid state disk (SSD) or hard disk drive (HDD) storage to host connections. Our enclosures provide a common technology platform that reduces qualification time for our OEM customers and includes our management interface software, standardized across enclosures and provides easy integration as new platforms become available. These enclosures reside behind server, or appliance heads, to provide expansion storage. These systems offer our customers the flexibility of utilizing SSD and

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HDD technologies in either the 3.5 inch or 2.5 inch form factors. Our ultra-dense eighty-four drive enclosure is leading the industry with over 16 large form factor drive slots per rack unit height. This enclosure, designed for optimal density, power, cooling, availability and serviceability, we believe positions Xyratex as a leader in this critical segment and provides our OEM customers with an unmatched density advantage over their competitors, critical in markets such as cloud storage and storage for HPC.

OneStor Integrated Application Platforms include the OneStor embedded storage platforms which incorporate embedded server modules into our OneStor storage enclosures using the same standard form factor as our I/O modules and OneStor Storage application platforms which can deliver more processing, memory, and I/O channels to the most demanding storage solutions. All of the integrated application platforms can be deployed as an integrated solution or may leverage our modular enclosures for storage expansion.

These solutions eliminate additional hardware cost, cabling and complexity of installation as well as minimizing footprint requirements. OneStor integrated application platforms deliver enterprise management and serviceability through our Unified Storage Management (USM) software that includes features such as Command Line Interface (CLI) over Local Area Network (LAN), Keyboard/Video/Mouse over IP (iKVM), and an expanded management interface software that is accessible through Intelligent Platform Management Interface (IPMI) or SCSI Enclosure Services (SES) communication standards. Different solutions support different workload/application types, performance requirements, reduction of hardware and serviceability costs. Integrated application platforms are ideal platforms for OEMs to offer their customers more powerful solutions as scale-out storage systems, converged infrastructures, or as part of an integrated computing platform. Various data and storage network connections can be integrated into the storage enclosures, making them excellent platforms to address the requirements of the healthcare, video, IP storage, data de-duplication and cloud storage markets.

ClusterStor HPC data storage solutions are rack-scale solutions that consolidate controllers, our storage enclosures and application platforms, operating system, data protection, Lustre® File System and our scalable management software into a highly optimized scale-out storage platform that can be deployed in hours rather than weeks. These solutions are designed to meet the emerging and future needs of technical computing systems, including the world's largest supercomputers, such as greater performance scale, higher densities, low power consumption, ease of management, and increased availability and reliability. These solutions are designed from the ground up for high performance computing that focus in areas such as scientific research, simulation, climate modeling and oil and gas exploration. ClusterStor is a new architectural approach in HPC data storage eliminating the bottleneck that previous storage architectures create as organizations grow their environment. ClusterStor 3000 was released in 2011, ClusterStor 6000 was released in 2012 and the ClusterStor 9000 was announced in 2013 to address higher performance and capacity requirements. In June, 2013 the ClusterStor 1500 was released and provides the same key attributes of the rack-scale family, however targeted towards mid-range organizations that have different price/capacity/performance needs.

Our hardware and software design enables us to provide highly modular, energy efficient products both as generic designs and OEM specific derivatives. Our products provide the high speed digital interfaces to HDDs and SSDs using fibre-channel (FC), SAS and serial advanced technology attachment (SATA) technologies. These interfaces are provided with redundancy and enhanced diagnostic capabilities ensuring system availability even during maintenance. Disk drives must be provided with an essentially benign physical environment with effective cooling and mechanical structure to ensure that reliability is not compromised. Improvements in the design and materials ensure maximum efficiency and device management as well as end of life recyclability, all of which combine to provide a more ecologically friendly and power efficient product.

Our enterprise data storage products are internally managed by a range of firmware modules and features. These firmware modules can monitor the performance of the subsystem, create high-availability environments, communicate independently with remote service and support organizations, and integrate seamlessly with our customers' controlling software and management technology through industry standard interfaces. Increasingly we can provide this firmware both integrated within the product or independently to tightly integrate with OEM customers' own hardware and software.

A cornerstone of our differentiated manufacturing process is our Integrated Storage Test Process (ISTP) and overall knowledge and HDD expertise. Within our ISTP process, we incorporate a Combined Environmental Reliability Test (CERT), which has been developed leveraging our test knowledge and expertise which has continually evolved to

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integrate the latest available HDD and SSD technology. The process is undertaken on all our storage system products and provides a simulation of how the storage system and its HDDs will perform over an extended period of time. This ISTP process, which includes unit test, functional test and CERT, has been shown to dramatically reduce early life failure rates and potential field returns for our OEM customers.

As an OEM supplier, we extend our overall offering beyond the specific product and view the provision of our manufacturing, supply and delivery process as an essential element of our overall competitive strength.

Our manufacturing operations based in Mexico, Malaysia and United Kingdom are tightly integrated with key suppliers located primarily in lower cost regions, delivering both volume and product mix flexibility and efficiency. The modular manufacturing lines can be easily replicated in the most efficient worldwide location and provide high quality and highly reliable finished goods.

Flexibility in supply has enabled us to support our customers' growth. For some customers we provide both standard products and highly customized products integrating hardware and software components developed by our customers. We can provide products as component elements or as complete packaged solutions directly shipping to freight consolidators.

Hard Disk Drive Capital Equipment Market

Our capital equipment product portfolio for the HDD industry includes process, inspection and test equipment utilized in Drive Processing Systems (DPS) and Drive Component Technologies (DCT).

Drive Processing Systems. We design and manufacture a complete range of process test systems that incorporate mechanical and electronic hardware and firmware for controlling the HDD operating environment during the formatting of the disk drive. With over 3.5 million test slots installed worldwide, our DPS for 2.5 inch and 3.5 inch form factor drives enhance overall test quality and factory yields for HDD manufacturers.

- Our XMan and XCalibre product families provide dedicated manual and fully automated solutions for both 3.5 inch and 2.5 inch hard drives.
- Our Optimus 3500 and 2500 solutions represent our automated high performance product family for both 3.5 inch and 2.5 inch hard drives.
- We are expanding our DPS product portfolio to provide an optimized solution for high capacity 3.5 inch hard drives for use within cloud applications.

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The test process isolates any magnetic defects within each disk drive during an extensive period of testing that can exceed 100 hours for current generation high capacity HDDs. Our products utilize thermal modulation control with optimized dynamic isolation to create the ideal testing environment for each individual drive. System design accommodates testing of multiple drive types within the same system; allowing maximum drive density and operational flexibility. Our systems can be configured to meet the specific requirements of individual customers and are capable of processing a full range of HDD protocols (high-speed FC, low-cost SATA, advanced technology attachment (ATA), SAS and universal serial bus (USB)) and a range of HDD form factors. These systems can be configured to perform the following processes: drive formatting and qualification, interface electronics verification, and complete servo pattern writing outside a clean room environment.

Drive Component Technologies. We design and manufacture a complete range of automated solutions to test and process HDD components throughout the manufacturing process.

- We design and manufacture complete servo track writers and their key subassemblies and the required automation system, allowing them to be integrated into the customer's factory. Our solutions are capable of writing digitally generated magnetic reference patterns on the surface of the disks at a very high speed and enable both media writing process in a clean room environment and self-servo writing process within the HDD.

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- In addition, our head testing systems provide a range of capabilities related to the read and write head/slider devices throughout the manufacturing process including automated handling transfer and alignment (Polaris platform), surface attitude measurement (Orion platform) and defect detection and inspection (Apollo platform). Our Apollo family now includes a new generation of vision inspection tools.
- Our line of substrate and media inspection systems, including our Titan product, represents a unique modular design that combines high sensitivity, integrated, sophisticated defect classification algorithms and defect detection optics with proven high speed automation. These systems can be configured to meet a wide range of process applications by optimizing automation and optical tester selections to meet throughput and sensitivity requirements for critical defect detection to 50 nanometers, making them ideal for high volume production environments.

Sales, Marketing, Support and Distribution

We focus our business development efforts on serving global data storage leaders together with selected emerging customers, particularly those with innovative disruptive technologies. We have a proven history of supporting emerging storage companies and leveraging our product platforms, development expertise, global manufacturing and fulfillment capability.

We market and sell our products primarily to leading OEMs and disk drive manufacturers and also to a small number of other companies. Our ClusterStor solutions are sold through OEM partners and resellers. We provide these solutions to our OEMs in either custom packaging and naming (e.g. Cray Sonexion®) or as a ClusterStor branded solution. We believe that we have a strong sales and marketing model that allows us to develop strategic relationships based on our technical expertise. As part of our sales and marketing activities, we attend industry trade shows and participate in industry associations and customer-sponsored events.

As of November 30, 2013, we had 239 employees involved in sales, marketing and customer support activities.

Our sales and marketing efforts focus on acquiring and deepening our relationships with new and existing customers. Our relationships with new customers frequently begin with supplying key technology components and develop into arrangements for the provision of more comprehensive technology solutions. Our sales cycle is typically long; it can often take in excess of one year for new customers to evaluate our technology before integrating within their products. We also have sales and technical personnel that are based in various geographies to assist the OEM sales force with positioning and selling the ClusterStor solution.

Our worldwide support organization provides presales support to our customers to assist in evaluation and testing of our products and solutions. Additionally we provide ongoing after sale support to our OEM customers. We also provide post sale support services for our ClusterStor solutions on a contract basis. These services include onsite repair, and professional services including installation and optimization.

For enterprise data storage products, following integration, our products often underpin a customer product line and this typically evolves into multiple product refresh cycles for our combined technologies. Many customers leverage our IP and software features in the combined solution

which facilitates a stronger partnership.

Our customers are primarily U.S. companies with global operations. We ship to their operations in North America, Asia and Europe. The following table sets forth the percentage of our revenues generated from sales to customers in North America, Asia and Europe for the past three fiscal years.

	Year Ended November 30,		
	2013	2012	2011
North America	62.5%	58.3%	68.7%
Asia	29.2%	29.5%	15.9%
Europe	8.3%	12.2%	15.4%

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Customers

Our business is based on long-term strategic relationships with our customers. To date, we have been successful in cultivating these relationships and have historically experienced a stable customer base. Our major customers are the OEMs that supply storage systems and networking products to the end user, and large corporations that supply HDDs to those OEMs and direct to end users.

Our customers include some of the largest companies in the storage industry and include Dell, Hitachi, HP, IBM, Microsoft, NetApp, Oracle, Seagate Technology, Toshiba and Western Digital, as well as numerous emerging companies. In our 2013 fiscal year, sales to our top six customers accounted for 86% of our revenues. During our 2012 fiscal year, our top six customers accounted for 88% of our revenues. The loss of any of our top customers could significantly harm our financial condition.

We have established relationships with leading HPC providers including Cray, Dell and HP. ClusterStor products are being supplied to the oil and gas, academic, government industries and are making progress in financial, life sciences and media and entertainment markets. Cray sells a variation of the ClusterStor solution under its Sonexion brand name. Cray's Sonexion customers include the Pawsey Centre and Deutscher Wetterdienst (DWD) (Germany's National Meteorological Service).

Our contractual relationships with our top customers are governed by framework supply agreements. Actual sales and purchases of our products are made pursuant to individual purchase orders issued under the respective framework supply agreement. Our customers issue purchase orders for the supply of specified products on an as needed basis. Each framework supply agreement sets forth the general terms and conditions governing individual purchase orders, an initial minimum price list for each of our products and a form of forecasted supply schedule for the products to be supplied. The minimum price lists and forecasted supply schedules are non-binding. We frequently issue revised price lists and issue new forecasted supply schedules. The framework supply agreements also:

- require us to notify the customer of engineering changes to our products;
- provide that we retain intellectual property rights to our products and any improvements to our products and to all foreground intellectual property and technology;
- grant the customer a nonexclusive, worldwide, license to use our intellectual property in the customer's product offerings; and
- contain certain non-disclosure, confidentiality, assignment, termination, product and manufacturer's warranty, inventory consignment, and indemnification provisions.

Our customer partnerships often include the manufacture and supply of customer-developed product elements as well as customization of generic platforms, providing a cohesive bond between ourselves and the customer more than that experienced with standard product sales.

Competition

The market for our products is competitive and we expect this competition to increase. To maintain and improve our competitive position, we must continue to develop and introduce, on a timely and cost-effective basis, new product features and applications that keep pace with technological developments and emerging industry standards and that address the increasingly sophisticated requirements of our customers. The principal competitive factors affecting the market for our products are:

- early identification of emerging opportunities;
- being first to market with emerging technologies;
- complementing customer objectives without competing with customers;

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- providing cost-effective solutions;
- maintaining high levels of product performance and reliability;
- continuously expanding product scalability, flexibility and ease of use;
- delivering solutions integrated with customer technology;
- integration of data storage hardware with clustered file system and management software;
- offering support for emerging high-speed communication protocols; and
- increasing localized and responsive customer support on a worldwide basis.

We believe that we compete favorably with respect to each of these factors and have gained significant market share in many of our targeted markets. We believe that our success has been driven by our technological leadership, our significant investment in research and development, our ability to generate customer loyalty and our track record of anticipating market trends.

Our enterprise data storage products compete with products developed by companies active in providing storage subsystems and components to OEMs, including MiTAC, Quanta and Sanmina (doing business as Newisys) together with larger suppliers such as EMC and Hitachi. We also face competition from internal development efforts of existing and potential customers. Such efforts can also be in collaboration with a combination of electronic manufacturing services (EMS), contract electronic manufacturing (CEM) and emerging technology companies. In addition, we face potential competition from new entrants including our current technology suppliers.

Our HPC data storage solutions compete with products developed by other HPC data storage providers, including Data Direct Networks and Panasas, together with larger suppliers such as EMC, NetApp and IBM.

We believe that our capital equipment products compete with products developed by companies providing certain types of capital equipment to the HDD industry. Examples of these companies are Hitachi High-Technologies Corp. and Teradyne, Inc. We also believe that we face competition from internal development efforts of existing and potential customers, in collaboration with their manufacturing and engineering

partners.

Manufacturing and Operations

Our operational strategy is to provide production facilities in close proximity to our customer base. Our production facilities are based in Guadalajara, Mexico; Seremban, Malaysia; and Havant, United Kingdom. These facilities share a common SAP Enterprise Resource Planning (ERP) system and integrated processes which are accessible from any location. This enables responsive customer support and provides us with the flexibility to move manufacturing operations from one region to another in order to meet the logistics requirements of our customers. Our production facilities also use common quality control processes which we believe help to ensure that all of our products, irrespective of their place of manufacture, meet the quality expectations of our customers.

We have established strategic relationships with a number of key suppliers for the supply of our core components and subassemblies, including printed circuit board assemblies, HDDs, plastic moldings, power supplies and sheet-metal fabrication. Our production facilities are focused on material planning; high-level assembly operations; system configuration and testing; and customer fulfillment activities.

ISO 9001 Quality Management System Registrations

Xyratex takes its commitment to quality seriously. Our Havant location has been registered to the ISO 9001 Quality Systems Standard since we were founded in December 1994. Our Guadalajara and Seremban locations gained registration in 2012 and 1999 respectively. In 2011 we transitioned to a single global ISO 9001 registration which continues.

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ISO 14001 Environmental Matters

We take our responsibility for the environment seriously, regarding our own activities and those of our suppliers, and endeavor to support the environmental aims and initiatives of our customers. We aim to identify and minimize any negative environmental impacts of our products and business activities, specifically to ensure that we comply with all relevant environmental legislation and regulations, reduce the use of materials, or alternatively re-use, recycle and recover materials to minimize the overall consumption of natural resources and prevent pollution, support our customers in the pursuit of their environmental objectives, communicate appropriately on environmental matters internally and externally, present an image which accurately reflects our environmental performance and objectives and continually improve our environmental performance.

We are registered to ISO 14001 at our Havant and Seremban locations; Havant having been first registered in 2005 with Seremban gaining registration in 2007. We are working towards registration in Guadalajara.

OHSAS 18001 Occupational Health and Safety

We are committed to ensuring the health, safety and welfare of our employees and other persons who may be affected by our activities. Steps are taken to ensure that our statutory duties are met at all times and our processes and systems of work are designed to ensure the health and safety of our staff and customers. Our Havant and Seremban locations gained OHSAS 18001 registration in 2009 and 2011 respectively. We are working towards registration in Guadalajara.

Supply Arrangements

We order parts from our suppliers through purchase orders on an as-needed basis. Each purchase order we issue specifies the component required and any related design specifications and the price for the component based on frequently updated price lists. In addition, with certain suppliers, we have also implemented trading agreements to clarify specific business practices and agreements between ourselves and the supplier. These trading agreements generally do not contractually commit us to order goods or services from these suppliers, nor do they restrict us from obtaining equivalent goods or services from other suppliers. The trading agreements can also:

- provide that we retain all rights to intellectual property developed or created for us by our suppliers;

- grant the supplier the right to apply for patent protection on any invention developed by the supplier in connection with its supply of components to us and grant us a nonexclusive, worldwide, license to use any patents granted;

- contain assignment, termination and confidentiality provisions and quality warranties; and

- define any quality and shipping control requirements and define corrective processes, procedures and penalties incurred in managing any exceptions.

We have an agreement with Flextronics International Ltd., one of the largest third-party providers of customized integrated electronic manufacturing and design services, to manufacture electronic printed circuit board assemblies (PCBAs) and certain higher level assemblies for use in our products. We purchase all of the PCBAs used in our products from third party vendors, but maintain PCBA architecture, design and development expertise in-house. We augment this in-house capability with the use of design and development capabilities of third party vendors for specific PCBAs within our products. We work closely with Flextronics and others to effectively manage our electronic PCBA inventory, control component costs and incorporate design upgrades. Our agreement with Flextronics is a trading agreement which sets forth the basic terms of the supply arrangement but does not contractually commit us to order electronic PCBAs from Flextronics. We order electronic PCBAs from Flextronics through purchase orders, as and when required. Our trading agreement with Flextronics:

- permits assignment of the trading agreement by us or Flextronics with written consent;

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- provides that the trading agreement may be terminated in the event that Flextronics becomes bankrupt or enters into receivership;
- prohibits the disclosure of Xyratex confidential information to third parties and requires that Flextronics obtain our prior approval before publicizing or advertising certain products;
- contains product quality warranties that require electronic PCBAs supplied by Flextronics to comply with our specifications;
- requires compliance with health and safety at work laws and regulations including laws and regulations relating to the control of hazardous substances;
- stipulates ownership, use, quality, service and maintenance procedures relating to tooling owned by Xyratex that is used by Flextronics and held at Flextronics site;
- specifies the carriage and insurance costs to be paid in connection with the delivery of electronic PCBAs and constituent parts; and
- sets forth procedures for the provision of notice of the obsolescence of electronic PCBAs or constituent parts.

Research and Development

We have over 25 years of research and development experience in disk drive development, storage systems and manufacturing process technology. We believe that we have been first-to-market with several of our enterprise data storage subsystem and HDD capital equipment products. By delivering innovative technical capability we complement our customers core competencies and objectives and, for our HDD capital equipment products, we focus on improving the effectiveness and efficiency of our customers production processes.

Our research and development activities are essential to ensure our products remain competitive both economically and technologically as the data storage industry continues to evolve at a rapid pace.

Our core technical expertise covers a number of disciplines:

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- high speed electronics and interfaces; including current and developing network and storage related data transfer protocols such as FCoE, iSCSI, FC-AL, Ethernet, Infiniband and SAS;
- storage application software focused on scale-out file-systems, data protection, operating systems and sophisticated cluster management;
- firmware focused on advanced server and enclosure management;
- mechanical engineering; critical to ensure optimal performance of disk drives both during manufacturing processes and in data storage subsystems;
- electronic, optical and electro-mechanical control systems;
- storage application processors; and
- system engineering that integrates multiple software, firmware and hardware components with manufacturing capabilities to create complete appliances that customers can easily deploy into production.

We carry out our research and development activities in Havant, United Kingdom; Heathrow, Florida; Fremont, San Francisco and Valencia, California; Kitchener, Canada; Singapore; Seremban, Malaysia; Russia and through outsource providers in Kiev, Ukraine; Hyderabad and Pune, India; and Bucharest, Romania.

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We have made significant investments in research and development throughout our history with aggregate expenditures of \$317 million during the last three fiscal years. We have consistently maintained over 25% of our employees in research and development during this period. These employees have an average of over 10 years of experience in research and development.

We typically undertake between 8 to 10 significant research and development efforts each year, in addition to a number of smaller research and development projects. In the year ended November 30, 2013, we engaged in 64 research and development projects. 16 of these projects are focused on developing new technologies or applications, and the remainder are focused on improving existing technologies or applications. We review the status of all of our active research and development projects semi-annually and make adjustments to the investment levels of these projects as needed.

We have continued to invest significantly in research and development projects in 2013. For example, in connection with the enterprise data storage market, we continued to invest in the Lustre file system software, used in our HPC data storage solutions, as well as optimizing a high density 3.5 inch HDD enclosure used by both the HPC and OEM storage products. These products have the potential to be used in cloud applications as well as further OEM storage applications. In connection with the HDD capital equipment market we are developing a new product to more effectively test 3.5 inch HDDs and new products which address the requirements of head and media substrate manufacturing.

Intellectual Property

Our success is dependent upon our ability to develop and maintain the proprietary aspects of our technology and to operate without infringing the proprietary rights of others. We rely on a combination of patent, copyright, trademark and trade secret laws, and generally have intellectual property agreements governing our relationships with our customers, suppliers, employees and consultants. As of November 30, 2013, we had 160 U.S. patents granted, 60 U.S. patents pending, 62 non-U.S. patents granted and 45 non-U.S. patents pending.

In order to enhance our intellectual property, we also seek to acquire or obtain cross-licenses with industry partners. In April 2011, we expanded our cross-license agreement with IBM. This enables us to leverage valuable IBM intellectual property into our product roadmaps.

We use open source software technologies within our ClusterStor products. We manage open source software technologies in an effort to ensure we are protecting proprietary intellectual property while maintaining relationships with the wider community to leverage the community's collective momentum to the benefit of our product roadmaps.

We have documented internal processes for the management and protection of our intellectual property. These include standard forms for patent filing, design and trademark registration, employee and contractor supplier agreements, and non-disclosure agreements. We file patent applications when we consider patent protection to be the most appropriate and commercially practical means of protecting our intellectual property. We do not generally differentiate our products by their external design features, but we do register designs where we consider it appropriate. Many of our products are differentiated by their unique mechanical designs, which we have taken steps to protect under patent law. Increasingly we are differentiating our products with software design features and have taken steps designed to ensure that open source technologies are kept separated via the use of industry-standard tools embedded in the development processes as well as patenting key features of the software algorithms and design. In addition, we have considerable expertise in the areas of very high-speed electronics.

We sell our data storage enclosures and application platforms primarily to OEMs that incorporate them into their own branded products. We have registered the Xyratex and ClusterStor trademarks and other trademarks specific to certain of our products.

Legal Proceedings

From time to time, we may become involved in legal proceedings relating to claims arising out of our operations in the normal course of business. In particular, others may assert patent, copyright, trademark and other

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intellectual property rights to technologies that are important to our business or make claims that we infringe their intellectual property.

We are not currently a party to any litigation or arbitration proceedings, nor are we aware of any threatened or potential legal proceedings, which could significantly harm our financial condition.

Item 4.C: Organizational Structure

Xyratex Ltd is the parent company of the Xyratex Group. Xyratex Ltd directly wholly-owns all the significant subsidiaries in the group with the exception of Xyratex International Inc. and Xyratex Mexico S.A. de C.V., which it wholly owns indirectly. As of March 31, 2014, we are wholly-owned by Seagate Technology International, an indirect subsidiary of Seagate Technology plc.

The following table lists our significant subsidiaries:

Company	Country of Incorporation
Xyratex Technology Limited	United Kingdom
Xyratex Holdings Inc.	United States
Xyratex International Inc.	United States
Xyratex (Malaysia) Sdn Bhd	Malaysia
Xyratex Mexico S.A. de C.V.	Mexico

Item 4.D: Properties

Our corporate offices and the center for our European research and development and production operations are located at leased facilities in Havant, United Kingdom. Our North America research and development operations occupy leased facilities in Fremont and Valencia in California, Heathrow in Florida and Kitchener in Canada. We maintain leased production operations in Guadalajara, Mexico. In Asia, we own production and research and development operations in Seremban, Malaysia and lease a research and development facility in Singapore. We also lease office space in Penang, Malaysia, Singapore, China, Thailand, The Philippines and Tokyo, Japan for sales and customer support. The following table lists significant space occupied by us as at January 1, 2014:

Country	Location	Office space (square feet)	Manufacturing space (square feet)	Total space (square feet)
United Kingdom	Havant	85,000	33,000	118,000
North America	Sacramento, California	21,100		21,100
	Fremont, California	55,800	29,900	85,700
	Heathrow, Florida	21,000		21,000
	Valencia, California	14,300		14,300

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	Guadalajara, Mexico	6,800	88,000	94,800
	Other North America	3,200		3,200
Asia	Seremban, Malaysia	70,300	176,600	246,900
	Singapore	18,300		18,300
	Other Asia	13,000		13,000
Total		308,800	327,500	636,300

ITEM 4A: UNRESOLVED STAFF COMMENTS

None.

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ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS (MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS)

You should read the following commentary together with the selected historical consolidated financial data set forth in Part I, Item 3.A: Selected Financial Data and our consolidated financial statements and the related notes contained elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those set forth in Part I, Item 3.D: Risk Factors and elsewhere in this Annual Report.

Overview

We are a leading provider of data storage technology including modular solutions for the enterprise data storage industry and hard disk drive capital equipment. We report our operations in two product segments: Enterprise Data Storage Solutions and Hard Disk Drive (HDD) Capital Equipment.

Our Enterprise Data Storage Solutions products are primarily HDD based storage enclosures and solutions, which we provide to OEMs and our HDD Capital Equipment products consist of HDD manufacturing process equipment, which we sell directly to manufacturers of HDDs. We form long-term strategic relationships with our customers and we support them through our operations in North America, Asia and Europe. In our 2013 fiscal year, sales to our top six customers, IBM, NetApp, Dell, HP, Seagate Technology and Western Digital, accounted for 86% of our revenues with sales to IBM, NetApp, Dell, HP and Seagate Technology accounting for 25%, 20%, 12%, 11% and 11% of our revenues respectively. These were also our top six customers in our 2012 fiscal year and accounted for 88% of our revenues with sales to NetApp, Dell and IBM accounting for 38%, 19% and 15% of our revenues respectively. We had 27 customers which individually contributed more than \$0.5 million to revenues in our 2013 fiscal year and 29 in our 2012 fiscal year.

As well as our manufacturing and operational capability, our revenues are highly dependent on our research and development efforts. We enter into joint development projects with our key customers and suppliers in order to research and introduce new technologies and products.

Highlights of 2013

- Our overall revenues reduced by 30% in 2013 due primarily to significantly reduced sales of Enterprise Data Storage Solutions products.
- Revenues from sales of our Enterprise Data Storage Solutions products decreased by \$319 million or 33% in the year primarily due to changes in sourcing by a number of major customers. This included a \$280 million reduction in sales to NetApp as a result of our agreement with NetApp which allowed them to source an increasing proportion of our products from a contract manufacturer.

- Revenues from sales of our HDD Capital Equipment products decreased by \$26 million or 14%. Our 2012 fiscal year revenues included an estimate of \$50 million revenue arising from the replacement of equipment damaged in the 2011 Thailand floods.
- Gross margins increased from 16.9% to 21.0% due to increased margins in both our operating segments. Enterprise Data Storage Solutions margins were higher primarily as a result of a more favorable customer and product mix. HDD Capital Equipment gross margins increased primarily due to changes in product mix.
- Our operating expenses decreased by 3% reflecting the cost reduction program carried out in 2012, partially offset by increases in expenditure related to new products such as those addressing HPC storage.

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- We recorded a net loss of \$21 million for the 2013 fiscal year compared to net income of \$18 million for our 2012 fiscal year. This included the effect of a \$19.2 million tax provision resulting from recording a valuation allowance against UK deferred tax assets. The remainder of the variance was primarily attributable to the significant decrease in Enterprise Data Storage Solutions revenues, partially offset by improved gross margins and lower expenses related to HDD Capital Equipment products.
- Our cash balance decreased by approximately \$14 million during our 2013 fiscal year to \$103 million. This was primarily a result of dividends of approximately \$62 million including a special dividend of \$54 million. Operating cash inflow was approximately \$67 million, resulting primarily from a reduction in working capital related to the lower revenues. We believe that, after providing this return of positive operating cash flows to shareholders, we will still be able to meet our cash requirements at least through the next 12 months.

Revenues

Revenues from sales of products in both of our segments are impacted by underlying increases in the amount of digitally stored information. Our Enterprise Data Storage Solutions revenues are primarily dependent on the worldwide enterprise data storage market, the market share of our OEM customer base, particularly that of key customers, and changes in that customer base. Our HDD Capital Equipment revenues are specifically affected by changes in shipped volume and increases in the individual storage capacity of disk drives. 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 experienced a decline in revenue from our Enterprise Data Storage Solutions products in both our 2012 and 2013 fiscal years, primarily due to specific customer factors. Commencing in 2009 we enabled our largest customer, NetApp, to source a proportion of the products we supply under license from a contract manufacturer. This proportion was set at a maximum of 25% for our 2011 fiscal year, increasing to 50% in our 2012 fiscal year and 75% in our 2013 fiscal year with shipments to this customer substantially complete by the end of 2013. We were also impacted by other changes in our customer base in 2012 and 2013 with reductions in revenue due to certain customer programs moving to an in-house solution. In 2013, these reductions have been offset in part by revenue from the introduction of a number of new products and programs including a growth in revenue from our new HPC data storage solution. In the second half of our 2012 fiscal year our revenues were also impacted by a decline in the underlying market, but we believe this market has stabilized in 2013. Our 2014 Enterprise Data Storage Solutions revenues will depend on the offsetting effects of the completion of the NetApp contract and the commencement of new programs and products. Over the longer term, our revenues from our major customers will significantly depend on our ability to continue to develop and manufacture products that compete well with products provided by contract manufacturers and these customers' own development efforts.

Demand for our HDD Capital Equipment products in the last three fiscal years has been negatively impacted by changes in the underlying market for disk drives, such as a reduction in demand for laptop drives, as well as customer specific factors including the acquisitions by Seagate and Western Digital of the disk drive operations of Samsung and Hitachi, respectively. We estimate that revenue in our 2012 fiscal year included approximately \$50 million arising from the replacement of equipment damaged in the October 2011 Thailand floods. The demand for these products declined significantly after July 2012, reflecting continued uncertainty in the underlying demand for HDDs, partly due to weak demand in the global economy. In 2013 we have seen improved demand for products supporting 3.5 inch disk drives and HDD technology changes.

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

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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

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products will generally command a higher unit price. Average unit prices will also vary with the mix of customers and products. We have not seen an overall trend in our unit prices over recent fiscal years.

Operating Expenses and Cost Reduction Exercise

In 2011 we experienced a significant decline in HDD Capital Equipment revenues. In response to this we implemented a cost reduction program to reduce fixed costs where we believe we were able to do so without impacting our competitive position. This resulted in restructuring costs of \$2.8 million in 2011. The reduction in annual operating expenses relating to this program amounted to approximately \$24 million and has been partially offset by an increase in expenses related to Enterprise Data Storage Solutions.

Based on demand expectations for HDD Capital Equipment products in 2013 and beyond, as well as an anticipated further reduction in demand for Enterprise Data Storage Solutions products, we took action during our 2012 fiscal year to reduce expenses supporting these products in our 2013 fiscal year. These actions resulted in restructuring costs of \$4.1 million during the second half of our 2012 fiscal year. Approximately \$2 million of this amount related to manufacturing overheads, a reduction in which will lessen the impact of lower sales on gross margin. The remaining element of the program resulted in a reduction of approximately \$17 million in annual operating expenses. We have undertaken further cost reduction actions in our 2013 fiscal year including the transfer of our North America manufacturing base from California, United States to Mexico and reducing operating expenses relating to Enterprise Data Storage Solutions. We recorded restructuring costs of \$3.7 million in our 2013 fiscal year, in connection with these actions. Of this amount \$2.1 million will enable a reduction of approximately \$15 million in manufacturing overheads which will enable us to maintain gross margins. The total impact of the 2012 and 2013 exercises on operating expenses in our 2013 fiscal year has been broadly offset by increased expenses supporting HPC and other related markets including development of software applications and sales and field support.

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 \$61 million in our 2013 fiscal year) of our non-U.S. dollar operating expenses relates to payroll and other expenses of our U.K. operations. To a lesser extent we are also exposed to movements in the Malaysian Ringgit relative to the U.S. dollar due to our operations in Malaysia. We manage these exchange rate exposures through the use of forward foreign currency exchange contracts. By using these derivative instruments, increases or decreases in our U.K. pound and Malaysian ringgit operating expenses resulting from changes in the U.S. dollar to U.K. pound and Malaysian ringgit exchange rates are partially offset by realized gains and losses on the derivative instruments.

Historically there have been periods of significant volatility in the exchange rate between the U.K. pound and the U.S. dollar. We have hedged the majority of our exposure to this exchange rate movement for approximately one year ahead and we are particularly impacted by the movement in average annual exchange rates. The average value of the U.K. pound relative to the U.S. dollar did not move significantly from 2011 to 2012 and therefore 2013 expenses have not been significantly impacted by changes in exchange rates.

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 profit margins change primarily as a result of fluctuations in our product and customer mix. Our gross margins also change as a result of changes to product pricing, provisions for obsolescence, manufacturing volumes and costs of components.

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.

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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. As in previous fiscal years our expenditure is spread over a significant number of projects. We do not believe that any one of these projects will significantly impact the future success of the overall business. During our 2013 fiscal year, our research and development expenses related to over 64 separate projects covering developing new products, improving existing products, meeting customer specific requirements and entering new markets, such as development of a product to address the HPC market. We commenced shipments of our first HPC product in our 2012 fiscal year and are undertaking a number of projects related to improvements to the software and hardware components of the product to support our aim to increase our market share. As of November 30, 2013, 27% of our employees were engaged in our research and development activities.

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, IT costs, other marketing and sales expenses and exchange gains and losses.

Share Repurchase Plan, Dividends and Bank Facilities

We announced in March 2011 that we would recommence the share repurchase plan initially approved during the first quarter of 2008 and increased the maximum value of shares that may be repurchased. According to the revised terms of the plan, we may repurchase up to an additional \$50 million of the outstanding shares following April 30, 2011. As of November 30, 2012, we had 27.0 million shares outstanding, having repurchased 3.6 million shares in our 2011 fiscal year at an aggregate cost of \$32.3 million and 1.2 million shares in our 2012 fiscal year at an aggregate cost of \$13.6 million. These amounts have been deducted from Additional Paid in Capital. We did not repurchase any shares in our 2013 fiscal year.

We began a quarterly dividend payment plan with our first dividend in the third quarter of our 2011 fiscal year. The cash dividends declared in fiscal 2011 amounted to an aggregate of \$0.11 per share and totaled \$3.0 million, of which we paid out approximately \$1.5 million in our 2011 fiscal year and the remaining \$1.5 million in December 2011. The cash dividends declared in fiscal 2012 amounted to an aggregate of \$0.29 per share and totaled \$8.0 million. The quarterly cash dividends declared in fiscal 2013 amounted to an aggregate of \$0.30 per share and totaled \$8.0 million. In addition, in December 2012, we declared and paid a one-time, special cash dividend of \$54.0 million or \$2.00 per share.

In April 2011, we canceled our credit facilities with HSBC. Prior to this we had multi-currency credit facilities with HSBC totaling \$55 million. Our credit facilities had remained unutilized since 2005 and due to our cash balances we decided that the fees associated with maintaining the facilities were an unnecessary cost. HSBC continues to provide us with operational banking facilities including a foreign exchange contract facility. We believe that HSBC, or another banking institution, would favorably consider providing us with new credit facilities in the future if there was a requirement and we were able to comply with usual banking covenants. However, we cannot assure you that such financing would be available to us on acceptable terms or at all.

Provision for Income Taxes

We are subject to taxation primarily in the United Kingdom, the United States and Malaysia.

We have significant loss carryforwards and other deferred tax assets in the United Kingdom and as a result we have not been required to make any significant U.K. tax payments in recent fiscal years. As of November 30, 2012, we retained a deferred tax asset of \$15.3 million related to loss carryforwards and other timing differences in the United Kingdom. The overall actual and forecast results of the business when combined with our legal and tax structure, resulted in the judgment of management that at November 30, 2013 the utilization of this asset was no longer probable

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and consequently included in provision for income taxes in our 2013 fiscal year is a \$19.2 million valuation allowance against the book value of the asset at that date. As set out in accounting guidance, the recording of cumulative net operating losses over the three year period ended November 30, 2013 in the United Kingdom was a decisive factor in making this judgment.

Our Malaysian operations benefit from a beneficial tax status which has provided us with a zero tax rate on substantially all of our income arising in Malaysia. The beneficial tax status is subject to meeting certain requirements. The beneficial tax status relating to Enterprise Data Storage Solutions products was granted in February 2009 and ends in 2017. The beneficial tax status relating to HDD Capital Equipment products was granted in 2006 and ended in May 2012. We are seeking to obtain future incentives to extend the beneficial arrangements for both product groups and would expect the result of this application to be determined during our 2014 fiscal year. We have recorded a deferred tax asset of \$2.1 million related to our Malaysia operations on the basis that the beneficial tax status is not renewed. Of this amount \$1.5 million was recorded in our 2012 fiscal year and related to our 2011 fiscal year. We determined that this amount should have been recognized in our 2011 financial statements. We also determined that this amount was not material relative to our 2011 fiscal year or our 2012 fiscal year and therefore we corrected this error as an adjustment in our 2012 fiscal year. If the incentive is renewed the recording of this asset will be reversed and a tax expense of this amount recorded.

As of November 30, 2013, we retained a deferred tax asset of \$5.2 million related to loss carryforwards and other timing differences in the United States

In the United Kingdom, included in our loss carryforwards is the benefit of significant research and development tax credits. In July 2013, the U.K. government introduced new rules which have resulted in existing research and development tax credits being replaced by a refundable research and development expenditure credit incentive calculated on a similar qualifying criteria basis. This new incentive is treated as a government grant and is deducted from research and development expenses. The effective date of these new rules was April 1, 2013 and we have recorded a deduction from expense of \$4.0 million for the eight months ended November 30, 2013. This change in rule will have the effect of increasing U.K. taxable income or reducing U.K. tax losses in periods after April 1, 2013.

Impairment of Intangible Assets

At November 30, 2011, we recorded a \$2.2 million non-cash impairment of our intangible assets. We are required by authoritative accounting guidance to test long-lived assets for impairment whenever events or changes in circumstances suggest the carrying value of an asset group is not recoverable. The impairment charge of \$2.2 million related to developed technology purchased as part of an acquisition made in December 2010. We determined that the market opportunity for this product had reduced and therefore decided, as part of our overall cost reduction exercise to cease investment in the related product development. We concluded that our remaining intangible assets were not impaired.

At November 30, 2013 we concluded that it is more likely than not that both the HDD Capital Equipment and Enterprise Data Storage Solutions reporting unit fair values are not less than their carrying values and therefore that we did not need to record an impairment of goodwill. For the HDD Capital Equipment reporting unit we reached this conclusion based on the first step of the two step impairment test set out in accounting guidance. The first step involves comparing the carrying value of reporting units, including goodwill, with the estimated fair market value of the reporting units. This test is carried out at the reporting unit level which we determined to be consistent with our business segments. We determine the fair value of the reporting unit through the discounted cash flow approach. The discounted cash flows are based on assumptions consistent with the strategic plan used to manage the underlying business. We made adjustments to the cash flows and discount rate to reflect the fair value of the reporting units implied by our market capitalization after allowing for share price volatility and a control premium. The valuation, incorporating these adjustments, was based on a seven year cash flow model with a long term growth rate of 1%, a discount rate of

16% and a terminal value based primarily on the discount and growth rates.

Results of Operations

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

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	Year Ended November 30,		
	2013	2012	2011
Revenues	100.0%	100.0%	100.0%
Cost of revenues	79.0	83.1	84.7
Gross profit	21.0	16.9	15.3
Operating expenses:			
Research and development	12.0	8.9	8.0
Selling, general and administrative	8.5	5.9	4.6
Amortization of intangible assets	0.3	0.3	0.3
Impairment of intangible asset			0.2
Restructuring costs	0.5	0.4	0.2
Operating income (loss)	(0.3)	1.4	2.1
Net income (loss)	(2.6)%	1.5%	2.0%

Year Ended November 30, 2013 Compared to the Year Ended November 30, 2012

The following is a tabular presentation of our results of operations for the year ended November, 2013 compared to the year ended November 30, 2012. Following the table is a discussion and analysis of our business and results of operations for such periods.

	Year		Increase/(Decrease)	
	2013	2012	Amount	%
	(U.S. dollars in thousands)			
Revenues:				
Enterprise Data Storage Solutions	\$ 655,184	\$ 974,043	\$ (318,859)	(32.7)
HDD Capital Equipment	159,134	184,855	(25,721)	(13.9)
Total revenues	814,318	1,158,898	(344,580)	(29.7)
Cost of revenues	643,237	963,062	(319,825)	(33.2)
Gross profit:				
Enterprise Data Storage Solutions	122,212	155,326	(33,114)	(21.3)
HDD Capital Equipment	49,093	41,475	7,618	18.4
Non cash equity compensation	(224)	(965)	741	
Total gross profit	171,081	195,836	(24,755)	(12.6)
Operating expenses:				
Research and development	98,101	103,667	(5,566)	(5.4)
Selling, general and administrative	69,466	68,432	1,034	1.5
Restructuring	3,672	4,120	(448)	
Amortization of intangible assets	2,057	3,154	(1,097)	
Operating income (loss)	(2,215)	16,463	(18,678)	
Interest income, net	257	799	(542)	
Provision (benefit) for income taxes	19,253	(398)	19,651	
Net income (loss)	\$ (21,211)	\$ 17,660	\$ (38,871)	

Revenues

The 29.7% decrease in our revenues in the year ended November 30, 2013 compared to the year ended November 30, 2012 was primarily attributable to decreased sales of our Enterprise Data Storage Solutions products.

Revenues from sales of our Enterprise Data Storage Solutions products decreased by approximately \$319 million, or 33% in the year ended November 30, 2013 compared to the year ended November 30, 2012. This resulted primarily from a reduction in revenues from certain of our major customers related to changes in their sourcing, as described in the overview, including a \$280 million decrease in revenues from our previous largest customer, NetApp, and a reduction of revenue of \$121 million from Dell. We believe that demand from these and other customers was also reduced due to weakness in the enterprise storage market. This was partially offset by increased sales related to the introduction of new products and programs including an increase of \$33 million in sales of our new HPC products.

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Revenues from sales of our HDD Capital Equipment products decreased by approximately \$26 million or 14% in the year ended November 30, 2013 compared to the year ended November 30, 2012. This comprised a \$40 million decline in sales of drive processing systems, partially offset by a \$14 million increase in sales of drive component products. Our 2012 fiscal year revenues included an estimated \$50 million revenue arising from the replacement of equipment damaged in the 2011 Thailand floods.

Cost of Revenues and Gross Profit

The decrease in cost of revenues and gross profit in the year ended November 30, 2013 compared to the year ended November 30, 2012 was primarily due to lower Enterprise Data Storage Solutions revenues. As a percentage of revenues, our gross profit was 21.0% for the year ended November 30, 2013 compared to 16.9% for the year ended November 30, 2012. This higher percentage gross profit was attributable to increased gross margins in both the Enterprise Data Storage Solutions and the HDD Capital Equipment segments.

The gross margin for our Enterprise Data Storage Solutions products increased to 18.7% in the year ended November 30, 2013 from 15.9% in the year ended November 30, 2012. Gross margin increased primarily due to a more favorable customer and product mix, with NetApp comprising a smaller percentage of our total revenues than in the prior year, partially offset by a decrease in gross margin of 1.1% due to the effect of fixed costs relative to lower sales volumes.

The gross margin for HDD Capital Equipment products increased to 30.9% in the year ended November 30, 2013, from 22.4% in the year ended November 30, 2012. This increase results from a number of changes in product mix including shipping a higher proportion of upgrades relative to complete systems and shipping a new product at a lower margin in 2012.

In measuring the performance of our business segments from period to period without variations caused by special or unusual items, we focus on gross profit by product group, which excludes non-cash equity compensation expense of \$0.2 million for the year ended November 30, 2013 and \$1.0 million for the year ended November 30, 2012. See Note 15 to our consolidated financial statements included elsewhere in this Annual Report for a description of our segments and how we measure segment performance.

Research and Development

The \$5.6 million, or 5.4%, decrease in research and development expense in the year ended November 30, 2013 compared to the year ended November 30, 2012 included the effect of a \$4.0 million U.K. research and development incentive, as well as a \$1.6 million decrease in equity compensation expense, related to employee resignations. A reduction in expenses related to HDD Capital Equipment in connection with the cost reduction exercises described in the overview was substantially offset by increased expense related to Enterprise Data Storage Solutions products, including those supporting the HPC and related markets.

Selling, General and Administrative

Selling, general and administrative expense did not change significantly in the year ended November 30, 2013 compared to the year ended November 30, 2012. The slight increase of \$1.0 million, or 1.5%, primarily related to increased sales and marketing expense associated with HPC products, which was partially offset by a \$1.1 million decrease in equity compensation expense related the reversal of previously recorded expense due to the effect of employee resignations.

Restructuring Costs

As described in the overview, as a result of actual and forecasted reductions in demand for our HDD Capital Equipment and Enterprise Data Storage Solutions products, we carried out cost reduction programs in both of our 2012 and 2013 fiscal years. The 2013 program resulted in a cost of \$3.7 million related to staff reductions. The 2012 program resulted in total restructuring costs of \$4.1 million comprising \$3.5 million for the cost of staff reductions and \$0.6 million of property costs.

Table of Contents***Provision for Income Taxes***

The provision for income taxes in the year ended November 30, 2013 of \$19.3 million primarily relates to a \$19.2 million provision resulting from an impairment of U.K. deferred tax assets as described in the overview. This includes an amount at the end of our 2012 fiscal year of \$15.3 million and a U.K. loss recorded in our 2013 fiscal year. In addition this amount reflects the offsetting effects of a reduction in deferred tax resulting from a decrease in the U.K. corporation tax rate from 23% to 20% and an increase in deferred tax due to releasing provisions for uncertain tax positions following the conclusion of enquiries by the U.K. tax authorities into certain aspects of the Company's 2010 U.K. tax return.

The benefit for income taxes in the 2012 fiscal year included the continuing benefit of incentives in Malaysia, research and development tax credits and a \$1.5 million benefit from the recognition of a deferred tax asset for our Malaysian operations as described in the overview. These were partially offset by an expense of \$1.1 million due to the effect of the change to the U.K. tax rate from 25% to 23%, reducing the value of our deferred tax asset.

Net Income

The most significant contributors towards the recording of a net loss of \$21.2 million for the year ended November 30, 2013 compared to a net income of \$17.7 million for the year ended November 30, 2012, were the recording of a \$19.2 million valuation allowance against U.K. deferred tax assets and the decrease in revenues in the Enterprise Data Storage Solutions segment. These were partially offset by the gross margin benefit of a change in product mix in the HDD Capital Equipment segment.

Fiscal Year Ended November 30, 2012 Compared to the Fiscal Year Ended November 30, 2011

The following is a tabular presentation of our results of operations for our 2012 fiscal year compared to our 2011 fiscal year. Following the table is a discussion and analysis of our business and results of operations for such periods.

	Year Ended November 30,		Increase/(Decrease)	
	2012	2011	Amount	%
	(U.S. dollars in thousands)			
Revenues:				
Enterprise Data Storage Solutions	\$ 974,043	\$ 1,324,547	\$ (350,504)	(26.5)%
HDD Capital Equipment	184,855	123,929	60,926	49.2
Total revenues	1,158,898	1,448,476	(289,578)	(20.0)
Cost of revenues	963,062	1,226,404	(263,342)	(21.5)
Gross profit:				
Enterprise Data Storage Solutions	155,326	212,654	(57,328)	(27.0)
HDD Capital Equipment	41,475	10,242	(31,233)	305.0
Non cash equity compensation	(965)	(824)	141	17.1
Total gross profit	195,836	222,072	(26,236)	(11.8)

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Operating expenses:				
Research and development	103,667		115,558	(11,891) (10.3)
Selling, general and administrative	68,432		66,377	2,055 3.1
Amortization of intangible assets	3,154		4,176	(1,022)
Impairment of intangible assets			2,230	(2,230)
Restructuring costs	4,120		2,750	1,370
Operating income	16,463		30,981	(14,518) (46.9)
Interest income, net	799		392	407
Provision (benefit) for income taxes	(398)		3,076	(3,474)
Net income	\$ 17,660	\$	28,297	\$ (10,637) (37.6)

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Revenues

The 20.0% decrease in our revenues in our 2012 fiscal year compared to our 2011 fiscal year was primarily attributable to decreased sales of our Enterprise Data Storage Solutions products.

Revenues from sales of our Enterprise Data Storage Solutions products decreased by approximately \$350 million, or 27%. This resulted primarily from a reduction in revenues from certain of our major customers related to changes in their sourcing, including a \$158 million decrease in revenues from our largest customer, NetApp, as described in the overview, and reductions of revenue of \$102 million and \$76 million from Dell and EMC, respectively. We believe that demand from these and other customers was also reduced due to weakness in the enterprise storage market.

Revenues from sales of our HDD Capital Equipment products increased by approximately \$61 million, or 49% primarily due to an increase in revenues for disk process products of \$73.5 million. As described in the overview, the increase included an estimate of \$50 million revenue arising from the replacement of equipment damaged in the Thailand floods.

Cost of Revenues and Gross Profit

The decrease in cost of revenues and in gross profit in the 2012 fiscal year compared to the 2011 fiscal year was primarily due to lower Enterprise Data Storage Solutions revenues. As a percentage of revenues, our gross profit was 16.9% for the 2012 fiscal year compared to 15.3% for the 2011 fiscal year. This change was primarily attributable to the increase in HDD Capital Equipment revenues and margins.

The gross margin for our Enterprise Data Storage Solutions products decreased to 15.9% in the 2012 fiscal year from 16.1% in the 2011 fiscal year. This 1.1% reduction is due to the effect of fixed costs relative to lower sales volumes, partially offset by the net benefit a number of changes to customer and product mix including a 1.0% benefit from one of our major customers purchasing products without HDDs, due to supply constraints. The integration of HDDs, which commands a significantly lower gross margin percentage for us, was subsequently undertaken by this OEM customer.

The gross margin for HDD Capital Equipment products increased to 22.4% in the 2012 fiscal year, from 8.3% in the 2011 fiscal year. This increase resulted from three main factors. Firstly, the effect of fixed costs relative to higher volumes increased gross margin by approximately 8%. Secondly, changes in product mix improved gross margin in 2012 by approximately 3%. Thirdly, the remaining increase primarily related to reduced inventory write-downs.

In measuring the performance of our business segments from period to period without variations caused by special or unusual items, we focus on gross profit by product group, which excludes a non-cash equity compensation charge of \$1.0 million for the 2012 fiscal year and \$0.8 million for the 2011 fiscal year. See Note 15 to our consolidated financial statements included elsewhere in this Annual Report for a description of our segments and how we measure segment performance.

Research and Development

The \$11.9 million, or 10.3%, decrease in research and development expense in the 2012 fiscal year compared to the 2011 fiscal year resulted from a decrease in external project costs of \$8.2 million and a decrease in the number of employees of 6%. These were primarily associated with a cost reduction exercise undertaken in 2011 in response to the lower demand for HDD Capital Equipment products described in the overview above.

Selling, General and Administrative

Selling, general and administrative expense increased by \$2.1 million, or 3.1%, in the 2012 fiscal year compared to the 2011 fiscal year. This increase related primarily to the inclusion of a \$3.6 million exchange gain in the 2011 fiscal year, partially offset by a reduction in employee bonuses. Other staff costs and the average number of employees in these functions did not change significantly as reductions related to the HDD Capital Equipment business were offset by increases in support of new Enterprise Data Storage Solutions products.

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Restructuring Costs

As described in the overview, as a result of an actual and forecast reduction in revenues we carried out cost reduction programs in both of our 2011 and 2012 fiscal years. The 2012 program resulted in total restructuring costs of \$4.1 million, consisting of \$3.5 million for the cost of staff reductions and \$0.6 million of property costs. The 2011 program resulted in a cost of \$2.8 million related to staff reductions.

Provision (benefit) for Income Taxes

The benefit for income taxes in the 2012 fiscal year included the continuing benefit of incentives in Malaysia, research and development tax credits and a \$1.5 million benefit from the recognition of a deferred tax asset for our Malaysian operations as described in the overview. These were partially offset by an expense of \$1.1 million due to the effect of the change to the U.K. tax rate from 25% to 23%, reducing the value of our deferred tax asset.

The provision for income taxes in the 2011 fiscal year primarily related to U.S. income. The remaining income did not give rise to a significant tax provision due to tax incentives in Malaysia, research and development tax credits and the inclusion of a \$2.0 million benefit resulting from the successful completion of an investigation into U.K. tax returns for 2007 and 2008.

Net Income

The reduction of net income to \$17.7 million for the 2012 fiscal year, compared to \$28.3 million for the 2011 fiscal year, was primarily related to the decrease in revenues in the Enterprise Data Storage Solutions segment, including the related decrease in gross margins. This was partially offset by the effect of an increase in HDD Capital Equipment revenues and reduction in operating expenses supporting these products.

Non-GAAP Financial Measures

The following discussion and analysis of our results of operations include certain non-GAAP financial measures as identified in the reconciliation below. The intention in providing these non-GAAP measures is to provide supplemental information regarding our operational performance while recognizing that they have material limitations and that they should only be referred to, with reference to, and not considered to be a substitute for, or superior to, the corresponding GAAP measure. The financial results calculated in accordance with GAAP and reconciliations of these non-GAAP measures to the comparable GAAP measures should be carefully evaluated. The non-GAAP financial measures used by us may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

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We believe that the provision of these non-GAAP financial measures is useful to investors and investment analysts because it enables comparison to our historical operating results, those of competitors and other industry participants and also provides transparency to the measures used by management in operational and financial decision making. In relation to the specific items excluded: (a) intangible assets represent costs incurred by the acquired business prior to acquisition, are not cash costs and will not be replaced when the assets are fully amortized and therefore the exclusion of these costs provides management and investors with better visibility of the costs required to generate revenue over time; (b) equity compensation expense is non-cash in nature and is outside the control of management during the period in which the expense is incurred; (c) the exclusion of the related tax effects of excluding items (a) and (b) is necessary to show the effect on net income (loss) of the change in tax expense that would have been recorded if these items had not been incurred; (d) and (e) the recording of a valuation allowance against the UK deferred tax asset and the impact of the reduction in UK tax rates are non-cash and not comparable across periods or with other companies; and (f) the recognition of the Malaysia deferred tax asset relates to the non-renewal of certain tax incentive arrangements in 2012, is non-recurring and will reverse if the incentive arrangements are renewed.

Included in the table below is a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures as provided above.

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	2013	Year Ended November 30, 2012		2011
	(U.S. dollars in thousands, except share and per share data)			
<i>Summary Reconciliation of GAAP Net Income (Loss) To Non-GAAP Net Income</i>				
GAAP net income (loss)	\$ (21,211)	\$ 17,660	\$ 28,297	
Amortization of intangible assets	2,057	3,154	4,176	
Equity compensation	3,158	6,602	7,127	
Reduction in acquisition deferred consideration			(676)	
Impairment of intangible assets			2,230	
Tax effect of above non-GAAP adjustments	(1,095)	(2,450)	(3,214)	
Valuation allowance against UK deferred tax asset	19,225			
Effect of changes in tax rates	2,104	1,105	1,044	
Malaysia deferred tax asset recognized		(1,489)		
Non-GAAP net income	\$ 4,238	\$ 24,582	\$ 38,984	
<i>Earnings(loss) per share (GAAP)</i>				
Basic	\$ (0.77)	\$ 0.64	\$ 0.96	
Diluted	\$ (0.77)	\$ 0.63	\$ 0.92	
<i>Earnings per share (Non-GAAP)</i>				
Basic	\$ 0.15	\$ 0.89	\$ 1.32	
Diluted	\$ 0.15	\$ 0.87	\$ 1.27	
<i>Weighted average common shares (in thousands), used in computing net earnings (loss) per share:</i>				
Basic	27,560	27,513	29,605	
Diluted	27,560	28,199	30,631	

On a non-GAAP basis, net income for the 2013 fiscal year decreased from \$24.6 million for the 2012 fiscal year to \$4.2 million and diluted earnings per share decreased from \$0.87 per share to \$0.15 per share. These decreases were a result of the same factors described above in the section **Results of Operations Fiscal Year Ended November 30, 2013 Compared to the Fiscal Year Ended November 30, 2012 Net Income.**

On a non-GAAP basis, net income for the 2012 fiscal year decreased from \$39.0 million for the 2011 fiscal year to \$24.6 million and diluted earnings per share decreased from \$1.27 per share to \$0.87 per share. These decreases were a result of the same factors described above in the section **Results of Operations Fiscal Year Ended November 30, 2012 Compared to the Fiscal Year Ended November 30, 2011 Net Income.**

Quarterly Results of Operations

The following table sets forth, for the periods indicated, data regarding our revenues, operating expenses and net income (loss). We derived this data from our unaudited consolidated financial statements and, in the opinion of management, this data includes all adjustments, consisting only of normal recurring entries, that are necessary for a fair presentation of our financial position and results of operations for these periods. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

PricewaterhouseCoopers LLP has not audited nor performed any review procedures on the quarterly financial information as presented below.

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	Three Months Ended							
	November 30, 2013	August 31, 2013	May 31, 2013	February 28, 2013	November 30, 2012	August 31, 2012	May 31, 2012	February 29, 2012
	(unaudited) (U.S. dollars in thousands)							
Revenues	185,254	\$ 217,282	216,185	195,597	\$ 265,446	\$ 275,670	\$ 322,116	\$ 295,666
Cost of revenues	144,139	171,783	168,652	158,663	226,941	224,653	268,841	242,627
Gross profit	41,115	45,499	47,533	36,934	38,505	51,017	53,275	53,039
Operating expenses:								
Research and development	24,296	23,610	25,786	24,409	26,436	25,308	27,255	24,668
Selling, general and administrative	18,333	16,418	16,917	17,798	17,507	17,192	16,955	16,778
Amortization of intangible assets	452	557	556	492	617	617	950	970
Restructuring costs	857	1,073	1,742		4,120			
Total operating expenses	43,938	41,658	45,001	42,699	48,680	43,117	45,160	42,416
Operating income (loss)	(2,823)	3,841	2,532	(5,765)	(10,175)	7,900	8,115	10,623
Interest income, net	50	80	47	80	176	283	154	186
Income (loss) before income taxes	(2,773)	3,921	2,579	(5,685)	(9,999)	8,183	8,269	10,809
Provision (benefit) for income taxes	18,598	1,571	(366)	(550)	(2,056)	437	1,273	(52)
Net income (loss)	(21,371)	2,350	2,945	(5,135)	\$ (7,943)	\$ 7,746	\$ 6,996	\$ 10,861

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Our operating results have varied significantly on a quarterly basis during our history. We expect to continue to experience significant fluctuations in our future operating results due to a variety of factors, many of which we do not control. Factors that may affect our operating results include: our inability to retain major customers and meet the required technical and performance specifications of our products in a timely manner or at all; the cyclical nature of the markets in which we operate; changes in our customers' volume requirements; our inability to compete successfully in the competitive and rapidly changing marketplace in which we operate; deterioration in global economic conditions; diminished growth in the volume of digital information; patent infringement claims and our inability to protect our intellectual property; and the impact of natural disasters. For a more detailed discussion of the factors that may affect our quarterly results of operations, see Part I, Item 3.D: Risk Factors.

Liquidity and Capital Resources

We finance our operations primarily through cash balances and cash flow from operations.

Cash Flows

Net cash provided by operating activities was \$66.5 million in our 2013 fiscal year compared to \$25.7 million in our 2012 fiscal year and \$106.9 million in our 2011 fiscal year.

Cash provided by operating activities of \$66.5 million for the 2013 fiscal year resulted primarily from a decrease in working capital of \$50.4 million. In addition, the net loss after excluding non-cash charges contributed \$16.1 million to cash provided by operating activities. The decrease in working capital primarily related to a decrease in inventory of \$39.4 million and a decrease in accounts receivable of \$42.1 million. These were partially offset by a decrease in accounts payable of \$15.1 million and a decrease in deferred revenue of \$13.6 million. The decreases in accounts receivable, accounts payable and inventory resulted from a reduction in sales. The decrease in deferred revenue related to revenue being recognized for an HPC installation and Capital Equipment products which had been deferred from our 2012 fiscal year.

Days sales outstanding were 41 at November 30, 2013 compared to 45 at November 30, 2012. This reflects a 10 day decrease in days due to a specific customer paying earlier at the end of a program, substantially offset by an increase in days due to changes in customer mix. Inventory turns were 4.4 at November 30, 2013 compared to 5.3 at November 30, 2012 due primarily to the supporting of a change of manufacturing location and the impact of certain customer products being at an end of life stage.

Cash provided by operating activities of \$25.7 million for the 2012 fiscal year resulted primarily from net income after excluding net non-cash charges. This amounted to \$45.1 million and was offset by an increase in working capital of \$19.4 million. The increase in working capital primarily related to a decrease in accounts payable of \$86.6 million and an increase in inventory of \$7.4 million partially offset by a decrease in accounts receivable and increase in deferred income of \$67.8 million and \$10.8 million, respectively. The changes in accounts payable and accounts receivable resulted from the reduction in revenues. Overall working capital increased despite the reduction in

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revenues due to increased inventory holdings related to HDD supply constraints and reduction in customer demand including the deferral of certain customer orders into our 2013 fiscal year. This deferral of orders also resulted in the increase in deferred revenue.

Cash provided by operating activities of \$106.9 million for the 2011 fiscal year resulted from net income after excluding net non-cash charges of \$64.0 million and a decrease in working capital of \$43.0 million. The decrease in working capital primarily related to decreases in inventory and accounts receivable of \$31.8 million and \$8.7 million respectively and an increase in accounts payable of \$15.2 million. These were partially offset by a decrease in deferred revenue of \$10.3 million. The movements in inventory, accounts receivable and deferred revenue primarily related to the decrease in HDD Capital Equipment revenues. The increase in accounts payable primarily resulted from increased HDD purchases at the end of the year to mitigate the impact of floods in Thailand.

Net cash used in investing activities was \$18.5 million for our 2013 fiscal year, \$18.7 million for our 2012 fiscal year and \$32.4 million for our 2011 fiscal year.

Net cash used in investing activities for the 2013 fiscal year of \$18.5 million comprised \$1.3 million related to an intangible asset purchase and \$17.2 million related to capital expenditure including \$6.0 million related to our new manufacturing facility in Mexico. Net cash used in investing activities for the 2012 fiscal year amounted to \$18.7 million. This amount included \$3.5 million related to a deferred payment for the purchase of patents. The remaining balance of \$15.2 million related to capital expenditure including \$2.8 million related to our new manufacturing facility in Mexico. Net cash used in investing activities for the 2011 fiscal year amounted to \$32.4 million. This amount included \$6.1 million related to an acquisition in the period, \$3.5 million related to the purchase of patents, a \$1.3 million deferred payment related to a previous acquisition and \$1.2 million related to the purchase of a software license. The remaining balance of \$20.2 million related to capital expenditure.

Our capital expenditures relate primarily to purchases of equipment such as tooling, production lines and test equipment. We would expect our capital expenditure to generally change in line with our revenues. We have no material commitments for capital expenditures.

Net cash used in our financing activities was \$62.2 million in our 2013 fiscal year compared to \$22.5 million in our 2012 fiscal year and \$32.8 million in our 2011 fiscal year.

Net cash used in our financing activities in our 2013 fiscal year comprised dividends paid to our shareholders as described in [Overview Share Repurchase Plan, Dividend and Bank Facilities](#) . Net cash used in our financing activities in our 2012 fiscal year comprised \$13.6 million for the repurchase of shares under our share buyback program as described in [Overview Share Repurchase Plan, Dividend and Bank Facilities](#) , and \$9.5 million relating to dividends paid to our shareholders, offset by \$0.7 million of cash provided by the exercise of employee share options. Net cash used in our financing activities in our 2011 fiscal year comprised \$32.3 million for the repurchase of shares, a \$2.4 million decrease in checks outstanding and \$1.5 million relating to a dividend paid to our shareholders, offset by \$3.3 million of cash provided by the exercise of employee share options.

Liquidity

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As of November 30, 2013, our principal sources of liquidity consisted of cash and cash equivalents of \$103.0 million. Our cash and cash equivalents are denominated primarily in U.S. dollars and held in variable interest liquidity funds and bank deposits. As described in

Overview Share Repurchase Plan, Dividends and Bank Facilities, we canceled our credit facilities in April 2011. Our future financing requirements will depend on many factors, but are particularly affected by our ability to generate profits, changes in 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 might choose to make. We believe that our cash and cash equivalents will be sufficient to meet our cash requirements at least through the next 12 months.

Table of Contents**Contractual Obligations**

The following table sets forth our contractual obligations as of November 30, 2013 that may affect our liquidity over the next five years:

	Total	Payments due by Period			
		Less than 1 year	1 3 years	4 5 years	After 5 years
	(U.S. dollars in thousands)				
Operating lease commitments	\$ 10,700	\$ 5,465	\$ 4,559	\$ 676	
Purchase commitments	118,472	118,472			
Total contractual cash obligations(a)	\$ 129,172	\$ 123,937	\$ 4,559	\$ 676	\$

(a) At November 30, 2013, we had \$3.0 million recorded as a current liability for uncertain tax positions. We are not able to reasonably estimate the timing of payments, or the amount by which our liability for these uncertain tax positions will increase or decrease over time, and accordingly, this liability has been excluded from this table.

We have no ongoing commercial commitments, such as lines of credit, guarantees or standby purchase orders, that would affect our liquidity over the next five years.

Off-Balance Sheet Arrangements

As of November 30, 2013, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our results of operations or financial condition.

Accounting Policies***Critical Accounting Policies***

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Note 2 of the notes to our consolidated financial statements describes our significant accounting policies and is an essential part of our consolidated financial statements. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts and disclosures.

We believe the following to be critical accounting policies. 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.

Inventory Reserves

Inventories are valued at the lower of standard cost, which approximates actual cost computed on a first-in, first-out basis, or market value. We establish reserves against our inventories that are equal to the difference between the cost of inventory and its estimated market value. We are required to make estimates about future customer demand for our products, taking into account historical patterns, order backlog, changes in technology, projected sales based on economic conditions and growth prospects, and market acceptance of current and future products. For example we recorded an inventory write-down of approximately \$7 million in our 2011 fiscal year resulting from changes to the market for our HDD Capital Equipment products. A failure to correctly estimate these conditions or uncertainty in the future outlook for the economy and our industry, or other failure to estimate correctly, could result in additional inventory losses in excess of the reserves established and determined to be appropriate as of the balance sheet date.

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Income Taxes

We have recorded a deferred tax asset balance of \$7.3 million at November 30, 2013. We have determined that this amount is recoverable taking into account future taxable income and ongoing prudent and feasible tax planning strategies. Should we determine that we will, more likely than not, be able to realize a lesser proportion of our deferred tax assets in the future, whether this determination was the result of changes in our judgment, assumptions or estimates, or due to uncertainties or otherwise, a reduction to the deferred tax assets would decrease income in the period such determination was made.

We recognize the tax liability for uncertain income tax positions using the two step method set out in accounting guidance. Firstly we assess whether each income tax position is more likely than not to be sustained on audit, including resolution of related appeals or litigation process, if any. Secondly, for each income tax position that meets the more likely than not recognition threshold, the Company then assesses the largest amount of tax benefit that is greater than 50% likely of being realized upon effective settlement with the tax authority. As of November 30, 2013, we had \$3.7 million of unrecognized tax benefits. The calculation of the level of unrecognized tax benefits requires a significant level of management judgment regarding the risks of having to make additional tax payments, for example, in the application of tax law and the setting of arm's length prices between legal entities. If the judgment were made that the level of unrecognized benefits should be higher in future periods, our earnings would be adversely affected.

Long-Lived Assets and Impairment

We have recorded intangible assets on the acquisition of businesses and certain assets. The cost of the acquisition is allocated to the assets and liabilities acquired, including identifiable intangible assets, with the remaining amount being classified as goodwill. Goodwill and purchased intangible assets include existing workforce, existing technology, patents, customer contracts and covenants not to compete. Identifiable intangible assets are amortized over time and goodwill is capitalized, subject to periodic review for impairment. Accordingly, the allocation of the acquisition cost to identifiable intangible assets has a significant impact on our future operating results. The allocation process requires extensive use of estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets. Should conditions be different than management's current assessment, material write-downs of the fair value of intangible assets may be required. We periodically review the estimated remaining useful lives of our other intangible assets. A reduction in the estimate of remaining useful life could result in accelerated amortization expense or a write-down in future periods. As such, any future write-downs of these assets would adversely affect our operating results.

We evaluate the impairment of goodwill on an annual basis and evaluate the impairment of all long-lived assets if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Triggering events for impairment reviews may be indicators such as adverse industry or economic trends, a decline in our share price, restructuring actions or lower projections of profitability. Intangible assets recorded in business combinations may significantly affect our future operating results to the extent impaired, but the magnitude and timing of any such impairment is uncertain. When we conduct reviews of long-lived assets for impairment the fair value of the assets are assessed using valuation techniques that require significant management judgment. When we carry out our annual review of goodwill impairment we assess qualitative factors to determine whether it is necessary to carry out the quantitative goodwill test. Evaluations of possible impairment and, if applicable, adjustments to carrying values, require us to estimate, among other factors, future cash flows, useful lives, and fair market values of our reporting units and assets. Assessment of qualitative factors requires a significant level of management judgment regarding the future performance of the business. Actual results may vary from our expectations.

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As described in the overview above, we carried out an impairment review of goodwill at November 30, 2013 and determined that goodwill was not impaired at that date. During the 2011 fiscal year intangible assets with a net book value of \$2.2 million were fully impaired. Management judgment is required in determining whether indications of impairment exist. Our long-lived assets as of November 30, 2013 amounted to \$41.6 million of tangible assets and \$14.3 million of intangible assets. Any future write-downs of these assets would adversely affect our operating margin.

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Revenue Recognition

We recognize revenue from product sales once delivery has occurred provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, and collectability is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer.

Certain product sales include customer acceptance provisions. For products produced according to our published specifications and where no substantive customer acceptance provisions exist, revenue is recognized when title passes to the customer, generally on delivery. For products produced according to a particular customer's specifications, revenue is recognized when the product has been tested and it has been demonstrated that it meets the customer's specifications and title passes to the customer. For new products, new applications of existing products or for products with substantive customer acceptance provisions where performance cannot be fully assessed prior to meeting customer specifications at the customer site, revenue is recognized upon receipt of final customer acceptance.

Particularly in connection with sales of our HDD Capital Equipment products recognition of revenue requires the judgment of management regarding, for example, whether the products meets customer specification, whether elements of contracts can be separated and when customer acceptance has occurred. Different judgments would result in changes to the level of revenue and income in a particular period.

Share Based Payment

The calculation of our equity compensation expense requires management to make a number of assumptions, estimates and accounting policy choices. These include the use of the Black-Scholes option pricing model as our method of valuation for options which are granted under our share purchase schemes. The Black-Scholes option pricing model requires the input of highly subjective assumptions, and other reasonable assumptions could provide differing results. The expense related to the grant of Restricted Stock Units requires less judgment than that related to options, but does require management judgment regarding the achievement of performance conditions, expected forfeiture levels and date of grant.

Warranty Reserves

We record warranty reserves for the estimated cost of product warranty obligations for manufacturing defects in our products. These reserves are estimated based on expected warranty costs taking into account historical failure rates and the related warranty costs incurred. Warranty reserves are recorded as a cost of revenues and are estimated at the time of sale. While we have active programs in place to monitor the quality of products sold as well as failure rates for those products, some of our products are complex and may contain defects that are detected only after deployment in complex networks and systems. If actual failure rates differ from management estimates due to a decrease in the quality or design of materials and components or a decrease in the effectiveness of our monitoring programs, actual costs may differ from the amounts covered by our reserves and therefore may affect future earnings. In the event that we can no longer reliably estimate our product warranty liabilities at the time of sale, as a result of uncertainties or otherwise, this will have a material adverse impact on our recognition of revenue and earnings in future periods.

Recent Accounting Pronouncements

In July, 2013, the FASB issued ASU No. 2013-11, *Income Taxes (ASC Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The amendments in this ASU provide explicit guidance that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with limited exceptions. The amendments in this ASU would have been effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and do not require new recurring disclosures. The adoption of this new guidance will be assessed as part of Seagate Technology, but would not have had a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 (ASC Topic 606), *Revenue from Contracts with Customers*. The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. It also

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requires entities to disclose both quantitative and qualitative information that enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU would have been effective in our 2017 fiscal year. The impact, if any, of ASU 2014-09 will be assessed as part of Seagate Technology.

Item 6.A: Directors and Senior Management**Executive Officers**

The following table sets forth certain information regarding the executive officers of Xyratex Ltd as of November 30, 2013. The following disclosure applies prior to our acquisition by Seagate Technology. In connection with the acquisition of Xyratex by Seagate on March 31, 2014, Xyratex is operated as a wholly-owned subsidiary of Seagate.

Name	Age	Position
Ernest Sampias	63	Chief Executive Officer and Director
Richard Pearce	44	Chief Financial Officer and Director
Todd Gresham	54	Senior Vice President of Marketing, Sales and Field Support
Luciano Marinaccio	49	Senior Vice President of Global Operations
Ed Prager	49	General Manager, OEM Storage Solutions

Ernest Sampias is our Chief Executive Officer and has served as a director on our board of directors since May 1, 2004. Mr. Sampias has served as Chief Executive Officer of Xyratex Ltd since April 2013. His experience includes financial roles for both private and public companies within the information technologies, telecommunications, and directories industries. These financial roles were as Chief Financial Officer for Sensis Pty Ltd, in Melbourne, Australia, Chief Financial Officer for SpectraLink Corporation, McDATA Corporation, US West Dex, Local Matters, Inc., and Convergent Communications, Inc. Mr. Sampias also serves on the board of directors for BioFuel Energy Corporation as its Audit Committee Chairman. Mr. Sampias graduated from Indiana University with a Bachelors of Science degree in Business with distinction, and holds a Masters of Taxation degree from DePaul University in Chicago. He is a Certified Public Accountant and a member in the Financial Executives Institute and American Institute of Certified Public Accountants.

Richard Pearce is our Chief Financial Officer and has served as a director on our board of directors since March 2007. Mr. Pearce has served as Chief Financial Officer of Xyratex Ltd and its predecessor companies since September 2003 and previously served as our Treasurer and Group Tax Manager following our management buy-out from IBM in 1994. Prior to joining our company, Mr. Pearce held a number of financial positions within IBM over a period of six years. Mr. Pearce is a member of the Chartered Institute of Management Accountants. Mr. Pearce also serves as a director on the boards of directors of certain of our subsidiaries.

Todd Gresham is our Senior Vice President of Marketing, Sales and Field Support. Mr. Gresham brings over 25 years of executive management experience in both publicly traded and privately held companies. Experience includes organizational leadership and development, interaction/communication as related to investor relations, global market strategies and implementation, executive sales leadership, private equity fund raising and marketing acumen. Prior to joining Xyratex, Mr. Gresham was President and CEO of nStor Technologies, Inc., a publicly held data storage systems provider. Prior to nStor, Mr. Gresham founded Meritage Associates; a consultancy firm focused on the data storage, information management and network infrastructure markets. Meritage guided over 100 firms, including several Fortune 50 companies,

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in the areas of product strategy, market development, product definition, and capital acquisition. Mr. Gresham served as Vice President of Global OEM and Channel Sales at EMC and was responsible for over \$1 billion dollars in annual revenues. While with Data General's CLARiiON Storage Division, Mr. Gresham held several positions including General Manager of Asia/Pacific Operations, and Vice President of Worldwide Sales. Prior to CLARiiON, Mr. Gresham held various executive positions with both Philips Laser Magnetics (LMSI), a division of Philips NV and StorageTek. Mr. Gresham currently serves on the Board of Directors for Glasshouse Technologies, is an Advisor for Unitrends, and is on the National Advisory Council for Make-A-Wish Foundation.

Luciano Marinaccio is our Senior Vice President of Global Operations. Mr. Marinaccio has served as Senior Vice President of Global Operations since 2009. Mr. Marinaccio was part of the management team at the time of our

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management buy-out from IBM in 1994, and since that time has held various senior management positions including Senior Director and Vice President of Procurement. Prior to joining Xyratex Ltd, Mr. Marinaccio held a number of Procurement positions within IBM over a period of six years. Mr. Marinaccio holds a Bachelor of Science degree in management sciences from Loughborough University.

Ed Prager is our Senior Vice President and General Manager, OEM Storage Solutions. Prior to this role, Mr. Prager has held senior management roles in Research and Development, Business Management, Quality, Engineering Services and Globalization. Mr. Prager was a member of the team that led our 1994 management buy-out from IBM and, prior to that, held management positions in Research and Development and Product Management at IBM. Mr. Prager acted as General Manager of our Storage System business, General Manager of Research and Development in our HDD Capital Equipment business and U.K. Operations General Manager in our Warranty and Repair business. In 1999 our Warranty and Repair business was sold to Teleplan and Mr. Prager acted as General Manager of EMEA Operations and IT at Teleplan until he left in 2000. Mr. Prager re-joined Xyratex in October 2007. Prior to re-joining Xyratex, he served as Vice President of R&D Projects of News International's Digital Broadcast Software subsidiary NDS Ltd. Mr. Prager holds a Master of Arts degree in Engineering from the University of Cambridge, and he is a Chartered Engineer and a Fellow of the Institution of Engineering and Technology.

Steve Barber stepped down from his role as Chief Executive Officer on 2, April 2013. Doug Inamine stepped down from his role as Senior Vice President, Human Resources on 3, May 2013. Ahmed Shihab stepped down from his role as Senior Vice President, Business Line Management on 28, June 2013.

Following our acquisition by Seagate, the officers noted above stepped down from their roles as executive officers and Jamie Lerner and Patrick J. O Malley were appointed to serve as Chief Executive Officer and Chief Financial Officer, respectively.

Jamie Lerner, 44, has served as Seagate's President of Cloud Systems and Solutions since March 2014. Prior to that, Mr. Lerner served as Senior Vice President and General Manager of the Cloud and Systems Management Technology Group at Cisco Systems, Inc. (Cisco) from November 2012 until February 2014. Mr. Lerner also previously served as Vice President and General Manager of Cisco's Network Management Technology Group between October 2011 and November 2012 and as the Vice President and General Manager of the Service Provider Management Applications Business Unit at Cisco between November 2009 and October 2011. Prior to joining Cisco, Mr. Lerner served as the founder, President, and CEO of CITTIO Inc., an enterprise software company, from 2002 through 2009.

Patrick J. O Malley, 52, has served as Seagate's Executive Vice President and Chief Financial Officer since August 2008. Previously, he served as Seagate's Senior Vice President, Finance from 2005 to August 2008. Prior to that, he was Seagate's Senior Vice President, Consumer Electronics from 2004 to 2005.

Board of Directors

The following table sets forth certain information regarding the directors of Xyratex Ltd as of November 30, 2013. The following disclosure applies prior to our acquisition by Seagate Technology. In connection with the acquisition of Xyratex by Seagate on March 31, 2014, all of the following directors of Xyratex resigned.

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Name	Age	Position
Jonathan Brooks	58	Chairman
Ernest Sampias	63	Chief Executive Officer and Director
Richard Pearce	44	Chief Financial Officer and Director
Vadim Perelman	32	Director
Steve Sanghi	59	Director
Ken Traub	53	Director
Mike Windram	68	Director

Jonathan Brooks became Chairman of our board of directors on December 1, 2011, having previously served as a director on our board of directors since May 2004. Mr. Brooks is currently a director of Aveva Group plc, a leading software provider to the plant, power and marine industries, and IP Group Plc, which commercializes intellectual property originating from leading U.K. universities, both of which are listed on the LSE (London Stock Exchange). Between 1995 and 2002, Mr. Brooks was Chief Financial Officer and a director of ARM Holdings plc, a company listed on the LSE and NASDAQ National Market. Since 2002 he has held a series of non executive board positions for both listed and venture capital backed companies. Mr. Brooks holds a Bachelor's degree in economic and social science from the University of Wales, an MBA from Manchester Business School and is a fellow of the Chartered Institute of Management Accountants.

Ernest Sampias. As above.

Richard Pearce. As above.

Vadim Perelman has served as a director on our board since April 2013. Mr. Perelman is the founder and has served as the Managing Member and Chief Investment Officer of Baker Street Capital Management LLC, the general partner of Baker Street Capital L.P., a private investment partnership that is currently our largest shareholder, since its inception in 2009. From 2007 to 2009, Mr. Perelman worked as a senior analyst at Force Capital Management, a fundamental value-focused investment fund. Mr. Perelman's previous experience includes business development at

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Teknika Group and management consulting at L.E.K. Consulting. Mr. Perelman graduated from the University of California, Berkeley, with Bachelor of Arts degrees in Economics and Computer Science.

Steve Sanghi has served as a director on our board of directors since May 2004. Mr. Sanghi currently serves as Director and President of Microchip Technology, Inc. since his appointment in August 1990, as CEO since October 1991, and as chairman of the board of directors since October 1993. Mr. Sanghi also serves as a director of Hittite Microwave Corporation since October 2013 and Chairman of the board of FlipChip International LLC, a private company. Mr. Sanghi was previously the chairman of the board of Adflex Solutions, and a member of the board of directors of both Artisoft and Vivid Semiconductor. Mr. Sanghi worked for Intel Corporation from 1978 to 1988 in various engineering and management positions, including General Manager of Intel's programmable memory operation. Mr. Sanghi received a Bachelor of Science in Electronics and Electrical Communications Engineering from Punjab Engineering College in India in 1975 and holds a Master's degree in Electrical and Computer Engineering from the University of Massachusetts in Amherst, Massachusetts.

Ken Traub has served as a director on our board of directors since June 2013. He has extensive experience as a senior executive, director and investor in public companies. Mr. Traub is currently the President and Chief Executive Officer of Ethos Management LLC, a private investment and advisory firm which specializes in driving strategic, operational and financial improvements in public companies. Mr. Traub currently serves on the boards of directors of the following public companies: MRV Communications, Inc. (as Chairman), DSP Group, Inc., Athersys, Inc. and Vitesse Semiconductor Corp. Previously, Mr. Traub served as President and CEO of American Bank Note Holographics, Inc., a world leader in the origination, production and marketing of secure holograms, and managed the turnaround, growth and sale of the company which produced over a 1,000% gain for shareholders. Mr. Traub also co-founded Voxware, Inc., a pioneer in Voice Over IP communication technologies. Mr. Traub earned a BA degree from Emory College in 1983 and an MBA from Harvard Business School in 1988.

Mike Windram has served as a director on our board of directors since June 2007. He has over 30 years of experience in research and development, engineering and engineering management roles. His early experience from 1971 to 1990 was in research and development in the Independent Broadcasting Authority. Subsequently he has held the positions of Executive Manager (R&D) in NTL, Director, Advanced Products Division, NTL, Managing Director, Digi-Media Vision (DMV) Ltd, Managing Director, NDS Broadcast and Senior Vice President, NDS. These divisions and companies provided systems, equipment and software for use in digital broadcasting applications world-wide. His most recent position was as a member of the board of Tandberg Television ASA. Dr. Windram graduated from the University of Cambridge with a Bachelor of Arts degree in Natural Sciences (Physics) and also holds Master of Arts and Doctor of Philosophy degrees from that university. He is a Fellow of the Royal Academy of Engineering, a Fellow of the Institution of Engineering and Technology, a Fellow of the Institute of Physics and a Chartered Engineer.

Steve Barber stepped down from his role as Chief Executive Officer and Director as of April 2, 2013.

Following our acquisition by Seagate, our sole director is Seagate Technology International.

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Our director may be reached at the address of our Fremont facility in the United States or at our headquarters in Havant in the United Kingdom. There are no family relationships among any of our directors or executive officers.

Item 6.B: Compensation

Non-executive Director Compensation

We paid our Chairman and non-executive directors (consisting of five persons), an aggregate amount of \$366,000 for the fiscal year ended November 30, 2013 for fees. In addition, during our fiscal year ended November 30, 2013, we awarded our Chairman and non-executive directors 9,500 restricted stock units (RSUs) in respect of Xyratex Ltd common shares.

Our Compensation Committee, composed entirely of independent directors, determines the remuneration of our directors. We also reimburse directors for reasonable expenses incurred in attending meetings of the board, meetings of committees of the board and our general meetings. No compensation, save reasonable expenses incurred, has been paid to executive directors in respect of their role as a director.

Executive Compensation

The aggregate compensation paid to the five executive officers of Xyratex Ltd for the fiscal year ended November 30, 2013 was \$1,678,000, of which \$1,597,000 comprised salary, \$94,000 comprised non-cash payments and \$32,000 comprised bonus payments. Of the \$94,000 non-cash payments, \$42,000 related to payments into the executive officers' defined contribution pension schemes. In addition, during our fiscal year ended November 30, 2013, in aggregate we awarded the five executive officers 25,000 RSUs in respect of Xyratex Ltd common shares, which became eligible vesting RSUs on February 1, 2014, based on performance criteria. During our fiscal year ended November 30, 2013, we have also awarded three executive officers options to purchase 150,000 Xyratex Ltd common shares granted for no consideration.

Bonuses of \$32,000 in the aggregate were paid to executive officers in the 2013 fiscal year in respect of 2012 performance. Any bonuses paid to executive officers in 2014 will be based on 2013 performance. Non-cash payments to executive officers consisted of employer pension contributions, leased cars and health insurance.

Item 6.C: Board Practices

The following disclosure applies prior to our acquisition by Seagate Technology. Following the acquisition of Xyratex by Seagate on March 31, 2014, Xyratex is operated as a wholly-owned subsidiary of Seagate.

Board Practices

Our board of directors currently consists of seven members of which a majority are independent directors. All directors hold office until their successors have been elected and qualified or until their earlier death, resignation, disqualification or removal. The term of office of the directors is divided into three classes:

- Class I, whose term will expire at the annual general meeting to be held in 2016;

- Class II, whose term will expire at the annual general meeting to be held in 2015; and

- Class III, whose term will expire at the annual general meeting to be held in 2014.

Class I consists of Ernest Sampias, Mike Windram and Vadim Perelman; Class II consists of Jonathan Brooks and Richard Pearce; and Class III consists of Steve Sanghi and Ken Traub. At each annual general meeting after the

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initial classification or special meeting in lieu thereof, the successors to directors whose terms expire will then serve from the time of election until the third annual meeting following election or special meeting held in lieu thereof. In addition, a resolution of the board of directors may change the authorized number of directors within the upper and lower limits set out in our bye-laws. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of the board of directors may have the effect of delaying or preventing changes in control or management of our Company.

The employment contracts governing the service of our directors do not provide for benefits upon termination of employment.

Board Committees

Our bye-laws give our board of directors the authority to delegate its powers to a committee appointed by the board. Committees may consist partly or entirely of non-directors, except for the audit committee, nominations and governance committee and compensation committee, which must consist only of independent directors. Our committees are required to conduct meetings and take action in accordance with the directions of the board and the provisions of our bye-laws or the written charters establishing these committees.

Compensation Committee

Our Compensation Committee consists of Jonathan Brooks (Chairman), Vadim Perelman, Steve Sanghi and Mike Windram, each of whom satisfy the independence requirements of the NASDAQ Corporate Governance Rules. The Compensation Committee determines the remuneration policy as well as the terms and conditions of service and the cessation of service of our directors and executive officers, and evaluates the compensation plans, policies and programs of the Company to encourage high performance, promote accountability and insure that employee interests are aligned with the interests of the Company's shareholders. The Compensation Committee met five times during the fiscal year ended November 30, 2013. Its members are not eligible for bonuses or pension entitlements. The Compensation Committee has access to the services of independent advisors as it requires.

Audit Committee

Our Audit Committee consists of Jonathan Brooks (Chairman), Ken Traub, Steve Sanghi and Mike Windram, each of whom satisfy the independence requirements of the NASDAQ Listing Rules. The Audit Committee met eight times during the fiscal year ended November 30, 2013. The Audit Committee is required to meet at least once during each fiscal quarter. The Audit Committee's responsibilities include:

- selecting the independent auditors, pre-approving all auditing and approving non-auditing services permitted to be performed by the independent auditors;

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- reviewing and approving all proposed related-party transactions;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the effectiveness of internal control over financial reporting;
- annually reviewing and reassessing the adequacy of our Audit Committee charter;
- meeting separately and periodically with management and the independent auditors;
- such other matters that are specifically delegated to our Audit Committee by our board of directors from time to time; and
- reporting regularly to the full board of directors.

In addition, the Audit Committee has approved detailed procedures regarding up the ladder reporting of

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violations of U.S. securities laws and procedures in an effort to ensure compliance with the provisions of the Sarbanes-Oxley Act of 2002 regarding auditor objectivity and independence.

Nominations and Governance Committee

Our Nominations and Governance Committee's functions include identifying and selecting qualified candidates for Board membership and ensuring compliance with applicable corporate governance requirements. The Nominations and Governance Committee consists of Steve Sanghi (Chairman), Jonathan Brooks, Ken Traub and Mike Windram, each of whom satisfy the independence requirements of the NASDAQ Listing Rules. The Nomination and Governance Committee met three times during the fiscal year ended November 30, 2013.

Item 6.D: Employees

As of November 30, 2013, we employed 1,742 permanent employees worldwide. During the year ended November 30, 2013, we had an average of 901 temporary staff. We consider our highly qualified and motivated employees to be a key factor in our business success. Our future success will depend on our continued ability to attract, retain and motivate highly qualified engineering personnel, for whom competition is intense. Our employees are not represented by any collective bargaining organization and we have never experienced a work stoppage. We believe that our relations with our employees are good.

The following table shows the number of permanent employees as of the dates indicated:

	2013	As of November 30, 2012	2011
Operations	796	994	999
Research and development	472	495	524
Sales, marketing and service	239	234	245
General and administration	235	208	192
Total	1,742	1,931	1,960
Total employees in North America	406	524	543
Total employees in Asia	831	836	826
Total employees in the United Kingdom	505	571	591

Item 6.E: Share Ownership

As of March 31, 2014, all outstanding Xyratex shares were acquired by Seagate and all Xyratex equity plans were cancelled. Accordingly, the following disclosure applies prior to our acquisition by Seagate Technology.

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Executive Officer and Director RSUs, Share Options and Share Ownership

For our executive officers and directors as of November 30, 2013, the following table sets forth the number of our common shares, RSUs and options to purchase our common shares owned by them as of November 30, 2013. The table also sets forth the number of our common shares owned by all of our directors and executive officers as a group.

Name	Number of Shares	Percentage of Shares Outstanding	Restricted Stock Units(1)	Options		Expiration Date
				Number(1)	Exercise Price Per Share	
Jonathan Brooks	43,205	<1%	8,500	20,000	\$ 14.00	June 28, 2014
				5,000	\$ 14.31	January 9, 2015
Ernest Sampias	17,385	<1%	5,250	10,000	\$ 14.00	June 28, 2014
Ken Traub	0	0%	0			
Richard Pearce	38,508	<1%	27,208	55,000	\$ 14.31	January 9, 2015
				50,000	\$ 10.84	May 10, 2023
Luciano Marinaccio	30,402	<1%	12,000	15,000	\$ 14.31	January 9, 2015
All our directors and executive officers as a group (ten persons)		22.93%				

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- (1) All options and RSUs entitle the holder to acquire one common share for each option or unit held.
- (2) These shares are owned by Baker Street Capital LLC

The voting rights of our directors and executive officers are no different from all of our other shareholders.

Employee Equity Incentive Awards

We operate a range of equity incentive schemes, covering RSUs, share purchase plans, share option plans and restricted stock awards. Since December 1, 2005, the Company's share based awards have primarily consisted of RSUs and awards under the Employee Share Purchase Plan for U.S. employees and a Sharesave option plan for U.K. employees. Prior to December 1, 2005, share based awards were primarily in the form of share options.

Details of the schemes under which there have been transactions are given below.

The following table contains a summary of all RSUs and options granted under our share incentive schemes and other share based awards that were outstanding as of November 30, 2013:

Name of Plan	No. of unissued shares, in thousands, over which Xyratex Ltd has granted RSUs or options(1)
RSUs	658
The Sharesave Plan	183
Employee Share Purchase Plan	26
The Xyratex Ltd Approved Plan	44
The Xyratex Ltd Unapproved Plan	368
The Unapproved Schedule	3
The 2004 Plan	65
The Directors Stock Option Plan	40

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- (1) 95 of the unissued common shares over which we have granted options are held by The Xyratex UK Employee Benefit Trust. Xyratex Trustees Limited, as trustee for The Xyratex UK Employee Benefit Trust, has agreed to transfer these common shares to beneficiaries of the trust on the exercise of options granted by us over such common shares.

These plans form part of the Company's Amended and Restated 2006 Incentive Award Plan. 8,832,648 common shares were reserved for issuance pursuant to such plan. At November 30, 2013 awards of 4,977,648 of our common shares had been granted under the Amended and Restated 2006 Incentive Award Plan.

Restricted Stock Units (RSUs)

The Compensation Committee is authorized to make awards of RSUs to any participant selected by the Compensation Committee in such amounts and subject to such terms and conditions as determined by the Compensation Committee. At the time of grant, the Compensation Committee will specify the date or dates on which the RSUs shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. At the time of grant, the Compensation Committee will specify the maturity date applicable to each grant of RSUs which must be no earlier than the vesting date or dates of the award and may be determined at the election of

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the grantee. On the maturity date, we will issue to the participant one unrestricted, fully transferable share for each RSU scheduled to be paid out on such date and not previously forfeited. Members of our board of directors, employees and consultants are eligible to be awarded RSUs. Grants of RSUs have been made in connection with the acquisition of businesses. Some of these grants are subject to performance conditions linked to the ongoing business.

The Xyratex Sharesave Plan

The Sharesave Plan is a U.K. tax authority approved employee share purchase plan where eligible employees who elect to participate will receive options on favorable terms to purchase our shares with U.K. tax advantages.

Any U.K. employee or full-time director is eligible to participate. Invitations to join the Sharesave Plan are made at our discretion. Each participant who enrolls in the Sharesave Plan will receive an option to purchase shares at a maximum 20% discount to the market price on joining the plan at the end of a three year term. During this period accumulated payroll deductions of the participant will be paid into a savings account operated by Yorkshire Building Society. At the end of the savings term, the participant can choose to use their savings to buy shares in Xyratex Ltd at the option price, or withdraw their savings from the plan with a guaranteed tax-free bonus.

The maximum amount that any participant may save per month under the plan is £250, which must be determined and fixed on enrollment in the plan.

The Sharesave Plan was approved by our shareholders at our annual general meeting of shareholders on April 13, 2005.

The Xyratex Ltd 2004 Employee Stock Purchase Plan (as amended)

The Employee Stock Purchase Plan, or ESPP, is a U.S. employee stock purchase plan under which eligible employees of any of our designated subsidiaries who elect to participate will receive rights to purchase our shares on favorable terms and with U.S. federal income tax advantages through accumulated payroll deductions.

The sole initial designated subsidiary is Xyratex International, Inc. Our board of directors may change the designated subsidiaries from time to time.

Each participant who enrolls in the ESPP for an offering period will receive a purchase right. A purchase right entitles a participant to purchase at the end of each offering period the number of our common shares determined by dividing the participant's accumulated payroll deductions in his or her plan account by the purchase price for that offering period. Generally, the per share purchase price of the shares subject to a purchase right for an offering period is 85% of the lower of the fair market value of one of our common shares on the first trading day of the offering

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period or the fair market value of such a share on the last trading day of the offering period. Generally, the fair market value of one of our common shares on any date will be the closing price of such a share on The NASDAQ Stock Market LLC on that date.

Any individual (except any employee who owns shares possessing 5% or more of the voting power or value of all classes of our issued shares or the shares of any of our subsidiaries) will be eligible to participate in the ESPP for an offering period if he or she both (i) was employed by a designated subsidiary throughout a specified period ending on the first trading day of such offering period, and (ii) is customarily employed, as of such day, by a designated subsidiary for at least 20 hours per week and for at least five months per calendar year.

The maximum fair market value of our common shares that any participant may purchase under the plan during any calendar year is \$25,000, determined on the first trading day of the offering period.

The initial number of our shares reserved for issuance pursuant to purchase rights to be granted under the ESPP was 100,000. On each December 1, beginning December 1, 2004, there will automatically be added to the number of shares reserved under the plan the least of (i) 500,000, (ii) 1% of the number of our common shares outstanding on that date or (iii) such other number of our common shares as our board of directors determines.

As at November 30, 2013, the number of shares reserved under the plan was 461,000.

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The Xyratex Ltd Approved Company Share Option Plan

The Xyratex Ltd Approved Plan is a U.K. share option plan which is approved by the U.K. tax authority. A U.K. tax authority approved share option plan offers tax advantages to option holders who exercise options in accordance with the provisions of the relevant legislation.

Any employee or any full time director of the Group is eligible to participate. Actual participation is at the discretion of the board of directors of Xyratex Ltd. Options are personal to the participant and may not be assigned. Options will be granted by deed for no consideration.

The aggregate subscription price of all outstanding options granted to any one participant under the Xyratex Ltd Approved Plan and under any other U.K. tax authority approved discretionary share option scheme adopted or operated by us may not exceed £30,000.

Our board of directors will determine the option vesting period at the time options are granted. Where employment ceases due to death, injury, disability, redundancy, the Participant's retirement at normal retirement age, or on the participant's employing company or business ceasing to be within our group of companies or, at the discretion of our board of directors, on the participant in question leaving employment for any other reason, options will generally be exercisable to the extent vested at the date of cessation.

Options held by a participant will lapse if the participant ceases to be employed by us or any of its subsidiaries save to the extent that the reason for cessation is as outlined in the paragraph above.

Options may also be exercised in the event our takeover or liquidation. Options may be exercised in these circumstances notwithstanding that any performance target has not been satisfied.

Our board of directors may impose objective conditions as to our performance (which must be set having regard to institutional guidelines) which must normally be satisfied before options can be exercised.

At December 31, 2013, no performance targets have been imposed in respect of options granted under the Xyratex Ltd Approved Plan.

The exercise price will be the higher of the nominal value of a Xyratex Ltd common share on the date of grant of the option and the average on market quotation of our common shares for the three dealing days immediately prior to the date on which the option is granted.

The Xyratex Ltd Unapproved Company Share Option Plan

The Xyratex Ltd Unapproved Company Share Option Plan has the same features as the Xyratex Ltd Approved Company Share Option Plan except that (i) the £30,000 individual participation limit does not apply to options granted under the Xyratex Ltd Unapproved Company Share Option Plan; and (ii) the requirements for U.K. tax authority approval or consent do not apply.

250,000 options were granted under the plan during the year ended November 30, 2013.

The Xyratex Ltd 2004 Stock Option Plan

The 2004 Plan is a U.S. stock option plan under which we may grant incentive stock options to purchase our shares to our employees and nonqualified stock options to purchase our shares to our employees, consultants and non-employee officers and directors.

The per share exercise price of an incentive stock option may not be less than the fair market value of one of our common shares on the date of grant (and not less than 110% of the fair market value in the case of incentive stock options granted to holders of our shares possessing more than 10% of the voting power of all classes of our then outstanding shares). Initially, the per share exercise price of a nonqualified stock option will not be restricted, but all nonqualified stock options granted after a specified period and for so long as we are a publicly held corporation will be

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required to have a per share exercise price of not less than the fair market value of our common shares on the date of grant. An option may not be exercised more than ten years after the date of grant. Under the 2004 Plan, an option granted to an employee, consultant, officer or director will terminate if employment or service terminates. The maximum number of shares we can issue under the 2004 Plan is 5,000,000, provided that the limits set forth above in Employee Equity Incentive Awards shall apply.

The Xyratex Ltd 2004 Directors Stock Option Plan

We adopted a 2004 Directors Stock Option Plan for the purpose of making one-time grants of options to purchase 20,000 Xyratex Ltd common shares to each of Ernest Sampias, Steve Sanghi and Jonathan Brooks. The non-qualified stock options were granted effective June 29, 2004 and the exercise price of the options is \$14.00 per share, equal to the initial public offering price of our common shares. The options vested as to 25% of the shares on each November 30 in 2004 through 2007. An option may not be exercised after the option holder ceases to be a director of Xyratex Ltd for any reason or no reason, or more than ten years after the date of grant. The maximum number of shares we can issue under the plan is 60,000 shares.

Restricted Stock

Restricted stock awards are shares of our common shares that will vest in accordance with terms and conditions established by the board of directors. The board of directors may impose whatever conditions to vesting it determines to be appropriate. For example, the board of directors may set restrictions based on the achievement of specific performance goals. Unvested shares will be subject to our right of repurchase or forfeiture.

At November 30, 2013, no restricted stock awards were outstanding.

Stock Bonus Awards

Stock bonus awards consist of our common shares awarded in recognition of services rendered to us or our affiliates. The board of directors may impose whatever vesting it determines to be appropriate. Unvested shares may be subject to our right of repurchase or forfeiture.

At November 30, 2013, no stock bonus awards had been made.

Xyratex Group Limited Share Option Plan

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Xyratex Group Limited is the predecessor holding company of the group prior to June 29, 2004. Options granted under Xyratex Group Limited's share option plans are held by employees in the United Kingdom, Malaysia and Singapore, and are over unissued common shares.

The Approved Plan and Unapproved Schedule were adopted on February 13, 2001. Under the Approved Plan and the Unapproved Schedule options subsist over our unissued shares. The Approved Plan and Unapproved Schedule have the same features as the Xyratex Ltd Approved Plan and Xyratex Ltd Unapproved Plan respectively.

Options have not been granted by Xyratex Group Limited under the Approved Plan and the Unapproved Schedule since our initial public offering in June 2004.

Item 7.A: Major Shareholders

As of March 31, 2014, we are wholly-owned by Seagate Technology International, an indirect subsidiary of Seagate Technology plc.

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Item 7.B: Related Party Transactions

None.

Item 7.C: Interest of Experts and Counsel

Not applicable.

ITEM 8: FINANCIAL INFORMATION

Item 8.A: Consolidated Statements and Other Financial Information

Audited financial statements and the accompanying report of our independent registered public accounting firm are included in Part III, Item 18: Financial Statements.

For a discussion of our legal proceedings, please see Part I, Item 4.B: Business Overview Information - Legal Proceedings and for a discussion of our policy on dividend distributions, please see Item 10.B: Additional Information - Memorandum and Bye-laws.

Item 8.B: Significant Changes

None.

ITEM 9: THE OFFER AND LISTING

Item 9.A: Offer and Listing Details

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Our common shares, par value \$0.01 per share, were listed on The NASDAQ Stock Market LLC. We conducted our initial public offering in the United States on June 29, 2004 at which time we listed our common shares on The NASDAQ Stock Market LLC. At close of business on January 31, 2014, the market price for our common shares was \$13.21. On March 31, 2014, Seagate Technology International, an indirect subsidiary of Seagate Technology plc, acquired Xyratex Ltd and is now the sole shareholder of Xyratex Ltd and our common shares are no longer listed on The NASDAQ Stock Market LLC.

The preferred share purchase rights that our board of directors declared in connection with the shareholder rights agreement that we entered into in December 2012 attach to, and trade with, our common shares.

Annual High and Low Market Prices

The table below states the annual high and low market prices for our common shares on The NASDAQ Stock Market LLC over our last five fiscal years.

Year ended November 30,	NASDAQ U.S. dollar per common share			
		High		Low
2009	\$	13.04	\$	1.65
2010	\$	20.45	\$	10.50
2011	\$	17.17	\$	7.58
2012	\$	17.96	\$	6.96
2013	\$	12.29	\$	7.62

Table of Contents**Quarterly High and Low Market Prices**

The table below states for the four quarters of our 2013 and 2012 fiscal years, high and low prices of our common shares on The NASDAQ Stock Market LLC.

Quarter	NASDAQ U.S. dollar per common share			
		High		Low
Quarter 2013				
First	\$	10.99	\$	7.62
Second	\$	11.91	\$	9.09
Third	\$	11.73	\$	9.77
Fourth	\$	12.29	\$	9.90
Quarter 2012				
First	\$	17.52	\$	12.99
Second	\$	17.96	\$	11.18
Third	\$	13.80	\$	10.25
Fourth	\$	11.23	\$	6.96

Monthly High and Low Market Prices

The table below states high and low sales prices of our common shares on The NASDAQ Stock Market LLC for the last six months.

Month	NASDAQ U.S. dollar per common share			
		High		Low
August 2013	\$	10.99	\$	9.77
September 2013	\$	12.29	\$	9.94
October 2013	\$	12.04	\$	9.91
November 2013	\$	10.40	\$	9.90
December 2013	\$	13.52	\$	10.10
January 2014	\$	13.52	\$	13.06

Item 9.B: Plan of Distribution

Not applicable.

Item 9.C: Markets

Our common shares were traded on The NASDAQ Stock Market LLC under the symbol XRTX until our acquisition by Seagate Technology on March 31, 2014.

Item 9.D: Selling Shareholders

Not applicable.

Item 9.E: Dilution

Not applicable.

Item 9.F: Expenses of the Issue

Not applicable.

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ITEM 10: ADDITIONAL INFORMATION

Item 10.A: Share Capital

Not applicable.

Item 10.B: Memorandum and Bye-Laws

The description of our Memorandum and Bye-laws as set forth in our Annual Report on Form 20-F, File No. 000-50799, filed with the SEC on February 21, 2006 is herein incorporated by reference.

Item 10.C: Material Contracts

On December 21, 2013, Xyratex, Seagate Technology International, an exempted limited liability company incorporated and existing under the laws of the Cayman Islands and an indirect subsidiary of Seagate Technology plc (Parent), and Phoenix Acquisition Limited, an exempted company incorporated and existing under the laws of Bermuda and a wholly-owned subsidiary of Parent (Merger Sub), entered into an Agreement and Plan of Merger (the Merger Agreement), contemplating the merger of Merger Sub with and into Xyratex (the Merger), with Xyratex surviving the Merger as a wholly-owned subsidiary of Parent (the Surviving Company).

On March 31, 2014, the Merger was consummated. Each outstanding common share of the Xyratex was automatically converted into the right to receive \$13.25, subject to the terms and conditions of the Merger Agreement.

Item 10.D: Exchange Controls

We have been designated by the Bermuda Monetary Authority as a non-resident for Bermuda exchange control purposes. This designation allows us to engage in transactions in currencies other than the Bermuda dollar, and there are no restrictions on our ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to U.S. residents who are holders of our common shares.

The Bermuda Monetary Authority has given its consent for the issue and free transferability of our shares up to the amount of our authorized capital from time to time to and between non-residents of Bermuda for exchange control purposes, provided our shares remain listed on an

appointed exchange, which includes The NASDAQ Stock Market LLC. Approvals or permissions given by the Bermuda Monetary Authority do not constitute a guarantee by the Bermuda Monetary Authority as to our performance or our creditworthiness. Accordingly, in giving the consent or permissions, the Bermuda Monetary Authority shall not be liable for the financial soundness, performance or default of our business or for the correctness of any opinions or statements expressed in this Annual Report. Certain issues and transfers of common shares involving persons deemed resident in Bermuda for exchange control purposes require the specific consent of the Bermuda Monetary Authority, although the Bermuda Monetary Authority has granted permission for the issue and transferability of up to 20% of our shares in issue from time to time to persons resident in Bermuda for exchange control purposes.

Item 10.E: Taxation

United States Federal Income Tax Considerations

The following discussion is a summary of material U.S. federal income tax consequences of the purchase, ownership and disposition of our common shares by a U.S. Holder (as defined below). For the purpose of this discussion only, our common shares refers to shares of Xyratex Ltd. This summary is based on the federal income tax laws of the United States (including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions) as in effect on the date hereof, all of which are subject to change, possibly with retroactive effect. The discussion is not a full discussion of all tax considerations that may be relevant to the purchase, ownership and disposition of our common shares. The discussion addresses only U.S. Holders that purchase our common shares and hold them as capital assets and use the U.S. dollar as their functional currency. It does not deal with the U.S. federal income tax treatment of investors subject to special rules, such as

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grantor trusts, real estate investment trusts, regulated investment companies, banks, brokers, dealers, traders in securities or currencies, financial institutions, insurance companies, tax-exempt entities, investors liable for alternative minimum tax, holders of ten percent or more of our common shares (by vote or value, and directly or by attribution), persons holding our common shares as part of a hedging, straddle, conversion or constructive sale transaction or persons whose functional currency is not the U.S. dollar, nor does it discuss the recently effective unearned income Medicare Contribution tax. **U.S. Holders should consult their tax advisors about the U.S. federal, state, local and foreign tax consequences to them of an investment in our common shares.**

As used in this section, U.S. Holder means a beneficial owner of our common shares that is (i) a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States or its political subdivisions (including the District of Columbia), (iii) a trust subject to the primary supervision of a U.S. court and with respect to which all substantial trust decisions are subject to the control of one or more U.S. persons or which has a valid election in place to be treated as a U.S. person or (iv) an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

If a partnership holds our common shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Therefore, partners of a partnership holding our common shares should consult their tax advisor.

Dividends

Subject to the passive foreign investment company rules discussed below, the gross amount of any distributions paid with respect to our common shares generally will be included in the gross income of a U.S. Holder as ordinary dividend income to the extent paid out of our earnings and profits as determined under U.S. federal income tax principles. To the extent that the amount of any distribution exceeds our earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. Holder's adjusted tax basis in our common shares and thereafter as capital gain. The dividends will not be eligible for the dividends-received deduction available to corporations. Dividends received by a non-corporate U.S. Holder of our common shares may be taxed at the lower applicable capital gains rate provided that (1) we are not a passive foreign investment company (as discussed below) with respect to such holder for either our taxable year in which the dividend was paid or the preceding taxable year, (2) our common shares are readily tradable on an established securities market in the U.S. and (3) certain holding period requirements are met. U.S. Holders should consult their own tax advisors regarding the availability of the lower rate for dividends paid with respect to common shares. Dividends paid on our common shares will generally constitute foreign source income and will generally constitute passive category income for purposes of the foreign tax credit but could, in the case of certain U.S. Holders, constitute general category income.

Capital Gains

Subject to the passive foreign investment company rules discussed below, a U.S. Holder generally will recognize capital gain or loss on the sale or other disposition of our common shares equal to the difference between the amount realized and the U.S. Holder's adjusted tax basis (determined in U.S. dollars) in our common shares. Any gain or loss will generally be treated as arising from U.S. sources for foreign tax credit limitation purposes. If a U.S. Holder is an individual and the common shares being sold or otherwise disposed of have been held by that individual for more than one year, the gain recognized will be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Passive Foreign Investment Company

We believe that we were not a passive foreign investment company (PFIC) for U.S. federal income tax purposes for the taxable year ended November 30, 2013 and do not expect to become a PFIC in the future. A non-U.S. corporation is considered a PFIC for any taxable year if either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

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We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, fluctuation in the market price of our common shares may result in us becoming a PFIC.

If we are a PFIC for any taxable year, a U.S. Holder will be subject to special tax rules with respect to any excess distribution received and any gain realized from a sale or other disposition of common shares, unless such U.S. Holder makes a mark-to-market election as discussed below. Distributions received by a U.S. Holder in a taxable year that are greater than 125% of the average annual distributions received by such U.S. Holder during the shorter of the three preceding taxable years or such U.S. Holder's holding period for the common shares will be treated as an excess distribution. Under these special tax rules (i) the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the common shares, (ii) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and (iii) the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year. If we are a PFIC for any taxable year, you will be deemed to own shares in any of our subsidiaries that are also PFICs in such year. You could incur liability for tax and interest charges if either (1) we receive a distribution from, or dispose of all or part of our interest in the lower-tiered PFICs, or (2) you dispose of all or part of your common shares.

The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of common shares cannot be treated as capital, even if a U.S. Holder holds the common shares as capital assets.

If we are a PFIC, a U.S. Holder may avoid taxation under the rules described above by making a qualified electing fund election to include its share of our income on a current basis, or a deemed sale election once we no longer qualify as a PFIC. However, a U.S. Holder may make a qualified electing fund election only if we agree to furnish annually certain tax information, and we do not presently intend to prepare or provide such information.

Alternatively, a U.S. Holder of marketable stock in a PFIC may make a mark-to-market election for stock of a PFIC to elect out of the tax treatment discussed three paragraphs above. If a U.S. Holder makes a mark-to-market election for the common shares, it will include in income each year an amount equal to the excess, if any, of the fair market value of the common shares as of the close of its taxable year over its adjusted basis in such common shares. A U.S. Holder is allowed a deduction for the excess, if any, of the adjusted basis of the common shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the common shares included in the U.S. Holder's income for prior taxable years. Amounts included in a U.S. Holder's income under a mark-to-market election, as well as gain on the actual sale or other disposition of the common shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the common shares, as well as to any loss realized on the actual sale or disposition of the common shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such common shares. A U.S. Holder's basis in the common shares will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us.

The mark-to-market election is available only for stock which is regularly traded on a qualified exchange or other market, as defined in applicable Treasury regulations. Our common shares are listed on The NASDAQ Stock Market LLC and, consequently, for so long as our common shares continue to be so listed and regularly traded on such market, the mark-to-market election will be available to U.S. Holders were we to be or become a PFIC. In the event that we and any of our subsidiaries are PFICs in any tax year, the mark-to-market election will not be available with respect to the shares of such subsidiaries that are treated as owned by you. Consequently, you could be subject to the PFIC rules with respect to the income of lower-tiered PFICs, the value of which you already took into account indirectly via mark-to-market adjustments.

If a U.S. Holder holds common shares in any year in which we are a PFIC, such U.S. Holder would be required to file annual reporting with the U.S. Internal Revenue Service.

Information Reporting and Backup Withholding

In general, information reporting for U.S. federal income tax purposes will apply to distributions made on the common shares paid within the U.S. to a non-corporate U.S. person and on sales of the common shares to or through a

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U.S. office of a broker by a non-corporate U.S. person. Payments made outside the U.S. will be subject to information reporting in limited circumstances.

Legislation also requires certain holders who are individuals to report information relating to an interest in the common shares, subject to certain exceptions (including an exception for common shares held in accounts maintained by certain financial institutions).

In addition, backup withholding of U.S. federal income tax will apply to distributions made on common shares within the U.S. to a non-corporate U.S. person and on sales of common shares to or through a U.S. office of a broker by a non-corporate U.S. person who (i) fails to provide an accurate taxpayer identification number (certified on U.S. Internal Revenue Service Form W-9), (ii) is notified by the U.S. Internal Revenue Service that backup withholding will be required, or (iii) fails to comply with applicable certification requirements.

The amount of any backup withholding collected will be allowed as a credit against U.S. federal income tax liability, which may entitle such U.S. Holder to a refund, provided that appropriate returns are timely filed.

Bermuda Taxation

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by us or by our shareholders in respect of our shares. We have received an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, the tax shall not until March 31, 2035 be applicable to us or to any of our operations or to our shares or other obligations except insofar as the tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property or leasehold interests in Bermuda held by us.

Item 10.F: Dividends and Paying Agents

Not applicable.

Item 10.G: Statement by Experts

Not applicable.

Item 10.H: Documents on Display

We file annual reports, current reports and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any of these reports at the SEC's public reference facilities at 100 F Street, N.E., Washington D.C. 20549 or obtain them by mail upon payment of prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information. Copies may also be obtained from the SEC website at <http://www.sec.gov>.

Item 10.I: Subsidiary Information

Not applicable.

ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following risk management discussion and the estimated amounts generated from analytical techniques are forward-looking statements of market risk assuming certain market conditions occur. Our actual results in the future may differ materially from these projected results due to actual developments in the global financial markets.

The principal market risks (*i.e.*, the risk of loss arising from adverse changes in market rates and prices) to which we are exposed are foreign exchange rates and interest rates on cash and cash equivalents.

Table of Contents**Foreign Exchange Rates**

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 of our non-U.S. dollar operating expenses relate to our Malaysian and U.K. operations payroll and other expenses. We are particularly exposed to exchange rate movements between the U.K. pound and the U.S. dollar. We partially limit our U.K. pound and Malaysian Ringgit exchange rate exposures through the use of forward foreign currency exchange contracts and currency options. By using these derivative instruments increases or decreases in our U.K. pound and Malaysian Ringgit operating expenses resulting from changes in the exchange rate are partially offset by realized gains and losses on the derivative instruments. We do not hold derivative financial instruments for trading purposes. We also have assets and liabilities denominated in U.K. pounds and therefore we are also exposed to the effect of the retranslation of these amounts as a result of movements in exchange rates. At November 30, 2013 and 2012, we had no significant net U.K. pound denominated assets or liabilities and therefore a hypothetical 10% movement in exchange rates would not have impacted our net earnings at these dates.

We are exposed to credit (or repayment) risk through our use of forward foreign exchange contracts. If the counter-party to one of the forward foreign exchange contracts to which we are party fails to fulfill its performance obligations under the contract, our credit risk will equal the positive market value of the contract. When the fair market value of a forward foreign exchange contract is positive, this indicates that the counter-party owes us money, thus creating a repayment risk. When the fair market value of a forward foreign exchange contract is negative, we owe the counter-party, and therefore we assume no repayment risk. In order to minimize credit risk in forward foreign exchange contracts, we enter into transactions with high-quality counter-parties, such as financial institutions, that satisfy our established credit approval criteria. Forward foreign exchange contracts are executed only on the basis of standardized agreements.

The following table provides information about our forward foreign exchange contracts existing as of November 30, 2013 and November 30, 2012:

	U.S. dollars in thousands November 30,	
	2013	2012
Derivatives between U.K. pound and U.S. dollar		
Nominal value of forward exchange contracts and options	\$ 49,583	\$ 50,232
Fair value of contracts asset (liability)	\$ 2,641	\$ 932
Carrying value of contracts asset (liability)	\$ 2,641	\$ 932
Average rate of contract	\$ 1.56	\$ 1.57
Period end rate	\$ 1.63	\$ 1.60
Maximum period of contracts (months)	11	11

	U.S. dollars in thousands November 30,	
	2013	2012
Derivatives between Malaysian Ringgit and U.S. dollar		
Nominal value of forward exchange contracts and options	\$ 18,000	\$ 18,000
Fair value of contracts asset (liability)	\$ (352)	\$ 381
Carrying value of contracts asset (liability)	\$ (352)	\$ 381
Average rate of contract	\$ 0.31	\$ 0.32
Period end rate	\$ 0.31	\$ 0.33
Maximum period of contracts (months)	9	9

Since November 30, 2013, there has not been a material change to our market exposure related to foreign exchange rates.

Interest Rates

We had cash and cash equivalents at November 30, 2013 totaling \$103.0 million. These are primarily held in variable interest liquidity funds and overnight deposits.

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For the years ended November 30, 2013 and 2012, we had average variable rate cash and cash equivalent balances, net of variable rate borrowings, of approximately \$95.5 million and \$128.1 million, respectively. A hypothetical 1% change in interest rates during fiscal 2013 and fiscal 2012 would have impacted our net interest income by approximately \$1.0 million and \$1.3 million, respectively.

Since November 30, 2013, there has not been a material change to our market risk exposure related to interest rates.

ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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PART II

ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14: MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

On March 31, 2014, Seagate Technology acquired all of the outstanding shares of Xyratex for \$13.25 per share.

ITEM 15: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the U.S. Securities Exchange Act of 1934 as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive and Chief Financial Officers, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b), of the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive and Chief Financial Officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report. Based on the foregoing, as of November 30, 2013, our Chief Executive and Chief Financial Officers concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting

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includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and (iii) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management evaluated the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control 1992 Integrated Framework*. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of the end of the period covered by this Annual Report on Form 20-F.

The effectiveness of internal control over financial reporting as of November 30, 2013 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in their report which is included on page F-1 of this Annual Report.

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Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting during the fiscal year ended November 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Effectiveness of Controls

Our management, including our Chief Executive and Chief Financial Officers, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 16: RESERVED

ITEM 16A: AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Jonathan Brooks, who served as Chairman of our audit committee before our acquisition by Seagate Technology, is an audit committee financial expert. Mr. Brooks is independent, as that term is defined in the SEC rules and the NASDAQ Listing Rules.

ITEM 16B: CODE OF ETHICS

Before our acquisition by Seagate Technology, we had in place a Code of Business Conduct and Ethics that applies to all directors, officers and employees, which qualifies as a code of ethics as required under the Sarbanes-Oxley Act of 2002. The Code of Business Conduct and Ethics applies to our principal executive officer and principal financial officer, principal accounting officer or controller and other persons performing similar functions. The full text of the Code of Business Conduct and Ethics was available on our website. Following our acquisition by Seagate Technology, we do not maintain our own Code of Business Conduct and Ethics because we are wholly owned by Seagate Technology.

ITEM 16C: PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following fees were billed by our independent registered public accounting firm, PricewaterhouseCoopers LLP, during the two years ended November 30, 2013:

	2013	Year ended November 30, (U.S. dollars in thousands)	2012
Audit fees(1)	\$	671	\$ 673
Tax fees(2)		300	460
Total fees	\$	971	\$ 1,133

(1) Represents fees for professional services related to the audit of our annual consolidated financial statements for years ended November 30, 2013 and 2012, reviews of the financial statements included in our quarterly financial press releases on Form 6-K and the statutory audits of our subsidiaries.

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(2) Represents fees for professional services related to tax services, including tax compliance, tax advice, tax planning and expatriate tax services.

Audit Committee Pre-approval Policies and Procedures

The following disclosure applies prior to our acquisition by Seagate Technology. Following our acquisition by Seagate Technology, the consolidated accounts of Xyratex will no longer require an independent audit opinion.

We have established a policy addressing the independence of our external auditors and the provision of services by our external auditors. Pursuant to this policy, our external auditors may only provide certain permissible audit services, audit-related services and non-audit services that have been pre-approved by the Audit Committee. The Audit Committee has granted general pre-approval to all permissible services to be provided by the Company's external auditors not in excess of \$200,000 in aggregate in any fiscal year and that do not exceed \$50,000 per individual service provided. The Audit Committee must specifically pre-approve all services in excess of these amounts. Certain of the permissible audit services, audit-related services and non-audit services that our Audit Committee may pre-approve pursuant the policy have been set forth below. The Audit Committee annually reviews the list of permissible pre-approved services and may add or subtract services from the list from time to time.

Permissible audit services include:

- statutory audits or financial audits for subsidiaries or affiliates, including issuing the audit opinion for Company reporting purposes and on the statutory financial statements; and
- audit of the financial statements contained in our annual report on Form 20-F, and other services associated with SEC registration statements, periodic reports and other documents filed with the SEC.

Permissible audit-related services include:

- employee benefit plan audits;
- accounting consultations on matters not reflected in our financial statements (including advice on accounting policies);

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- due diligence assistance relating to acquisitions and/or disposals;
- audits on divestments and acquisitions;
- internal control reviews; and
- accounting and fraud investigation.

Permissible non-audit services include:

- tax compliance, planning and related implementation advice; and
- due diligence other than in respect of acquisitions.

In the event that services to be provided by the external independent auditor do not fit within the various enumerated pre-approved services under the policy, we have implemented certain internal procedures to ensure that the provision of such services will not compromise the independence of the external auditor.

The Audit Committee approved 100% of the non-audit fees billed by our principal accountants in the year ended November 30, 2013 under these policies and procedures.

On March 31, 2014, Xyratex was acquired by Seagate Technology. Following the acquisition, in order to assess PricewaterhouseCoopers LLP's ability to issue its final audit opinion on the November 30, 2013 financial

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statements of Xyratex, PricewaterhouseCoopers (PwC) completed an independence assessment to evaluate the services and relationships with Seagate and its subsidiaries that may bear on PwC 's independence under SEC and PCAOB independence rules for the portion of the professional engagement period beginning March 31, 2014, the date Seagate acquired Xyratex. Services identified that are inconsistent with the auditor independence rules provided in Rule 2-01 of Regulation S-X include the provision of project management services, staff secondments, legal and company secretarial services, management and employee type tasks while performing non-audit services and work performed pursuant to a contingent fee arrangement.

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PwC communicated these matters to the Company's current Board of Directors. The Board of Directors and PwC individually considered the impact that these relationships have on PwC's independence with respect to the Company and concluded that there are no indications that PwC's ability to exercise objective and impartial judgment on issues encompassed within the audit of the Company's financial statements have been impaired. In making this determination, the Board of Directors and PwC considered, among other things that:

- Xyratex is a wholly-owned subsidiary of Seagate and such financial statements will not be relied upon for any investment decision by investors in Seagate or in any other entity. The acquisition of Xyratex was not significant to Seagate and did not require the filing of Xyratex financial statements under Rule 3-05 or Rule 11-01 of Regulation S-X in relation to Seagate's SEC filings. Accordingly, there will be no requirements to file Xyratex financial statements with the SEC for any period after November 30, 2013.
- PwC was independent of Xyratex for the entirety of the audit period ended November 30, 2013 and until Seagate acquired Xyratex on March 31, 2014, at which date PwC UK's audit procedures were substantially complete.
- Following the filing of the 2013 Form 20-F, PwC UK's audit relationship with Xyratex will end and PwC will have no continuing independence requirements of Xyratex under Rule 2-01.
- None of the Seagate entities for which the non-audit services are being performed are subject to PwC UK's audit of Xyratex. All of the services are provided to entities that are sister companies under common control with Xyratex and therefore none of the non-audit services affect Xyratex's accounting or financial reporting.
- The services were performed by persons who were not, nor will they be, part of the audit engagement team.

Accordingly, and for the reasons enumerated above, the Board of Directors and PwC concludes that the services identified do not affect its ability to render an objective audit for Xyratex Ltd for the year ended November 30, 2013.

ITEM 16D: EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E: PURCHASES OF EQUITY SECURITIES BY COMPANY AND AFFILIATED PURCHASERS

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We announced on March 31, 2011 that we would recommence the share repurchase plan initially approved during the first quarter of 2008, and increased the maximum value of shares that may be repurchased. According to the revised terms of the plan, we may repurchase up to an additional \$50 million of the outstanding shares following April 30, 2011. Under the plan, we repurchased 3,601,903 shares at an aggregate cost of \$32.3 million in the year ended November 30, 2011 and 1,199,275 shares at an aggregate cost of \$13.6 million in the year ended November 30, 2012. We did not repurchase any shares in the year ended November 30, 2013. At November 30, 2013, the total number of

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shares purchased as part of publicly announced programs was 4,801,178, and the maximum value of shares that may yet be purchased under the program was \$4.1 million.

ITEM 16F: CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G: CORPORATE GOVERNANCE

There are no significant differences between our corporate governance practices prior to our acquisition by Seagate Technology and those required of a U.S. domestic issuer under the Listing Rules of the NASDAQ Stock Market.

ITEM 16H: MINE SAFETY DISCLOSURE

Not applicable.

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We have responded to Part III, Item 18: Financial Statements in lieu of responding to this Item.

ITEM 18: FINANCIAL STATEMENTS

The following financial statements are included as part of this Annual Report:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	74
<u>Consolidated Balance Sheets as of November 30, 2013 and 2012</u>	75
<u>Consolidated Statements of Operations for each of the three years in the period ended November 30, 2013</u>	76
<u>Consolidated Statements of Shareholders' Equity and Comprehensive Income for each of the three years in the period ended November 30, 2013</u>	77
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended November 30, 2013</u>	78
<u>Notes to the Consolidated Financial Statements</u>	79

ITEM 19: EXHIBITS

Exhibit Number	Description
1.1	Memorandum of Association of Xyratex Ltd*
1.2	Bye-Laws of Xyratex Ltd**
2.1	Rights Agreement dated as of December 17, 2012 between Xyratex Ltd and Computershare Trust Company, N.A., as Rights Agent***
2.2	First Amendment to the Rights Agreement between Xyratex Ltd and Computershare Trust Company, N.A., as Rights Agent dated December 13, 2013****
2.3	Second Amendment to the Rights Agreement between Xyratex Ltd and Computershare Trust Company, N.A., as Rights Agent dated December 23, 2013*****
4.1	Agreement and Plan of Merger with Seagate Technology International*****
4.2	Voting Agreement in connection with the Agreement and Plan of Merger with Seagate Technology International*****
8	Subsidiaries of Xyratex Ltd**
12.1	Section 302 certification, Chief Executive Officer
12.2	Section 302 certification, Chief Financial Officer
13.1	Section 906 certification, Chief Executive Officer
13.2	Section 906 certification, Chief Financial Officer
15.1	Schedule II Valuation and Qualifying Accounts and Reserves
101	The following financial information formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of November 30, 2013 and 2012, (ii) Consolidated Statements of Operations and Comprehensive Income (Loss) for

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each of the three years in the period ended November 30, 2013, (iii) Consolidated Statements of Shareholders' Equity for each of the three years in the period ended November 30, 2013, (iv) Consolidated Statements of Cash Flows for each of the three years in the period ended November 30, 2013 and (v) Notes to the Consolidated Financial Statements*****

* Incorporated by reference to our registration statement on Form F-1 (File No. 333-116089) filed with the SEC on June 22, 2004.

** Incorporated by reference to our annual report on Form 20-F (File No. 000-50799) filed with the SEC on February 21, 2006.

*** Incorporated by reference to our report on Form 6-K (File No. 000-1284823) filed with the SEC on December 18, 2012,

**** Incorporated by reference to our report on Form 6-K (file No. 001-35766) filed with the SEC on December 13, 2013.

***** Incorporated by reference to our report on Form 6-K (file No. 001-35766) filed with the SEC on December 23, 2013.

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***** Pursuant to Rule 406T of SEC Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the U.S. Securities Act of 1933, as amended, and are deemed not filed for purposes of Section 18 of the U.S. Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

XYRATEX LTD
August 29, 2014

By: */s/ JAMES J. LERNER*
James J. Lerner
Chief Executive Officer

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XYRATEX LTD

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and shareholders of Xyratex Ltd

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss) and cash flows present fairly, in all material respects, the financial position of Xyratex Ltd and its subsidiaries at 30 November 2013 and 30 November 2012, and the results of their operations and their cash flows for each of the three years in the period ended 30 November 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule in exhibit 15.1 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 30 November 2013, based on criteria established in *Internal Control - 1992 Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and the financial statement schedule in exhibit 15.1, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included under Item 15 of the Form 20-F. Our responsibility is to express opinions on these financial statements, on the financial statement schedule in exhibit 15.1 and on the Company's internal control over financial reporting based on our integrated audits. We conduct our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Southampton

England

August 28, 2014

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XYRATEX LTD

CONDENSED CONSOLIDATED BALANCE SHEETS

	2013	November 30, (US dollars and amounts in thousands)	2012
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 102,992		\$ 117,174
Accounts receivable, net	90,835		132,917
Inventories	132,227		171,605
Prepaid expenses	3,316		3,134
Deferred income taxes	762		228
Other current assets	11,612		7,121
Total current assets	341,744		432,179
Property, plant and equipment, net	41,595		40,194
Intangible assets, net	14,274		14,975
Deferred income taxes	6,583		23,929
Total assets	\$ 404,196		\$ 511,277
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 67,061		\$ 82,125
Employee compensation and benefits payable	18,896		17,961
Deferred revenue	4,880		18,521
Income taxes payable	1,649		369
Other accrued liabilities	16,886		17,767
Total current liabilities	109,372		136,743
Total liabilities	\$ 109,372		\$ 136,743
Commitments and contingencies (note 13)			
Shareholders equity			
Common shares (in thousands), par value \$0.01 per share 70,000 authorized, 27,563 and 27,024 issued and outstanding	\$ 275		\$ 270
Additional paid-in capital	312,391		354,593
Accumulated other comprehensive income	2,123		863
Accumulated income (deficit)	(19,965)		18,808
Total shareholders equity	294,824		374,534
Total liabilities and shareholders equity	\$ 404,196		\$ 511,277

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

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XYRATEX LTD

CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHESIVE INCOME (LOSS)

	2013	Year Ended November 30, 2012		2011
		(US Dollars and amounts in thousands except per share amounts)		
Revenues	\$ 814,318	\$ 1,158,898	\$ 1,448,476	
Cost of revenues	643,237	963,062	1,226,404	
Gross profit	171,081	195,836	222,072	
Operating expenses:				
Research and development	98,101	103,667	115,558	
Selling, general and administrative	69,466	68,432	66,377	
Amortization of intangible assets	2,057	3,154	4,176	
Impairment of intangible assets			2,230	
Restructuring costs	3,672	4,120	2,750	
Total operating expenses	173,296	179,373	191,091	
Operating income (loss)	(2,215)	16,463	30,981	
Interest income	258]	801	397	
Interest expense	(1)	(2)	(5)	
Income (loss) before income taxes	(1,958)	17,262	31,373	
Provision (benefit) for income taxes	19,253	(398)	3,076	
Net income (loss)	\$ (21,211)	\$ 17,660	\$ 28,297	
Net earnings per share:				
Basic	\$ (0.77)	\$ 0.64	\$ 0.96	
Diluted	\$ (0.77)	\$ 0.63	\$ 0.92	
Weighted average common shares (in thousands), used in computing net earnings per share:				
Basic	27,463	27,513	29,605	
Diluted	27,463	28,199	30,631	
Cash dividends declared per share	\$ 2.30	\$ 0.29	\$ 0.11	
Comprehensive income (loss):				
Net income (loss)	\$ (21,211)	\$ 17,660	\$ 28,297	
Unrealized gain (loss) on forward foreign currency contract	438	1,323	(1,337)	
Reclassification of loss (gain) into net income	822	877	(496)	
Total comprehensive income (loss)	\$ (19,951)	\$ 19,860	\$ 26,464	

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

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XYRATEX LTD

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(US dollars and amounts, in thousands)

	Number of Common Shares	Par value	Additional paid-in capital	Accumulated income (deficit)	Accumulated other comprehensive income (loss)	Total
Balances as of November 30, 2010	30,276	\$ 303	\$ 382,684	\$ (16,152)	\$ 496	\$ 367,331
Issuance of common shares	894	9	3,335			3,344
Repurchase of common shares	(3,602)	(36)	(32,254)			(32,290)
Non-cash equity compensation			7,127			7,127
Tax on equity compensation			178			178
Net income				28,297		28,297
Other comprehensive loss					(1,833)	(1,833)
Dividends to shareholders				(2,980)		(2,980)
Balances as of November 30, 2011	27,568	\$ 276	\$ 361,070	\$ 9,165	\$ (1,337)	\$ 369,174
Issuance of common shares	655	6	655			661
Repurchase of common shares	(1,199)	(12)	(13,588)			(13,600)
Non-cash equity compensation			6,602			6,602
Tax on equity compensation			(146)			(146)
Net income				17,660		17,660
Other comprehensive income					2,200	2,200
Dividends to shareholders				(8,017)		(8,017)
Balances as of November 30, 2012	27,024	\$ 270	\$ 354,593	\$ 18,808	\$ 863	\$ 374,534
Issuance of common shares	539	5	25			30
Non-cash equity compensation			3,158			3,158
Tax on equity compensation			(713)			(713)
Net loss				(21,211)		(21,211)
Other comprehensive income					1,260	1,260
Dividends to shareholders			(44,672)	(17,562)		(62,234)
Balances as of November 30, 2013	\$ 27,563	\$ 275	\$ 312,391	\$ (19,965)	\$ 2,123	\$ 294,824

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

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XYRATEX LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2013	Year Ended November 30, 2012	2011
		(US dollars in thousands)	
Cash flows from operating activities:			
Net income (loss)	\$ (21,211)	\$ 17,660	\$ 28,297
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	15,760	17,936	19,405
Amortization of intangible assets	2,057	3,154	4,176
Impairment of intangible assets			2,230
Non-cash equity compensation	3,158	6,602	7,127
Loss on sale of assets		2,297	1,299
Deferred income taxes	16,387	(2,541)	1,438
Changes in assets and liabilities, net of impact of acquisitions and divestitures			
Accounts receivable	42,082	67,825	8,753
Inventories	39,378	(7,425)	31,846
Prepaid expenses and other current assets	(3,701)	1,208	(3,971)