

REPUBLIC BANCORP INC /KY/
Form DEF 14A
March 24, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
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Republic Bancorp, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies:
(2)	Aggregate number of securities to which transaction applies:
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4)	Proposed maximum aggregate value of transaction:
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- Fee paid previously with preliminary materials.
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(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

OF REPUBLIC BANCORP, INC.

WEDNESDAY, APRIL 23, 2008

To our shareholders:

You are cordially invited to attend this year's Annual Meeting of Shareholders of Republic Bancorp, Inc. The following are details for the meeting:

Date: Wednesday, April 23, 2008

Time: 9:00 A.M., EDT

Place: Republic Bank Building

Lower Level Community Room

9600 Brownsboro Road

Louisville, Kentucky 40241

Items on the agenda:

1. To elect eight directors;
2. To ratify the appointment of Crowe Chizek and Company LLC as the independent registered public accounting firm for 2008; and
3. To transact such other business as may properly come before the meeting.

Record date: The close of business on February 15, 2008 is the record date for determining the shareholders entitled to notice of, and to vote at, the Annual Meeting of Shareholders.

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Whether or not you plan to attend the meeting, please sign, date and promptly return the enclosed proxy. If for any reason you desire to revoke your proxy, you may do so at any time before the voting as described in the accompanying proxy statement.

IF YOU PLAN TO ATTEND: Please note that space limitations make it necessary to limit attendance at the Annual Meeting of Shareholders. Admission to the Annual Meeting of Shareholders will be on a first-come, first-served basis. Shareholders holding stock in brokerage accounts (street name holders) may be asked to produce a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices or other like forms of electronic devices will not be permitted at the Annual Meeting of Shareholders.

Very truly yours,

Steven E. Trager
President and Chief Executive Officer

Louisville, Kentucky
March 27, 2008

REPUBLIC BANCORP, INC.

601 West Market Street

Louisville, Kentucky 40202

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Republic Bancorp, Inc. (the Company or Republic). The proxies will be voted at the Annual Meeting of Shareholders (Annual Meeting) of Republic Bancorp, Inc. on April 23, 2008, and at any adjournments of the meeting.

This Notice of Annual Meeting of Shareholders, or proxy statement, and the enclosed Annual Meeting Proxy Card, or proxy card, are first being sent to shareholders on or about March 27, 2008. As used in this document, the terms Republic, the Company, we, our and us refer to Republic Bancorp, Inc., a Kentucky corporation.

VOTING

Record date. You are entitled to notice of and to vote at the Annual Meeting, if you held of record shares of our Class A Common Stock or Class B Common Stock at the close of business on February 15, 2008. On that date, 18,035,713 shares of Class A Common Stock and 2,343,627 shares of Class B Common Stock were issued and outstanding for purposes of the Annual Meeting.

Voting rights. Each share of Class A Common Stock is entitled to one (1) vote and each share of Class B Common Stock is entitled to ten (10) votes. Based on the number of shares outstanding as of the record date, the shares of Class A Common Stock are entitled to an aggregate of 18,035,713 votes, and the shares of Class B Common Stock are entitled to an aggregate of 23,436,270 votes at the Annual Meeting.

Voting by proxy. If a proxy on the accompanying form is properly executed, returned to Republic and not revoked, the shares represented by the proxy will be voted in accordance with the instructions set forth on the proxy. If no instructions are given, the shares represented will be voted for the Board of Director nominees named in this proxy statement and on other matters in accordance with the recommendations of the Board of Directors. The Board of Directors at present knows of no other business to be brought before the Annual Meeting. However, persons named in the enclosed proxy statement, or their substitutes, will have discretionary authority to vote on any other business which may properly come before the Annual Meeting and any adjournment thereof and will vote the proxies in accordance with recommendations of the Board of Directors.

You may attend the Annual Meeting even though you have executed a proxy. You may revoke your proxy at any time before the proxy is voted by delivering written notice of revocation to the Secretary of Republic, or by delivering a later dated proxy, or by voting in person at the Annual Meeting.

Quorum and voting requirements and counting votes. The presence in person or by proxy of the holders of a majority in voting power of the combined voting power of the Class A Common Stock and the Class B Common Stock will constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted as being present or represented at the Annual Meeting for the purpose of establishing a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner is otherwise present by proxy but does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

The affirmative vote of a plurality of the votes duly cast is required for the election of directors. All other matters presented at the meeting will be approved if the votes cast in favor of the proposal exceed the votes cast opposing the proposal. Abstentions and broker non-votes are not counted as votes cast on any matter to which they relate.

SHARE OWNERSHIP

The following table sets forth certain information regarding the beneficial ownership of the outstanding shares of Republic as of February 15, 2008, based on information available to the Board of Directors. The Class B Common Stock is convertible into Class A Common Stock on a share-for-share basis. In the following table, information in the column headed Class A Common Stock does not reflect the shares of Class A Common Stock issuable upon conversion of Class B Common Stock. Information is included for:

- (1) persons or entities who own more than 5% of the Class A Common Stock or Class B Common Stock outstanding;
- (2) directors placed in nomination;
- (3) the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), and the other three executive officers of Republic who earned the highest total salary and bonus during 2007 (the Named Executive Officers or NEOs); and,
- (4) all executive officers and directors of Republic as a group.

Except as otherwise noted, Republic believes that each person named below has the sole power to vote and dispose of all shares shown as owned by such person. Please note that the table provides information about the number of shares beneficially owned, as opposed to the voting power of those shares.

Executive officers, directors and director nominees as a group (collectively 11 persons) hold 70% of the combined voting power of the Class A and Class B Common Stock which represents 55% of the total number of shares of Class A and Class B Common Stock outstanding as of February 15, 2008 as detailed below:

Name	Class A Common Stock		Class B Common Stock		Class A and Class B Common Stock Combined	
	Shares	Percent	Shares	Percent	Shares	Percent
Five Percent Shareholders:						
Bernard M. Trager 601 West Market Street Louisville, Kentucky 40202	8,589,435(1)	47.5 %	1,921,863(2)	82.0 %	10,511,297	51.5 %
Steven E. Trager 601 West Market Street Louisville, Kentucky 40202	8,333,059(3)	46.1	1,125,743(4)	48.0	9,458,802	46.3
A. Scott Trager 601 West Market Street Louisville, Kentucky 40202	8,182,208(5)	45.3	1,142,300(6)	48.7	9,324,508	45.7
Sheldon Gilman, Trustee for the grandchildren of Bernard M. Trager 400 West Market Street Louisville, Kentucky 40202	7,967,392(7)	44.1	1,107,515(8)	47.3	9,074,907	44.5
Teebank Family Limited Partnership 7413 Cedar Bluff Court Prospect, Kentucky 40059	7,165,051(9)	39.7	939,449(9)	40.1	8,104,500	39.7
The Jaytee Properties Limited Partnership 7413 Cedar Bluff Court Prospect, Kentucky 40059	750,067(9)	4.2	168,066(9)	7.2	918,133	4.5
Directors, Nominees and Executive Officers:						
Charles E. Anderson	74,190(10)	*		*	74,190	*
Craig A. Greenberg	783(11)	*		*	783	*

The gross margin for our NSS products increased to 17.2% in the three months ended August 31,

2011 from 12.0% in the three months ended August 31, 2010. This was primarily due to a number of changes to customer and product mix. These beneficial changes included a delay in the expected transition to new lower margin products and the

product mix effect of increased demand for higher margin products resulting from certain of our customers being acquired.

The gross margin for SI products decreased to 9.6% in the three months ended August 31, 2011, from 33.8% in the three months ended August 31, 2010. This decrease resulted primarily from the effect of fixed costs relative to lower volumes which reduced the gross margin by approximately 16%. The remaining shortfall related to changes in product mix, as 2011 revenue includes early stage products that are still in the higher cost introductory phase.

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 \$0.1 million for the three months ended August 31, 2011 and \$0.4 million for the three months ended August 31, 2010. See Note 12 to our unaudited condensed consolidated financial statements for a description of our segments and how we measure segment performance.

Research and Development

The \$6.1 million, or 25.5%, increase in research and development expense in the three months ended August 31, 2011 compared to the three months ended August 31, 2010 resulted primarily from an increase in expenses related to actual and anticipated growth in the business, including an increase in external project costs of \$3.4 million and staff costs of \$2.2 million. Expenditures were reduced in 2009 in response to the recession and were increased through 2010 as business conditions improved. In September 2011 we commenced plans to reduce expenditure in response to the lower demand for SI products and therefore expect research and development expenses to decrease in 2012.

Selling, General and Administrative

Selling, general and administrative expense increased by \$0.8 million, or 5.0%, in the three months ended August 31, 2011 compared to the three months ended August 31, 2010. The increase primarily resulted from increased costs related to supporting the planned increase in revenues, including a 20% increase in the number of employees. In September 2011, we commenced plans to reduce expenditures in response to the lower demand for SI products and therefore expect these expenses to decrease in 2012.

Provision (benefit) for Income Taxes

The provision for income taxes in the three months ended August 31, 2011 is based on our current estimate of the effective tax rate based on a forecast of income before taxes for the year ended November 30, 2011. The benefit for income taxes in the three months ended August 31, 2010 primarily related to an adjustment in respect of our 2009 fiscal year.

Net Income

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The most significant contributors towards the recording of net income of \$9.7 million for the three months ended August 31, 2011 compared to a net income of \$37.2 million for the three months ended August 31, 2010, was the decrease in revenues in the SI segment.

Nine Months Ended August 31, 2011 Compared to the Nine Months Ended August 31, 2010

The following is a tabular presentation of our results of operations for the nine months ended August 31, 2011 compared to the nine months ended August 31, 2010. Following the table is a discussion and analysis of our business and results of operations for such periods.

	Nine months ended August 31,		Increase/(Decrease)	
	2011	2010	Amount	%
	(U.S. dollars in thousands)			
Revenues:				
Networked Storage Solutions	\$ 971,969	\$ 932,132	\$ 39,837	4.3
Storage Infrastructure	88,914	272,969	(184,055)	(67.4)
Total revenues	1,060,883	1,205,101	(144,218)	(12.0)
Cost of revenues	907,411	989,083	(81,672)	(8.3)
Gross profit:				
Networked Storage Solutions	150,187	123,444	26,743	21.7
Storage Infrastructure	3,947	93,638	(89,691)	(95.8)
Non cash equity compensation	(662)	(1,064)	402	
Total gross profit	153,472	216,018	(62,546)	(29.0)
Operating expenses:				
Research and development	88,272	63,955	24,317	38.0
Selling, general and administrative	52,114	42,776	9,338	21.8
Amortization of intangible assets	3,279	2,975	304	
Operating income	9,807	106,312	(96,505)	
Interest income, net	288	10	278	
Provision (benefit) for income taxes	314	(851)	1,165	
Net income	\$ 9,781	\$ 107,173	\$ (97,392)	

Revenues

The 12.0% decrease in our revenues in the nine months ended August 31, 2011 compared to the nine months ended August 31, 2010 was primarily attributable to decreased sales of our SI products.

Revenues from sales of our NSS products increased by \$39.8 million, or 4.3%. This was largely due to increased demand resulting from two of our customers being acquired by our largest customers and the subsequent sale of our products into the expanded market that these larger companies are able to address. This was offset by a \$38.5 million decrease in revenue from our largest customer, NetApp, who, in accordance with the agreement we have with them, have sourced a greater proportion of the products we supply from an alternative supplier.

Revenues from sales of our SI products decreased by \$184.1 million, or 67.4%. Demand for SI products reduced due to 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 proposed acquisition by Western Digital of the disk drive operations of Hitachi, an emerging customer, and increased competition for the supply of production test and qualification systems. In addition revenue in the first half of 2010 benefited from a catch-up following under investment by customers in 2009 in response to the recession.

Cost of Revenues and Gross Profit

The decrease in cost of revenues and in gross profit in the nine months ended August 31, 2011 compared to the nine months ended August 31, 2010 was primarily due to lower SI revenues. As a percentage of revenues, our gross profit was 14.5% for the nine months ended August 31, 2011 compared to 17.9% for the nine months ended August 31, 2010. This change was primarily attributable to the decrease in SI revenues and margins.

The gross margin for our NSS products increased to 15.5% in the nine months ended August 31, 2011 from 13.2% in the nine months ended August 31, 2010. This was attributable to a number of changes to customer and product mix. These beneficial changes included a delay in the expected transition to new lower margin products and the product mix effect of increased demand for higher margin products resulting from certain of our customers being acquired.

The gross margin for SI products decreased to 4.4% in the nine months ended August 31, 2011, from 34.3% in the nine months ended August 31, 2010. This decrease resulted from three main factors. Approximately \$7 million of inventory write-downs, related to the reduction in demand, reduced the gross margin by 8.0%. Secondly, the effect of fixed costs relative to lower volumes reduced the gross margin by 13.8%. Thirdly, the remaining shortfall related to changes in product mix, as 2011 revenue includes early stage products that are still in the higher cost introductory phase.

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 \$0.7 million for the nine months ended August 31, 2011 and \$1.1 million for the nine months ended August 31, 2010. See Note 12 to our unaudited condensed consolidated financial statements for a description of our segments and how we measure segment performance.

Research and Development

The \$24.3 million, or 38.0%, increase in research and development expense in the nine months ended August 31, 2011 compared to the nine months ended August 31, 2010 resulted primarily from an increase in expenses related to actual and anticipated growth in the business, including an increase in the number of employees of 12% and an increase in external project costs of \$11.0 million. Expenditures were reduced in 2009 in response to the recession and were increased through 2010 as business conditions improved. We expect to reduce expenditures in 2012 in response to the lower demand for SI products.

Selling, General and Administrative

Selling, general and administrative expense increased by \$9.3 million, or 21.8%, in the nine months ended August 31, 2011 compared to the nine months ended August 31, 2010. The increase primarily resulted from increased costs related to supporting the planned increase in revenues, including a 20% increase in the number of employees.

Provision (benefit) for Income Taxes

The benefit for income taxes in the nine months ended August 31, 2011 primarily related to a \$2.2 million benefit resulting from the completion of an investigation into U.K. tax returns for 2007 and 2008. The remaining balance was based on our current estimate of the effective tax rate based on a forecast of income before taxes for the year ended November 30, 2011. The benefit for income taxes in the nine months ended August 31, 2010 includes an adjustment of \$2.6 million in respect of our 2009 fiscal year. The remaining provision for the nine months ended August 31, 2010 primarily related to estimated U.S. income.

Net Income

The most significant contributors towards the recording of net income of \$9.8 million for the nine months ended August 31, 2011 compared to a net income of \$107.2 million for the nine months ended August 31, 2010, were the decrease in revenues in the SI segment and the \$34.0 million increase in operating expenses.

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.

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 of the change in tax expense that would have been recorded if these items had not been incurred; (d) the impact of the reduction in tax rates is non-cash and not comparable across periods or with other companies due to the existence of a significant U.K. related deferred tax asset which is

expected to reduce over time.

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.

	Three Months ended August 31,		Nine Months ended August 31,	
	2011	2010	2011	2010
(U.S. dollars in thousands, except per share amounts)				
<i>Summary Reconciliation of GAAP Net Income To Non-GAAP Net Income</i>				
GAAP net income	\$ 9,657	\$ 37,234	\$ 9,781	\$ 107,173
Amortization of intangibles	1,230	1,018	3,279	2,975
Equity compensation	1,855	2,455	6,268	6,732
Tax effect of above non-GAAP adjustments	(1,127)		(2,140)	
Effect of changes in tax rates	1,044		1,044	
Deferred tax on equity compensation		(3,148)		(3,148)
Non-GAAP net income	\$ 12,659	\$ 37,559	\$ 18,232	\$ 113,732
Diluted Earnings Per Share (GAAP)	\$ 0.32	\$ 1.19	\$ 0.31	\$ 3.45
Diluted Earnings Per Share (non-GAAP)	\$ 0.42	\$ 1.20	\$ 0.59	\$ 3.66
Weighted average common shares (in thousands), used in computing diluted net earnings per share:	30,299	31,271	31,232	31,028

On a non-GAAP basis, a net income of \$12.7 million was recorded for the three months ended August 31, 2011 compared with the recording of net income of \$37.6 million for the three months ended August 31, 2010 and diluted earnings per share was \$0.42 compared with diluted earnings per share of \$1.20. These decreases were a result of the same factors described above in the section Three Months Ended August 31, 2011 Compared to the Three Months Ended August 31, 2010 .

On a non-GAAP basis, net income for the nine months ended August 31, 2011 decreased from \$113.7 million to \$18.2 million for the nine months ended August 31, 2010 and diluted earnings per share decreased from \$3.66 per share to \$0.59 per share. The decreases were a result of the same factors described above in the section Nine Months Ended August 31, 2011 Compared to the Nine Months Ended August 31, 2010 .

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 \$99.4 million in the nine months ended August 31, 2011, compared to \$50.1 million in the nine months ended August 31, 2010.

Cash provided by operating activities of \$99.4 million for the nine months ended August 31, 2011 resulted from net income after excluding net non-cash charges of \$32.3 million and a decrease in working capital of \$67.1 million. The decrease in working capital primarily related to decreases in inventory and accounts receivable of \$38.7 million and \$34.3 million respectively. These decreases resulted from a reduction in SI revenues and improved inventory management for NSS products in a market environment with more stable customer forecasts and the ending of the previously existing supply constraints.

Cash provided by operating activities of \$50.1 million for the nine months ended August 31, 2010 resulted primarily from net income after excluding net non-cash charges. This amounted to \$130.6 million. This was partly offset by an increase in working capital of \$80.5 million. The increase in working capital related to an increase in revenues and included increases in inventory and accounts receivable of \$120.5 million and \$102.5 million, respectively, partially offset by increases in accounts payable and deferred revenue of \$116.8 million and \$22.2 million, respectively. An increase in employee compensation and benefits payable of \$10.1 million primarily related to the recommencement of the employee bonus scheme also contributed to the cash inflow. Deferred revenue primarily represents advance payments from customers for SI products and varies with the level of orders on hand for these products.

Net cash used in investing activities for the nine months ended August 31, 2011 amounted to \$26.3 million. This amount included \$6.1 million related to an acquisition in the period, \$3.5 million related to the purchase of patents and \$1.2 million related to the purchase of a software license. The remaining balance of \$15.5 million related to capital expenditure. Net cash used in investing activities for the nine months ended August 31, 2010 amounted to \$19.0 million. This amount included \$4.9 million related to two acquisitions in the period. The remaining balance related to capital expenditure, amounting to \$14.1 million.

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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.

Net cash used in our financing activities was \$27.7 million in the nine months ended August 31, 2011. This amount includes \$23.9 million for the repurchase of shares under our share buy back program as described in the overview, \$2.4 million relating to a decrease in a book overdraft and \$1.5 million relating to a dividend paid to our shareholders. Cash provided by financing activities in the nine months ended August 31, 2010 was \$1.9 million, being the proceeds from the exercise of employee share options.

Liquidity

As of August 31, 2011, our principal sources of liquidity consisted of cash and cash equivalents of \$136.2 million. As set out in the overview, 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. However, we cannot assure you that additional equity or debt financing will be available to us on acceptable terms or at all.

Accounting Policies

Critical Accounting Policies

Our critical accounting policies are set out in our Annual Report on Form 20-F as filed with the Securities and Exchange Commission on February 22, 2011. By *critical accounting policies* we mean policies that are both important to the portrayal of our financial condition and financial results and require critical management judgments and estimates about matters that are inherently uncertain. Although we believe that our judgments and estimates are appropriate, actual future results may differ from our estimates.

Recent Accounting Pronouncements

In June 2011 the FASB issued new guidance related to the presentation of comprehensive income. An entity can elect to present items of net income and other comprehensive income on one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements. The statements would need to be presented with equal prominence as the other primary financial statements. The items that constitute net income and other comprehensive income do not change. This guidance is effective for annual periods beginning after December 15, 2011. The adoption of the guidance is not expected to have a material impact on our consolidated financial statements.

In October 2009 the FASB issued new guidance related to revenue recognition for arrangements with multiple deliverables and those which include software elements. The issues address certain aspects of the accounting by the vendor that involve more than one deliverable or unit of accounting. The guidance will allow companies to allocate arrangement consideration in multiple deliverable arrangements in a manner that better reflects the transaction's economics and will remove non-software components of tangible products and certain software components of tangible products from the scope of existing software revenue guidance. For contracts with software elements this will result in the recognition of revenue similar to that for other tangible products. This guidance is effective for annual periods beginning after June 15, 2010. The adoption of the guidance did not have a material impact on our consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	August 31, 2011	November 30, 2010
	(US dollars and amounts in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 136,238	\$ 90,842
Accounts receivable, net	175,193	209,044
Inventories	157,287	195,936
Prepaid expenses	3,347	3,154
Deferred income taxes	3,115	8,204
Other current assets	8,904	3,876
Total current assets	484,084	511,056
Property, plant and equipment, net	46,221	45,687
Intangible assets, net	20,656	9,326
Deferred income taxes	21,601	14,913
Total assets	\$ 572,562	\$ 580,982
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 157,327	\$ 155,792
Employee compensation and benefits payable	18,520	22,638
Deferred revenue	11,507	17,958
Income taxes payable	1,095	730
Other accrued liabilities	24,917	16,533
Total current liabilities	213,366	213,651
Long-term debt		
Total liabilities	213,366	213,651
Shareholders equity		
Common shares (in thousands), par value \$0.01 per share 70,000 authorized, 28,321 and 30,276 issued and outstanding	283	303
Additional paid-in capital	365,097	382,684
Accumulated other comprehensive income	1,646	496
Accumulated deficit	(7,830)	(16,152)
Total shareholders equity	359,196	367,331
Total liabilities and shareholders equity	\$ 572,562	\$ 580,982

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

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended,		Nine Months Ended,	
	August 31, 2011	August 31, 2010	August 31, 2011	August 31, 2010
	(US dollars in thousands, except per share amounts)			
Revenues	\$ 361,836	\$ 430,236	\$ 1,060,883	\$ 1,205,101
Cost of revenues	301,465	354,310	907,411	989,083
Gross profit	60,371	75,926	153,472	216,018
Operating expenses:				
Research and development	30,047	23,950	88,272	63,955
Selling, general and administrative	16,698	15,899	52,114	42,776
Amortization of intangible assets	1,230	1,018	3,279	2,975
Total operating expenses	47,975	40,867	143,665	109,706
Operating income	12,396	35,059	9,807	106,312
Interest income, net	209	29	288	10
Income before income taxes	12,605	35,088	10,095	106,322
Provision (benefit) for income taxes	2,948	(2,146)	314	(851)
Net income	\$ 9,657	\$ 37,234	\$ 9,781	\$ 107,173
Net earnings per share:				
Basic	\$ 0.33	\$ 1.23	\$ 0.32	\$ 3.57
Diluted	\$ 0.32	\$ 1.19	\$ 0.31	\$ 3.45
Weighted average common shares (in thousands), used in computing net earnings per share:				
Basic	29,499	30,259	30,280	30,059
Diluted	30,299	31,271	31,232	31,028
Cash dividends declared per share	\$ 0.05	\$	\$ 0.05	\$

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

XYRATEX LTD

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

(US dollars and amounts, in thousands)

	Number of Common Shares	Par value	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total
Balances as of November 30, 2009	29,461	\$ 295	\$ 370,925	\$ (155,580)	\$ 3,598	\$ 219,238
Issuance of common shares	798	8	1,925			\$ 1,933
Non-cash equity compensation			6,732			\$ 6,732
Components of comprehensive income, net of tax:						
Net income				107,173		
Unrealized loss on forward foreign currency contracts net of reclassification adjustment:					(2,311)	
Total comprehensive income						\$ 104,862
Balances as of August 31, 2010	30,259	\$ 303	\$ 379,582	\$ (48,407)	\$ 1,287	\$ 332,765

	Number of Common Shares	Par value	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total
Balances as of November 30, 2010	30,276	\$ 303	\$ 382,684	\$ (16,152)	\$ 496	\$ 367,331
Issuance of common shares	660	7	2			\$ 9
Repurchase of common shares	(2,615)	(27)	(23,857)			\$ (23,884)
Non-cash equity compensation			6,268			\$ 6,268
Components of comprehensive income, net of tax:						
Net income				9,781		
Unrealized gain on forward foreign currency contracts net of reclassification adjustment:					1,150	
Total comprehensive income						\$ 10,931
Dividends to shareholders				(1,459)		\$ (1,459)
Balances as of August 31, 2011	28,321	\$ 283	\$ 365,097	\$ (7,830)	\$ 1,646	\$ 359,196

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

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	August 31, 2011	August 31, 2010
	(US dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 9,781	\$ 107,173
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,031	13,523
Amortization of intangible assets	3,279	2,975
Non-cash equity compensation	6,268	6,732
Loss (gain) on sale of assets	(44)	171
Deferred income taxes	(2,016)	(2,953)
Changes in assets and liabilities, net of impact of acquisitions and divestitures		
Accounts receivable	34,302	(102,469)
Inventories	38,739	(120,462)
Prepaid expenses and other current assets	(3,654)	(4,476)
Accounts payable	3,793	116,801
Employee compensation and benefits payable	(4,118)	10,141
Deferred revenue	(6,451)	22,168
Income taxes payable	365	655
Other accrued liabilities	4,141	90
Net cash provided by operating activities	99,416	50,069
Cash flows from investing activities:		
Investments in property, plant and equipment	(15,521)	(14,121)
Acquisition of intangible assets	(4,700)	
Acquisition of businesses	(6,084)	(4,908)
Net cash used in investing activities	(26,305)	(19,029)
Cash flows from financing activities:		
Proceeds from issuance of shares	2	1,933
Repurchase of shares	(23,884)	
Dividends to shareholders	(1,459)	
Decrease in book overdraft	(2,374)	
Net cash provided by (used in) financing activities	(27,715)	1,933
Change in cash and cash equivalents	45,396	32,973
Cash and cash equivalents at beginning of period	90,842	51,935
Cash and cash equivalents at end of period	\$ 136,238	\$ 84,908

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

XYRATEX LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. The Company and its Operations

Xyratex Ltd together with its subsidiaries (the Company) is a leading provider of enterprise-class data storage subsystems and hard disk drive capital equipment with principal operations in the United Kingdom (U.K.), the United States of America (U.S.) and Malaysia. The Company operates in two business segments: Networked Storage Solutions (NSS) and Storage Infrastructure (SI). The Company s NSS products are hard disk drive based data storage subsystems. The Company s SI products include disk drive production test and qualification systems, media write systems, automation and factory control technology and optical inspection systems.

2. Basis of Presentation

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

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

The November 30, 2010 balance sheet was derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the U.S. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements included in the Company s Form 20-F as filed with the Securities and Exchange Commission on February 22, 2011.

3. Equity compensation plans

The following table summarizes equity compensation expense related to share-based awards:

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	Three months ended		Nine months ended	
	August 31, 2011	August 31, 2010	August 31, 2011	August 31, 2010
Equity compensation:				
Cost of revenues	\$ 112	\$ 367	\$ 662	\$ 1,064
Research and development	697	721	2,244	2,145
Selling, general and administrative	1,046	1,367	3,362	3,523
Total equity compensation	1,855	2,455	6,268	6,732
Related income tax benefit	\$ 890	\$ 3,148	\$ 1,798	\$ 3,148

The Company's share based awards primarily consist of Restricted Stock Units (RSUs). The Company also operates an Employee Share Purchase Plan (ESPP) for U.S. employees and a Sharesave option plan (Sharesave Plan) for U.K. employees. Based on an agreement with the Company's managing underwriter for the Initial Public Offering in 2004, there are 287 shares authorized for future grants under all share plans.

Restricted Stock Units

RSUs generally require that shares be awarded over four years from the date of grant, subject to continued service. The vesting of these units is also generally subject to the achievement of certain performance conditions in the year of grant. The holders of RSUs do not hold rights to dividends or dividend equivalents. Equity compensation expense relating to RSUs totaling \$6,115 has been recorded in the nine months ended August 31, 2011. Restricted stock units granted, exercised, canceled and expired are summarized as follows:

	RSU	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Non-vested restricted stock units at November 30, 2010	2,073	\$ 11.32	1.7	
Granted	980	13.04		
Vested	(659)	11.81		
Cancelled/forfeited	(189)	11.85		
Non-vested restricted stock units at August 31, 2011	2,205	12.06	1.6	
Non-vested restricted stock units expected to vest at August 31, 2011	1,461	11.66	1.4	\$ 12,538

Share Option Activity

The Company has four plans under which employees were granted options to purchase Xyratex Ltd shares prior to 2006. Options exercised, canceled or forfeited under all of the Company's share option plans, excluding the Sharesave Plan, are summarized as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at November 30, 2010	832	\$ 12.42	3.4	
Exercised	(67)	2.30		
Cancelled/forfeited	(4)	13.51		
Outstanding and exercisable at August 31, 2011	761	\$ 13.26	2.9	\$ 410

Employee Stock Purchase Plan and Sharesave plan

Employees contributed approximately \$414 to awards granted under the ESPP and Sharesave Plan. No shares were issued under the ESPP or Sharesave Plan in the nine months ended August 31, 2011.

4. Net earnings per share

Basic net earnings per share for the three and nine months ended August 31, 2011 and August 31, 2010 is computed by dividing net income by the weighted-average number of common shares. Diluted net earnings per share gives effect to all potentially dilutive common share equivalents outstanding during the period.

		Common shares			
		Three months ended		Nine months ended	
		August 31, 2011	August 31, 2010	August 31, 2011	August 31, 2010
Total weighted average common shares	basic	29,499	30,259	30,280	30,059
Dilutive effect of share options		40	59	48	107
Dilutive effect of restricted stock units		760	953	904	862
Total weighted average common shares	diluted	30,299	31,271	31,232	31,028

5. Dividends

On August 1, 2011, the Board of Directors approved a cash dividend of \$0.05 per share, which was paid on August 26, 2011 to shareholders of record as of the close of business on August 12, 2011.

6. Financial instruments

The Company's principal financial instruments, other than derivatives, comprise cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The Company also enters into derivatives in order to manage currency risks arising from the Company's operations. The Company does not hold financial instruments for trading purposes.

Forward foreign exchange contracts and options

Over 90% of the Company's revenues are denominated in the U.S. dollar, whereas certain expenses are incurred in U.K. pounds and Malaysian Ringgits. Therefore, the Company is exposed to foreign currency exchange rate risk which creates volatility in income and cash flows from period to period. In part, the Company manages this exposure through entering into forward foreign exchange contracts and options to reduce the volatility of income and cash flows associated with this risk. The Company designated all of its forward foreign currency contracts as qualifying for cash flow hedge accounting. Changes in the fair value of these instruments are deferred and recorded as a component of accumulated other comprehensive income (AOCI) until the hedged transactions affect earnings, at which time the deferred gains and losses on the forward foreign currency contracts are recognized in the income statement. The Company enters into these foreign exchange contracts to hedge a portion of its forecasted foreign currency denominated expense in the normal course of business and accordingly, they are not speculative in nature. The counterparty to the foreign currency contracts is an international bank. Such contracts are for two years or less at inception.

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The following table summarizes the foreign currency derivative contract activity during the period:

	Number of contracts
At November 30, 2010	33
Matured during the period	(26)
New contracts entered into during the period	22
At August 31, 2011	29

The fair value of derivative instruments and their location in the consolidated balance sheet as of August 31, 2011 and November 30, 2010 were as follows:

Derivatives designated as hedging instruments:	Balance Sheet Location	August 31, 2011	November 30, 2010
Asset derivatives	Other current assets	\$ 2,397	\$ 697

The effect of derivative instruments designated as cash flow hedges on the condensed consolidated statement of operations for the nine months ended August 31, 2011 was as follows:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized (1)	Gain (Loss) Reclassified (2)
Foreign exchange contracts	\$ 2,143	\$ 312

(1) Amount recognized in AOCI (effective portion).

(2) Amount of gain (loss) reclassified from AOCI into income (effective portion) located in expense.

Unrealized gains and losses reported in AOCI will be reclassified to earnings as the forecast expenditures for which the foreign exchange contracts have been entered into arise. It is estimated that all of the unrealized amounts in respect of foreign exchange contracts are expected to be reclassified to earnings during the next fifteen months.

The following table shows derivatives existing as of August 31, 2011 and November 30, 2010:

Derivatives between U.K. pound and U.S. dollar	August 31, 2011	November 30, 2010
Nominal value of forward exchange contracts and options	\$ 51,902	\$ 58,776
Fair value of contracts - asset	\$ 1,636	\$ 455
Average rate of contract	\$ 1.57	\$ 1.54
Period end rate	\$ 1.63	\$ 1.55

Derivatives between Malaysian ringgit and U.S. dollar	August 31, 2011	November 30, 2010
Nominal value of forward exchange contracts and options	\$ 18,000	\$ 18,000
Fair value of contracts - asset	\$ 761	\$ 242
Average rate of contract	\$ 0.32	\$ 0.31
Period end rate	\$ 0.34	\$ 0.32

Fair values

The carrying values of all financial instruments, including forward foreign exchange contracts, approximate their fair values. Assets and liabilities required to be carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of August 31, 2011 and at November 30, 2010 aggregated by the level in the fair-value hierarchy within which those measurements fall:

	August 31, 2011		November 30, 2010	
	Total	Significant Other Observable Inputs (Level 2)	Total	Significant Other Observable Inputs (Level 2)
Foreign currency forward contracts asset (liability) position	\$ 2,397	\$ 2,397	\$ 697	\$ 697

The Company's forward foreign exchange contracts and options are measured on a recurring basis based on foreign currency spot rates and forward rates quoted by banks (level 2 criteria) and are marked-to-market each period with gains and losses on these contracts recorded in Other Comprehensive Income with the offsetting amount for unsettled positions being included in either other current assets or other accrued liabilities in the balance sheet.

7. Concentration of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents, short-term investments and accounts receivable. The Company places its cash and cash equivalents and short-term investments with high-credit quality financial institutions. Cash deposits are generally placed with either one or two institutions and such deposits generally exceed governmentally insured limits. Concentrations of credit risk, with respect to accounts receivable, exist to the extent of amounts presented in the financial statements. Three customers, each with balances greater than 10% of total accounts receivable, represented 75% of the total accounts receivable balance at August 31, 2011 and three customers represented 75% of the total accounts receivable balance at November 30, 2010. Generally, the Company does not require collateral or other security to support customer receivables. The Company performs periodic credit evaluations of its customers and maintains an allowance for potential credit losses based on historical experience and other information available to management. Losses to date have been within management's expectations.

During the nine months ended August 31, 2011 revenues from three customers represented 77% of total revenues and during the nine months ended August 31, 2010, revenues from four customers represented 79% of total revenues. No other customer accounted for more than 10% of revenues.

8. Acquisition and intangible assets

During the nine months ended August 31, 2011, the Company completed an acquisition for a cash purchase price totaling \$6,130. The Company has estimated the fair values of the acquired assets and liabilities and the allocation of the purchase price to intangible assets. These estimates will be updated in the financial statements for the year ended November 30, 2011.

Pro forma operating results have not been presented for the acquisition because the acquisition was not material to the Company. Goodwill of \$2,805 has been recognized on the above transactions. \$425 has been allocated to tangible assets and \$2,900 to intangible assets as developed technology to be amortized over five years. The intangible assets are expected to be deductible for tax purposes.

During the nine months ended August 31, 2011, the Company acquired software for a cash purchase price of \$1,200. This amount has been allocated to intangible assets as software to be amortized over five years. The Company also extended and expanded its patent cross license agreement with IBM for consideration of \$7,000. This amount has been allocated to intangible assets as patents to be amortized over six years. \$3,500 of the purchase price remains unpaid at August 31, 2011. The intangible assets are expected to be deductible for tax purposes.

Identified intangible assets

	August 31, 2011		November 30, 2010
Existing technology	\$ 7,500	\$	4,600
Patents and core technology	16,700		9,700
In process research and development	2,100		2,100
Software	1,200		
Customer relationships	3,300		3,300
	30,800		19,700
Accumulated amortization	(16,644)		(13,365)
	\$ 14,156	\$	6,335

Goodwill

The changes in the carrying amount of goodwill for the nine months ended August 31 2011 are as follows:

	NSS		SI		Total
Balance at November 30, 2010	\$ 794		\$ 2,197		\$ 2,991
Acquisition of business			2,909		2,909
Additional contingent consideration			600		600
Balance at August 31, 2011	\$ 794		\$ 5,706		\$ 6,500

9. Inventories

	August 31, 2011		November 30, 2010
Finished goods	\$ 51,773		\$ 58,279
Work in progress	24,562		44,685
Raw materials	80,952		92,972
	\$ 157,287		\$ 195,936

10. Income Taxes

The provision for income taxes for the three and nine month periods ended August 31, 2011 was based on an effective tax rate of 15%. The difference between this rate and the U.K. statutory rate of 27% is primarily related to income tax exemptions for the Company's Malaysian operations and research and development tax credits. Forecasts of income exclude significant unusual and extraordinary items that are separately included in the tax charge.

Included in the income tax provision of \$314 in the nine months ended August 31, 2011, is a benefit of \$2,219 resulting from the completion of an enquiry into U.K. tax returns for 2007 and 2008.

The benefit for income taxes for the three and nine month periods ended August 31 2010 was based on the Company's current estimate of effective tax rates on U.S. income of 39%, the rate being based on a forecast of income before income taxes in the year ended November 30, 2010. U.K. losses or income were excluded from the effective rate calculation due to the recording of the valuation allowance in the 2008 fiscal year. During the nine months ended August 31, 2010 there were no changes to management's estimates in connection with income tax items in the balance sheet including the balance of unrecognized tax benefits.

Included in the income tax benefit of \$2,146 and \$851 in the three and nine month periods ended August 31, 2010, respectively, is an amount of \$3,093 relating to equity compensation. This amount represents the recognition of a deferred tax asset for temporary differences associated with equity compensation for U.S. employees. Of this amount, \$2,646 relates to the 2009 fiscal year, and the Company has determined that this amount should have been recognized in its 2009 financial statements. The Company has also determined that this amount was not material relative to the year ended November 30, 2009 and to estimated income for the year ended November 30, 2010 and therefore has corrected this error as an out of period adjustment in the nine months ended August 31, 2010.

11. Product warranty liability

The Company generally offers warranties between one and three years. Estimated future warranty obligations related to product sales are charged to operations in the period in which the related revenue is recognized. These estimates are based on historical warranty experience and other relevant information of which the Company is aware. The following table provides the changes in the product warranty accrual for the nine months ended August 31, 2011:

	Amount of liability
Balance at November 30, 2010	\$ 5,585
Accruals for warranties issued during the period	2,946
Settlements made during the period	(3,329)
Balance at August 31, 2011	\$ 5,202

12. Segment Information

Description of segments. The Company organizes its business operations into two product groups NSS and SI, each of which comprises a reportable segment.

Description of the Company's segments:

NSS. Provision of hard disk drive based storage subsystems to Original Equipment Manufacturers.

SI. Provision of process inspection and test equipment to the hard disk drive industry.

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

	Three Months Ended		Nine months Ended	
	August 31, 2011	August 31, 2010	August 31, 2011	August 31, 2010
Revenues:				
NSS	\$ 336,621	\$ 317,249	\$ 971,969	\$ 932,132
SI	\$ 25,215	\$ 112,987	\$ 88,914	\$ 272,969
Total Segments	\$ 361,836	\$ 430,236	\$ 1,060,883	\$ 1,205,101
Gross profit:				
NSS	\$ 58,063	\$ 38,061	\$ 150,187	\$ 123,444
SI	\$ 2,420	\$ 38,232	\$ 3,947	\$ 93,638
Total Segments	\$ 60,483	\$ 76,293	\$ 154,134	\$ 217,082
Equity Compensation (note 3)	\$ (112)	\$ (367)	\$ (662)	\$ (1,064)
Total	\$ 60,371	\$ 75,926	\$ 153,472	\$ 216,018
Depreciation and amortization:				
NSS	\$ 2,495	\$ 3,134	\$ 8,133	\$ 9,348
SI	\$ 2,443	\$ 1,482	\$ 6,862	\$ 4,311
Total Segments	\$ 4,938	\$ 4,616	\$ 14,995	\$ 13,659
Corporate	\$ 1,086	\$ 982	\$ 3,276	\$ 2,839
Total	\$ 6,024	\$ 5,598	\$ 18,271	\$ 16,498

Total segments revenues represent revenues as reported by the Company for all periods presented. Gross profit above represents gross profit as reported by the Company for all periods presented. Income before income taxes as reported by the Company for all periods presented also includes total operating expenses and net interest income. The chief operating decision maker does not review asset information by segment and therefore no asset information is presented.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XYRATEX LTD
(Registrant)

Date: October 17, 2011

By:

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