Digital Realty Trust, Inc.
Form 424B2
June 03, 2010
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Filed Pursuant to Rule 424(b)(2)
Registration No. 333-158958

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered**	**Proposed Maximum Offering Price Per Unit**	**Proposed Maximum Aggregate Offering Price**	**Amount Of Registration Fee**
Common Stock, $0.01 par value per share	6,900,000	$57.00	$393,300,000	$28,042.29[(1)]

(1) The filing fee of 28,042.29 is calculated in accordance with Rules 457(o) and 457(r) of the Securities Act of 1933, as amended, and reflects the potential additional issuance of shares of common stock, $0.01 par value per share, pursuant to an over-allotment option. In accordance with Rules 456(b) and 457(r), the registrant initially deferred payment of all of the registration fee for Registration Statement No. 333-158958 filed by the registrant on May 1, 2009

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PROSPECTUS SUPPLEMENT

(To Prospectus Dated May 1, 2009)

6,000,000 Shares

Common Stock

We are selling 6,000,000 shares of our common stock, par value $0.01 per share.

We have granted the underwriters an option to purchase up to 900,000 additional shares of our common stock to cover over-allotments.

We are organized and conduct our operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes. To assist us in complying with certain federal income tax requirements applicable to REITs, our charter contains certain restrictions relating to the ownership and transfer of our stock, including an ownership limit of 9.8% on our common stock.

Our common stock is listed on the New York Stock Exchange under the symbol DLR . The last reported sale price of our common stock on the New York Stock Exchange on June 2, 2010 was $58.91 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-8 of this prospectus supplement and in Risk Factors beginning on page 2 of our Annual Report on Form 10-K for the year ended December 31, 2009.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$ 57.00	$ 342,000,000
Underwriting Discount	$ 2.28	$ 13,680,000
Proceeds to Digital Realty Trust, Inc. (before expenses)	$ 54.72	$ 328,320,000

The underwriters expect to deliver the shares to purchasers on or about June 8, 2010 through the book-entry facilities of The Depository Trust Company.

Credit Suisse **Citi** **BofA Merrill Lynch**

Morgan Stanley **Deutsche Bank Securities** **Raymond James**

J.P. Morgan **JMP Securities** **RBC Capital Markets** **RBS**

June 2, 2010

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PROSPECTUS SUPPLEMENT

PROSPECTUS

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus supplement to we, us, our or our company refer to Digital Realty Trust, Inc. together with our consolidated subsidiaries, including Digital Realty Trust, L.P., a Maryland limited partnership, of which we are the sole general partner and which we refer to in this prospectus supplement as our operating partnership.

Turn-Key Datacenter®, Powered Base Building®, POD Architecture® and Critical Facilities Management® are registered trademarks of Digital Realty Trust, Inc. All other service marks, trademarks or trade names appearing in this prospectus supplement are the property of their respective owners.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information contained in this prospectus supplement and the accompanying prospectus, as well as information that we have previously filed with the United States Securities and Exchange Commission and incorporated by reference, is accurate only as of the date of the applicable document. Our business, financial condition, results of operations and prospects may have changed since those dates. The descriptions set forth in this prospectus supplement replace and supplement, where inconsistent, the description of the general terms and provisions set forth in the accompanying prospectus.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. If you possess this prospectus supplement and the accompanying prospectus, you should find out about and observe these restrictions. This prospectus supplement and the accompanying prospectus are not an offer to sell the common stock and are not soliciting an offer to buy the common stock in any jurisdiction where the offer or sale is not permitted or where the person making the offer or sale is not qualified to do so or to any person to whom it is not permitted to make such offer or sale.

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PROSPECTUS SUPPLEMENT SUMMARY

Digital Realty Trust, Inc.

Overview

We own, acquire, develop, redevelop and manage technology-related real estate. As of March 31, 2010, our portfolio consisted of 84 properties, excluding one property held as an investment in an unconsolidated joint venture, of which 71 are located throughout North America and 13 are located in Europe. Our properties are diversified in major markets where corporate datacenter and technology tenants are concentrated, including the Boston, Chicago, Dallas, Los Angeles, New York Metro, Northern Virginia, Phoenix, San Francisco and Silicon Valley metropolitan areas in the U.S. and the Amsterdam, Dublin, London and Paris markets in Europe. The portfolio consists of Internet gateway and corporate datacenter properties, technology manufacturing properties and regional or national headquarters of technology companies. We operate as a real estate investment trust, or REIT, for federal income tax purposes.

As of March 31, 2010, our properties contained a total of approximately 15.0 million net rentable square feet, including approximately 1.8 million square feet held for redevelopment. As of March 31, 2010, our portfolio, excluding space held for redevelopment, was approximately 95.2% leased at an average annualized rent per occupied square foot of $44.10.

Our principal executive offices are located at 560 Mission Street, Suite 2900, San Francisco, California 94105. Our telephone number is (415) 738-6500. Our website is located at www.digitalrealtytrust.com. The information found on, or accessible through, our website is not incorporated into, and does not form a part of, this prospectus supplement, the accompanying prospectus or any other report or document we file with or furnish to the United States Securities and Exchange Commission, or the SEC.

Recent Developments

On June 1, 2010, our operating partnership, Digital Realty Trust, L.P., entered into a definitive asset purchase agreement with unrelated third parties to acquire a five-property data center portfolio located in California, Arizona and Virginia, which we refer to as the Rockwood Capital/365 Main Portfolio. The Rockwood Capital/365 Main Portfolio, which comprises a total of approximately 919,000 square feet and consists of: 365 Main Street, San Francisco, California; 2260 East El Segundo Boulevard, El Segundo, California; 720 2nd Street, Oakland, California; 2121 South Price Road, Chandler, Arizona; and 4030-4050 Lafayette Center Drive, Chantilly, Virginia, is being purchased from joint ventures that are majority-owned by affiliates of Rockwood Capital, LLC and managed by 365 Main, Inc. All data centers in the Rockwood Capital/365 Main Portfolio were developed in 2000 or later. The Rockwood Capital/365 Main Portfolio is leased to a diverse roster of over 200 tenants in various industries. Based on information provided by the sellers, we believe that, as of March 31, 2010, approximately 94% of the total square feet available for lease at the buildings in the Rockwood Capital/365 Main Portfolio was occupied. The total square feet available for lease in the Rockwood Capital/365 Main Portfolio is based on a number of factors in addition to contractually leased square feet, including available power, required support space and common area. Our estimate of the percentage of occupied rentable square feet in the Rockwood Capital/365 Main Portfolio may change based on due diligence we conduct prior to closing as well as our experience operating the properties following the closing of the acquisition.

The purchase price, which was determined through negotiations between our operating partnership and the sellers, will be approximately $725.0 million (subject to adjustment in limited circumstances), to be paid in cash at closing. The Rockwood Capital/365 Main Portfolio includes approximately 250,000 square feet of additional new datacenter development potential at 2121 South Price Road in Chandler, Arizona and approximately $13.0 million of uninstalled datacenter infrastructure improvements. We expect to fund the purchase price with available cash, borrowings under our revolving credit facility or the sale of additional debt or equity securities. Our operating partnership will deposit $15.0 million into an escrow account pending closing of the transaction.

The purchase of the Rockwood Capital/365 Main Portfolio is subject to our satisfactory completion of due diligence as well as satisfaction of various closing conditions, including the receipt of requisite estoppels and minimum satisfactory financing. The closing of the acquisition is expected to take place on or about July 2, 2010, and may be extended in limited circumstances. No financial information regarding the Rockwood Capital/365 Main Portfolio for any period subsequent to March 31, 2010 is currently available to us. In addition, we have not completed our due diligence review of the Rockwood Capital/365 Main Portfolio. Accordingly, we cannot make any assurances with respect to the financial condition or expected financial performance of the Rockwood Capital/365 Main Portfolio. We also cannot assure you that the acquisition will be consummated on the anticipated schedule, at the anticipated purchase price, or at all. If we fail to close the purchase as required after the satisfaction or waiver of all closing conditions, we may be liable to the sellers for liquidated damages in an amount equal to the deposit. There are no material relationships between us and the sellers.

Other than normally recurring capital expenditures and tenant improvements, we have no present plans with respect to renovation, improvement or redevelopment of the Rockwood Capital/365 Main Portfolio.

The pre-acquisition real estate tax rate for the Rockwood Capital/365 Main Portfolio is $13.36 per $1,000 of assessed value for the most recently available tax years. The total pre-acquisition annual tax for the Rockwood Capital/365 Main Portfolio at this rate for the most recently available tax years is $2,927,822 (at a taxable assessed value of $219,080,243). There were total direct assessments of $23,807 imposed on the Rockwood Capital/365 Main Portfolio by the City and County of San Francisco, Los Angeles County and Alameda County for the most recently available tax years. The Rockwood Capital/365 Main Portfolio is subject to periodic reassessment for property tax purposes in the future, including an anticipated reassessment of properties located in California upon the closing of the acquisition.

The federal tax basis of the Rockwood Capital/365 Main Portfolio will be determined as of the closing of the acquisition and will be based on the final purchase price. The depreciation method and life claimed will be determined by reference to the Internal Revenue Service-mandated method for depreciating assets placed into service after 1986, known as the Modified Accelerated Cost Recovery System.

The Rockwood Capital/365 Main Portfolio will be collectively insured, along with our other properties, under a blanket property, liability, fire, extended coverage, earthquake, terrorism and rental loss insurance policy that is renewed on an annual basis. We believe that the Rockwood Capital/365 Main Portfolio will be adequately insured under such policy.

On May 25, 2010, we acquired a redevelopment property consisting of two shell buildings at 3105 and 3115 Alfred Street in Santa Clara, California for approximately $10 million. The property totals approximately 82,000 square feet. The acquisition was financed with borrowings under our revolving credit facility.

On May 10, 2010, we acquired a redevelopment property located at 1725 Comstock Street in Santa Clara, California for approximately $9.7 million. The property totals approximately 40,300 square feet. The acquisition was financed with available cash.

As of May 31, 2010, we generated net proceeds of approximately $67.5 million from the issuance of approximately 1.3 million common shares under our equity distribution agreements with each of Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, and Morgan Stanley & Co. Incorporated after payment of approximately $1.0 million of commissions to the sales agents. These shares were issued at an average price of $51.87 per share. We have used and intend to use the proceeds from the sale of shares pursuant to the equity distribution agreements to temporarily repay borrowings under our revolving credit facility, to acquire additional properties, to fund development and redevelopment opportunities and for general corporate purposes.

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Our Competitive Strengths

We believe we distinguish ourselves from other owners, acquirers and managers of technology-related real estate through our competitive strengths, which include:

High-Quality Portfolio that is Difficult to Replicate. Our portfolio contains state-of-the-art datacenter facilities with extensive tenant improvements. Based on current market rents and the estimated replacement costs of our properties and their improvements, we believe that they could not be replicated today on a cost-competitive basis. Our portfolio of corporate and Internet gateway datacenter facilities is equipped to meet the power and cooling requirements for the most demanding corporate IT applications. Many of the properties in our portfolio are located on major aggregation points formed by the physical presence of multiple major telecommunications service providers, which reduces our tenants costs and operational risks and increases the attractiveness of our buildings.

Presence in Key Markets. Our portfolio is located in 27 metropolitan areas, including the Boston, Chicago, Dallas, Los Angeles, New York Metro, Northern Virginia, Phoenix, San Francisco and Silicon Valley metropolitan areas in the U.S. and the Amsterdam, Dublin, London and Paris markets in Europe, and is diversified so that no one market represented more than 16.2% of the aggregate annualized rent of our portfolio as of March 31, 2010.

Proven Ability to Sign New Leases. We have considerable experience in identifying and leasing to new tenants. The combination of our specialized datacenter leasing team and customer referrals continues to provide a robust pipeline of new tenants. During the three months ended March 31, 2010, we commenced new leases totaling approximately 116,000 square feet, which represent approximately $15.4 million in annualized GAAP rent. These leases were comprised of Powered Base Buildings®, Turn-Key Datacenters®, and ancillary office and other uses.

Demonstrated Acquisition Capability. As of March 31, 2010, our portfolio consisted of 84 technology-related real estate properties, excluding one property held through an investment in an unconsolidated joint venture, that we or our predecessor acquired beginning in 2002, for an aggregate of 15.0 million net rentable square feet, including approximately 1.8 million square feet held for redevelopment. We have developed detailed, standardized procedures for evaluating acquisitions, including income producing assets and vacant properties suitable for redevelopment, to ensure that they meet our financial, technical and other criteria. These procedures and our in-depth knowledge of the technology and datacenter industries allow us to identify strategically located properties and evaluate investment opportunities efficiently and, as appropriate, commit and close quickly. Our broad network of contacts within a highly fragmented universe of sellers and brokers of technology-related real estate enables us to capitalize on acquisition opportunities. As a result, we acquired more than half of our properties before they were broadly marketed by real estate brokers.

Flexible Datacenter Solutions. We provide flexible, customer oriented solutions designed to meet the needs of technology and corporate datacenter users, including Turn-Key Datacenter®, Powered Base Building® and build-to-suit options. Our Turn-Key Datacenters® are move-in ready, physically secure facilities with the power and cooling capabilities to support mission-critical IT enterprise applications. We believe our Turn-Key Datacenters® are effective solutions for tenants that lack the expertise, capital budget or desire to provide their own extensive datacenter infrastructure, management and security. For tenants that possess the ability to build and operate their own facility, our Powered Base Building® solution provides the physical location, required power and network access necessary to support a state-of-the-art datacenter. Our in-house engineering and design and construction professionals can also provide tenants with customized build-to-suit solutions to meet their unique specifications. Our Critical Facilities Management® services and team of technical engineers and datacenter operations experts provide 24/7 support for these mission-critical facilities.

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Differentiating Development Advantages. Our extensive development activity, operating scale and process-based approach to datacenter design, construction and operations result in significant cost savings and added value for our tenants. We have leveraged our purchasing power by securing global purchasing agreements and developing relationships with major equipment manufacturers, reducing costs and shortening delivery timeframes on key components, including major mechanical and electrical equipment. Utilizing our innovative modular datacenter design referred to as POD Architecture®, we deliver what we believe to be a technically superior datacenter environment at significant cost savings. In addition, by utilizing our POD Architecture® to develop new Turn-Key Datacenters® in our existing Powered Base Buildings®, on average we are able to deliver a fully commissioned facility in just under 30 weeks. Finally, our access to capital allows us to provide financing options for tenants that do not want to invest their own capital.

Diverse Tenant Base Across a Variety of Industry Sectors. We use our in-depth knowledge of the requirements and trends for Internet and data communications and corporate datacenter users to market our properties to domestic and international tenants with specific technology needs. At March 31, 2010, we had approximately 350 tenants across a variety of industry sectors, ranging from information technology and Internet enterprises to financial services, energy and manufacturing companies. No single tenant accounted for more than 10% of the aggregate annualized rent of our portfolio as of March 31, 2010.

Experienced and Committed Management Team and Organization. Our senior management team, including our Chairman, has an average of over 25 years of experience in the technology or real estate industries, including experience as investors in, advisors to and founders of technology companies. We believe that our senior management team s extensive knowledge of both the real estate and the technology industries provides us with a key competitive advantage. At March 31, 2010, our senior management team collectively owned common equity interests in our company of approximately 1.4%, which aligns management s interests with those of our stockholders.

Long-Term Leases that Complement Our Growth. We have long-term leases with stable cash flows. As of March 31, 2010, our weighted-average lease term was in excess of 13 years, with a weighted-average of over seven years remaining, excluding renewal options. Our lease expirations through December 31, 2011 are 12.0% of our net rentable square feet, excluding space held for redevelopment as of March 31, 2010.

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Business and Growth Strategies

Our primary business objectives are to maximize sustainable long-term growth in earnings, funds from operations and cash flow per share and to maximize returns to our stockholders. Our business strategies to achieve these objectives are:

Achieve Superior Returns on Redevelopment Inventory. At March 31, 2010, we had approximately 1.8 million square feet held for redevelopment. At March 31, 2010, approximately 185,000 square feet of our space held for redevelopment was undergoing construction for Turn-Key Datacenter® space in four U.S. markets and one European market. These projects have sufficient power capacity to meet the power and cooling requirements of today s advanced datacenters. We will continue to build out our redevelopment portfolio when justified by anticipated returns.

Capitalize on Acquisition Opportunities. We believe that acquisitions enable us to increase cash flow and create long-term stockholder value. Our relationships with corporate information technology groups, technology tenants and real estate brokers who are dedicated to serving these tenants provide us with ongoing access to potential acquisitions and often enable us to avoid competitive bidding. Furthermore, the specialized nature of technology-related real estate makes it more difficult for traditional real estate investors to understand, which results in reduced competition for acquisitions relative to other property types. We believe this dynamic creates an opportunity for us to obtain better risk-adjusted returns on our capital.

Access and Use Capital Efficiently. We believe we can increase stockholder returns by effectively accessing and deploying capital. Since our initial public offering in 2004, we have raised over $5.0 billion of capital through common, preferred and convertible preferred equity offerings, two exchangeable debt offerings, one senior unsecured notes offering, our revolving credit facility, secured mortgage financings and refinancings and sales of non-core assets. We will endeavor to maintain financial flexibility while using our liquidity and access to capital to support operations, including our acquisition, leasing, development and redevelopment programs, which are important sources of growth for our company.

Maximize the Cash Flow of Our Properties. We aggressively manage and lease our assets to increase their cash flow. We often acquire properties with substantial in-place cash flow and some vacancy, which enables us to create upside through lease-up. Moreover, many of our properties contain extensive in-place infrastructure or buildout that may result in higher rents when leased to tenants seeking these improvements. We control our costs by negotiating expense pass-through provisions in tenant leases for operating expenses, including power costs and certain capital expenditures. Leases covering approximately 74% of the leased net rentable square feet in our portfolio as of March 31, 2010 required tenants to pay all or a portion of increases in operating expenses, including real estate taxes, insurance, common area charges and other expenses.

Leverage Strong Industry Relationships. We use our strong industry relationships with national and regional corporate enterprise information technology groups and technology-intensive companies to identify and comprehensively respond to their real estate needs. Our leasing and sales professionals are real estate and technology industry specialists who can develop complex facility solutions for the most demanding corporate datacenter and other technology tenants.

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THE OFFERING

Issuer	Digital Realty Trust, Inc., a Maryland corporation.
Common Stock Offered by Us	6,000,000 shares (6,900,000 if the underwriters option to purchase additional shares is exercised in full).
Common Stock to be Outstanding after this Offering	84,847,461(1)
Common Stock and Operating Partnership Units to be Outstanding after this Offering	90,508,666(1)(2)
NYSE Symbol	DLR
Use of Proceeds	We expect that the net proceeds from this offering will be approximately $327,845,000 million after deducting our estimated expenses (or approximately $377,093,000 million if the underwriters exercise in full their option to purchase additional shares of our common stock). We intend to contribute the net proceeds from this offering to our operating partnership, which intends to use the net proceeds from this offering to fund a portion of the acquisition of the Rockwood Capital/365 Main Portfolio, or to acquire additional properties, to fund development and redevelopment opportunities and for general working capital purposes, including potentially for the repurchase, redemption or retirement of outstanding debt or preferred securities. The purchase price for the Rockwood Capital/365 Main Portfolio will be approximately $725.0 million (subject to adjustment in limited circumstances), to be paid in cash at closing. We expect to fund the purchase price with available cash, including potentially a portion of the proceeds from this offering, borrowings under our revolving credit facility or the sale of additional debt or equity securities. The purchase of the Rockwood Capital/365 Main Portfolio is subject to our satisfactory completion of due diligence and satisfaction of other closing conditions, including receipt of requisite estoppels and minimum satisfactory financing. The closing of the acquisition is expected to take place on or about July 2, 2010, and may be extended in limited circumstances. We cannot assure you that the acquisition will be consummated on the anticipated schedule or at all. See Use of Proceeds in this prospectus supplement.
Risk Factors	An investment in our common stock involves various risks, and prospective investors should carefully consider the matters discussed under the caption entitled Risk Factors beginning on page S-8 of this prospectus supplement and in the documents incorporated by reference in this prospectus supplement before making a decision to invest in our common stock.

(1) Based on shares outstanding as of May 27, 2010. Excludes 900,000 shares issuable upon exercise of the underwriters over-allotment option, 3,944,005 shares available for future issuance under our incentive award plan, 541,601 shares underlying options granted under our incentive award plan, 431,711 shares issuable upon redemption of outstanding vested long-term incentive units issued under our incentive award plan, 549,953 shares issuable upon redemption of outstanding unvested long-term incentive units issued under our incentive award plan, 361,657 shares issuable upon redemption of outstanding vested class C units and 237,335 shares issuable upon redemption of outstanding unvested class C units issued under our incentive award plan. Also excludes 3,657,477 shares potentially issuable upon conversion of our series C cumulative convertible preferred stock, using the current conversion rate, 8,214,624 shares potentially issuable upon conversion of our series D cumulative convertible preferred stock, using the current conversion rate, 5,418,398 shares potentially issuable upon exchange of our 4.125% exchangeable senior debentures, using the current conversion rate, and 6,195,345 shares potentially issuable upon exchange of our 5.50% exchangeable senior debentures, using the current conversion rate.

(2) Includes 4,080,549 units held by limited partners, 431,711 vested long-term incentive units granted under our incentive award plan, 549,953 shares issuable upon redemption of outstanding unvested long-term incentive units issued under our incentive award plan, 361,657 shares issuable upon redemption of outstanding vested class C units and 237,335 shares issuable upon redemption of outstanding unvested class C units granted under our incentive award plan that in each case may, subject to limits in the partnership agreement for our operating partnership, be exchanged for cash or, at our option, shares of our common stock on a one-for-one basis. Also excludes 3,657,477 shares potentially issuable upon conversion of our series C cumulative convertible preferred stock, using the current conversion rate, 8,214,624 shares potentially issuable upon conversion of our series D cumulative convertible preferred stock, using the current conversion rate, 5,418,398 shares potentially issuable upon exchange of our 4.125% exchangeable senior debentures, using the current conversion rate, and 6,195,345 shares potentially issuable upon exchange of our 5.50% exchangeable senior debentures, using the current conversion rate.

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RISK FACTORS

In addition to other information contained in this prospectus supplement and the accompanying prospectus, you should carefully consider the risks described below and incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2009, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act, in evaluating our company, our properties and our business before making a decision to invest in our common stock. These risks are not the only ones faced by us. Additional risks not presently known or that are currently deemed immaterial could also materially and adversely affect our financial condition, results of operations, business and prospects. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. This prospectus supplement and the accompanying prospectus, and the documents incorporated herein and therein by reference, also contain forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus supplement and the accompanying prospectus, and the documents incorporated herein and therein by reference. Please refer to the section entitled Forward-Looking Statements in this prospectus supplement.

Risks Related to this Offering

Market interest rates and other factors may affect the value of our common stock.

One of the factors that will influence the price of our common stock will be the dividend yield on our common stock relative to market interest rates. Increases in market interest rates could cause the market price of our common stock to go down. The trading price of the shares of our common stock will also depend on many other factors, which may change from time to time, including:

- the market for similar securities;
- the attractiveness of REIT securities in comparison to the securities of other companies, taking into account, among other things, the higher tax rates imposed on dividends paid by REITs;
- government action or regulation;
- general economic conditions or conditions in the financial or real estate markets; and
- our financial condition, performance and prospects.

Our revolving credit facility may limit our ability to pay distributions to our common stockholders.

Our revolving credit facility prohibits us from distributing to our stockholders more than 95% of our funds from operations (as defined in our revolving credit facility) during any four consecutive fiscal quarters, except as necessary to enable us to qualify as a REIT for federal income tax purposes. Consequently, if we do not generate sufficient funds from operations (as defined in our revolving credit facility) during the twelve months preceding any dividend payment date for our common stock or preferred stock, we will not be able to pay all or a portion of the accumulated dividends payable to our stockholders on that payment date without causing a default under our revolving credit facility. In the event of a default under our revolving credit facility, we would be unable to borrow under our revolving credit facility and any amounts we have borrowed thereunder could become due and payable.

The number of shares available for future sale could adversely affect the market price of our common stock.

We cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will decrease the market price per share of our common stock. Sales of a substantial

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number of shares of our common stock in the public market, or upon exchange of units, or the perception that such sales might occur could materially adversely affect the market price of the shares of our common stock.

We have granted those persons who received units in the formation transactions related to our initial public offering certain registration rights with respect to the shares of our common stock for which their units may be redeemed or exchanged pursuant to the partnership agreement of our operating partnership. These registration rights required us to file a shelf registration statement covering all such shares of common stock. In addition, third parties who received units in the initial public offering formation transactions have the right, on one occasion, to require us to register all such shares of our common stock. Our executive officers have agreed with the underwriters not to offer, sell, contract to sell, pledge or otherwise dispose of any shares of common stock or other securities convertible or exchangeable into our common stock for a period of 30 days after the date of this prospectus supplement. If any or all of these holders cause a large number of their shares to be sold in the public market, the sales could reduce the trading price of our common stock and could impede our ability to raise future capital.

The exercise of the underwriters over-allotment option, the exchange of units for common stock, the exercise of any options granted to directors, executive officers and other employees under our incentive award plan, the issuance of our common stock or units in connection with property, portfolio or business acquisitions and other issuances of our common stock could have an adverse effect on the market price of the shares of our common stock, and the existence of units, options and shares of our common stock reserved for issuance as restricted shares of our common stock or upon exchange of units may materially adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future issuances of shares of our common stock may be dilutive to existing stockholders.

The market price and trading volume of our common stock may be volatile.

The market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above the public offering price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or dividends;
- changes in our funds from operations or earnings estimates;
- publication of research reports about us, the real estate industry or the technology industry;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;

adverse market reaction to any additional debt we incur in the future;

additions or departures of key management personnel;

actions by institutional stockholders;

speculation in the press or investment community;

the realization of any of the other risk factors presented or incorporated by reference in this prospectus supplement;

any determination in the future to pay a dividend partially in shares of our own stock; and

general market and economic conditions.

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Future offerings of debt, which would be senior to our common stock upon liquidation, and/or preferred equity securities which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our common stock.

In the future, we may increase our capital resources by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Our series A preferred stock, series B preferred stock, series C convertible preferred stock and series D convertible preferred stock have a preference on liquidating distributions and a preference on dividend payments that could limit our ability to pay a dividend or make another distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.

We may in the future elect to distribute taxable dividends that are partially payable in cash and partially payable in our stock. Under recent IRS guidance, up to 90% of any such taxable dividend for 2008 through 2011 could be payable in our stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of the cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. For more information on the tax consequences of distributions with respect to our common stock, see Supplemental United States Federal Income Tax Considerations. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

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FORWARD-LOOKING STATEMENTS

We make statements in this prospectus supplement and accompanying prospectus, and the documents incorporated by reference, that are forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, pro forma, e anticipates or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all).

The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- the impact of the recent deterioration in global economic, credit and market conditions;
- current local economic conditions in our geographic markets;
- decreases in information technology spending, including as a result of economic slowdowns or recession;
- adverse economic or real estate developments in our industry or the industry sectors that we sell to (including risks relating to decreasing real estate valuations and impairment charges);
- our dependence upon significant tenants;
- bankruptcy or insolvency of a major tenant or a significant number of smaller tenants;
- defaults on or non-renewal of leases by tenants;
- our failure to obtain necessary debt and equity financing;
- increased interest rates and operating costs;
- our failure to repay debt when due or our breach of covenants or other terms contained in our loan facilities and agreements;
- financial market fluctuations;

changes in foreign currency exchange rates;

our ability to manage our growth effectively;

difficulty acquiring or operating properties in foreign jurisdictions;

our failure to successfully operate acquired or redeveloped properties;

risks related to joint venture investments, including as a result of our lack of control of such investments;

delays or unexpected costs in development or redevelopment of properties;

decreased rental rates or increased vacancy rates;

increased competition or available supply of data center space;

our inability to successfully develop and lease new properties and space held for redevelopment;

difficulties in identifying properties to acquire and completing acquisitions;

- our inability to acquire off-market properties;
- our inability to comply with the rules and regulations applicable to public companies;
- our failure to maintain our status as a REIT;
- potential adverse changes to tax laws;
- restrictions on our ability to engage in certain business activities;
- environmental uncertainties and risks related to natural disasters;
- changes in foreign laws and regulations, including those related to taxation and real estate ownership and operation; and
- changes in real estate and zoning laws and increases in real property tax rates.

While forward-looking statements reflect our good faith beliefs, they are not guaranties of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section entitled Risk Factors in this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

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USE OF PROCEEDS

We expect that the net proceeds from this offering will be approximately $327,845,000 million after deducting our estimated expenses of approximately $475,000 (or approximately $377,093,000 million if the underwriters over-allotment option is exercised in full).

We intend to contribute the net proceeds from this offering to our operating partnership, which intends to use the net proceeds from this offering to fund a portion of the acquisition of the Rockwood Capital/365 Main Portfolio, or to acquire additional properties, to fund development and redevelopment opportunities and for general working capital purposes, including potentially for the repurchase, redemption or retirement of outstanding debt or preferred securities. The purchase price for the Rockwood Capital/365 Main Portfolio will be approximately $725.0 million (subject to adjustment in limited circumstances), to be paid in cash at closing. We expect to fund the purchase price with available cash, including potentially a portion of the proceeds from this offering, borrowings under our revolving credit facility or the sale of additional debt or equity securities. The purchase of the Rockwood Capital/365 Main Portfolio is subject to our satisfactory completion of due diligence and satisfaction of other closing conditions, including receipt of requisite estoppels and minimum satisfactory financing. The closing of the acquisition is expected to take place on or about July 2, 2010, and may be extended in limited circumstances. We cannot assure you that the acquisition will be consummated on the anticipated schedule or at all.

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SUPPLEMENTAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

This discussion is a supplement to, and is intended to be read together with, the discussion in the accompanying prospectus under the heading United States Federal Income Tax Considerations. This summary of material federal income tax considerations is for general information only and is not tax advice.

The following discussion should be inserted aft"2" face="Times New Roman" style="font-size:10.0pt;">

GAAP net income	$ 10,861	$ 4,686
Amortization of intangibles	970	754
Equity compensation	1,713	2,650

Tax effect of above non-GAAP adjustments	(671)	(587)
Malaysia deferred tax asset recognized	(1,489)	
Non-GAAP net income	$ 11,384	$ 7,503

Diluted Earnings Per Share (GAAP)

$

0.38

$

0.15

Diluted Earnings Per Share (non-GAAP)

$

0.40

$

0.24

Weighted average common shares (in thousands), used in computing diluted net earnings per share:

28,786

31,761

On a non-GAAP basis, a net income of $11.4 million was recorded for the three months ended February 29, 2012 compared with the recording of net income of $7.5 million for the three months ended February 28, 2011 and diluted earnings per share was $0.40 compared with diluted earnings per share of $0.24. These increases were a result of the same factors described above in the section Three Months Ended February 29, 2012 Compared to the Three Months Ended February 28, 2011.

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 $34.2 million in the three months ended February 29, 2012, compared to $23.4 million in the three months ended February 28, 2011.

Cash provided by operating activities of $34.2 million for the three months ended February 29, 2012 resulted from net income after excluding net non-cash charges of $16.9 million and a decrease in working capital of $17.3 million. The decrease in working capital primarily related to decreases in accounts receivable, inventory and deferred income of $48.6 million, $11.7 million and $5.5 million respectively. This was offset by a decrease in accounts payable of $46.3 million. These decreases resulted from a reduction in revenue and, in addition, inventory decreased due to advance disk drive purchasing in the last quarter of our 2011 fiscal year in response to supply constraints caused by the Thailand floods.

Cash provided by operating activities of $23.4 million for the three months ended February 28, 2011 resulted from net income after excluding net non-cash charges of $11.2 million and a decrease in working capital of $12.2 million. The decrease in working capital related to decreases in inventory and accounts receivable of $19.1 million and $17.7 million respectively partially offset by increases in accounts payable of $15.9 million. These were partially offset by the effects of a $4.3 million decrease in employee compensation and benefits payable, primarily related to the payment of an employee bonus and a $5.5 million increase in other current assets, primarily related to the effect of changes in exchange rates on the value of forward contracts.

Net cash used in investing activities for the three months ended February 29, 2012 amounted to $7.7 million. This amount included $4.2 million related to capital expenditure. The remaining balance of $3.5 million related to the final payment for a patent cross license. Net cash used in investing activities for the three months ended February 28, 2011 amounted to $13.8 million. This amount included $5.4 million related to an acquisition in the period and $1.2 million related to the purchase of a software license. The remaining balance of $7.2 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.

Net cash used in our financing activities was $3.3 million in the three months ended February 29, 2012, being dividends paid to our shareholders. Cash provided by financing activities in the three months ended February 28, 2011 was $2.4 million relating to a decrease in a book overdraft.

Liquidity

As of February 29, 2012, our principal sources of liquidity consisted of cash and cash equivalents of $155.8 million. Our cash and cash equivalents are denominated primarily in U.S. dollars and held in variable interest liquidity funds and bank deposits. 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.

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 24, 2012. 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 Pronouncement

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.

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	February 29, 2012	November 30, 2011
	(US dollars and amounts in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 155,840	$ 132,630
Accounts receivable, net	152,143	200,742
Inventories	152,452	164,180
Prepaid expenses	5,354	3,296
Deferred income taxes	10,354	9,020
Other current assets	4,557	7,016
Total current assets	**480,700**	**516,884**
Property, plant and equipment, net	45,273	45,215
Intangible assets, net	17,158	18,128
Deferred income taxes	12,395	13,476
Total assets	**$ 555,526**	**$ 593,703**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 122,359	$ 168,696
Employee compensation and benefits payable	21,214	21,786
Deferred revenue	13,193	7,692
Income taxes payable	707	43
Other accrued liabilities	16,623	26,312
Total current liabilities	**174,096**	**224,529**
Long-term debt		
Total liabilities	**174,096**	**224,529**
Shareholders equity		
Common shares (in thousands), par value $0.01 per share 70,000 authorized, 28,114 and 27,568 issued and outstanding	281	276
Additional paid-in capital	362,792	361,070
Accumulated other comprehensive income (deficit)	165	(1,337)
Accumulated income	18,192	9,165
Total shareholders equity	**381,430**	**369,174**
Total liabilities and shareholders equity	**$ 555,526**	**$ 593,703**

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

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended, February 29, 2012	Three Months Ended, February 28, 2011
	(US dollars in thousands, except per share amounts)	
Revenues	$ 295,666	$ 360,499
Cost of revenues	242,627	311,045
Gross profit	53,039	49,454
Operating expenses:		
Research and development	24,668	28,255
Selling, general and administrative	16,778	17,448
Amortization of intangible assets	970	754
Total operating expenses	42,416	46,457
Operating income	10,623	2,997
Interest income, net	186	37
Income before income taxes	10,809	3,034
Benefit for income taxes	(52)	(1,652)
Net income	$ 10,861	$ 4,686
Net earnings per share:		
Basic	$ 0.39	$ 0.15
Diluted	$ 0.38	$ 0.15
Weighted average common shares (in thousands), used in computing net earnings per share:		
Basic	27,750	30,496
Diluted	28,786	31,761
Cash dividends declared per share	$ 0.07	$

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

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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, 2010	**30,276**	**$ 303**	**$ 382,684**	**$ (16,152)**	**$ 496**	**$ 367,331**
Issuance of common shares	660	6	2			$ 8
Non-cash equity compensation			2,650			$ 2,650
Components of comprehensive income, net of tax:						
Net income				4,686		
Unrealized gain on forward foreign currency contracts net of reclassification adjustment:					2,143	
Total comprehensive income						$ 6,829
Balances as of February 28, 2011	**30,936**	**$ 309**	**$ 385,336**	**$ (11,466)**	**$ 2,639**	**$ 376,818**

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	Number of Common Shares	Par value	Additional paid in capital	Accumulated income	Accumulated other comprehensive income (loss)	Total
Balances as of November 30, 2011	**27,568**	**$ 276**	**$ 361,070**	**$ 9,165**	**$ (1,337)**	**$ 369,174**
Issuance of common shares	546	5	9			$ 14
Non-cash equity compensation			1,713			$ 1,713
Components of comprehensive income, net of tax:						
Net income				10,861		
Unrealized gain on forward foreign currency contracts and reclassification adjustment:					1,502	
Total comprehensive income						$ 12,363
Dividends to shareholders				(1,834)		$ (1,834)
Balances as of February 29, 2012	**28,114**	**$ 281**	**$ 362,792**	**$ 18,192**	**$ 165**	**$ 381,430**

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

XYRATEX LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash flows from operating activities:		
Net income	$ 10,861	$ 4,686
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,160	5,319
Amortization of intangible assets	970	754
Non-cash equity compensation	1,713	2,650
Gain (loss) on sale of assets	(50)	4
Deferred income taxes	(754)	(2,219)
Changes in assets and liabilities, net of impact of acquisitions and divestitures		
Accounts receivable	48,599	17,660
Inventories	11,728	19,141
Prepaid expenses and other current assets	865	(5,437)
Accounts payable	(46,337)	(15,907)
Employee compensation and benefits payable	(572)	(4,274)
Deferred revenue	5,501	(574)
Income taxes payable	664	97
Other accrued liabilities	(3,123)	1,539
Net cash provided by operating activities	34,225	23,439
Cash flows from investing activities:		
Investments in property, plant and equipment	(4,168)	(7,203)
Payment for acquisition of intangible assets	(3,500)	(1,200)
Acquisition of business		(5,380)
Net cash used in investing activities	(7,668)	(13,783)
Cash flows from financing activities:		
Proceeds from issuance of shares	8	
Dividends to shareholders	(3,355)	
Decrease in book overdraft		(2,374)
Net cash used in financing activities	(3,347)	(2,374)
Change in cash and cash equivalents	23,210	7,282
Cash and cash equivalents at beginning of period	132,630	90,842
Cash and cash equivalents at end of period	$ 155,840	$ 98,124

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 data storage technology with principal operations in the United Kingdom (U.K.), the United States of America (U.S.) and Malaysia. The Company reports its operations in two product groups: Enterprise Data Storage Solutions (previously Networked Storage Solutions or NSS) and Hard Disk Drive (HDD) Capital Equipment (previously Storage Infrastructure or SI). Our Enterprise Data Storage Solutions products are primarily HDD based data storage subsystems and solutions which we supply to Original Equipment Manufacturers or OEMs. Our HDD Capital Equipment products are process, inspection and test equipment which we supply to the hard disk drive industry. During 2012 the Company changed the title of its operating segments to reflect the markets in which it operates, but has not made any other changes to its segment reporting.

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, 2011 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 24, 2012.

3. Equity Compensation Plans

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

	Three months ended	
	February 29, 2012	February 28, 2011
Equity compensation:		
Cost of revenues	$ 101	$ 444
Research and development	662	883
Selling, general and administrative	950	1,323
Total equity compensation	1,713	2,650
Related income tax benefit	$ 428	$ 438

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 379 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 $1,626 has been recorded in the three months ended February 29, 2012. 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, 2011	1,948	$ 12.09	1.6	
Granted	132	15.30		
Vested	(544)	11.27		
Cancelled/forfeited	(551)	13.12		
Non-vested restricted stock units at February 29, 2012	985	12.50	1.6	
Non-vested restricted stock units expected to vest at February 29, 2012	921	12.50	1.6	$ 15,883

Share Option Activity

The Company has four plans under which employees were granted options to purchase Xyratex Ltd shares prior to 2006. The number of options outstanding and exercisable under these plans, at February 29, 2012 was 524 with a weighted average exercise price of $12.84, weighted average remaining contractual term of 2.5 years and an aggregate intrinsic value of $364. In the three months ended February 29, 2012, 2 options were exercised with a weighted average exercise price of $4.19.

Employee Stock Purchase Plan and Sharesave Plan

Employees contributed approximately $185 to awards granted under the ESPP and Sharesave Plan. No shares were issued under the ESPP or Sharesave Plan in the three months ended February 29, 2012.

4. Net Earnings per Share

Basic net earnings per share for the three month periods ended February 29, 2012 and February 28, 2011 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.

	Number of common shares Three months ended	
	February 29, 2012	February 28, 2011
Total weighted average common shares basic	27,750	30,496
Dilutive effect of share options	109	70

Dilutive effect of restricted stock units	927	1,195
Total weighted average common shares diluted	28,786	31,761

5. Dividends

On January 31, 2012, the Board of Directors approved a cash dividend of $0.065 per share, which was paid on February 29, 2012 to shareholders of record as of the close of business on February 15, 2012.

On March 29, 2012 the Board of Directors approved a cash dividend of $0.075 per share, to be paid on April 26, 2012 to shareholders of record as of the close of business on April 12, 2012.

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.

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

	Number of contracts
At November 30, 2011	31
Matured during the period	(8)
New contracts entered into during the period	7
At February 29, 2012	30

The fair value of derivative instruments and their location in the consolidated balance sheet as of February 29, 2012 and November 30, 2011 were as follows:

Derivatives designated as hedging instruments:	**Balance Sheet Location**	**February 29, 2012**	**November 30, 2011**
Asset derivatives	Other current assets	$ 464	$
Liability derivatives	Other current liabilities	$	$ 1,539

The effect of derivative instruments designated as cash flow hedges on the condensed consolidated statement of operations for the three months ended February 29, 2012 was as follows:

Derivatives in cash flow hedging relationships	**Gain (Loss) Recognized (1)**		**Gain (Loss) Reclassified (2)**	
Foreign exchange contracts	$	464	$	(1,539)

(1) Amount recognized in AOCI (effective portion) net of tax of $55.

(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 20 months.

The following table shows derivatives existing as of February 29, 2012 and November 30, 2011:

Derivatives between U.K. pound and U.S. dollar	**February 29, 2012**		**November 30, 2011**	
Nominal value of forward exchange contracts and options	$	53,999	$	53,850
Fair value of contracts asset (liability)	$	88	$	(1,057)
Average rate of contract	$	1.55	$	1.59
Period end rate	$	1.58	$	1.56

Derivatives between Malaysian ringgit and U.S. dollar	**February 29, 2012**	**November 30, 2011**
Nominal value of forward exchange contracts and options	$ 18,000	$ 18,000
Fair value of contracts asset (liability)	$ 376	$ (482)
Average rate of contract	$ 0.32	$ 0.32
Period end rate	$ 0.33	$ 0.31

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 February 29, 2012 and November 30, 2011 aggregated by the level in the fair-value hierarchy within which those measurements fall:

	February 29, 2012		**November 30, 2011**	
	Total	**Significant Other Observable Inputs (Level 2)**	**Total**	**Significant Other Observable Inputs (Level 2)**
Foreign currency forward contracts asset (liability) position	$ 464	$ 464	$ (1,539)	$ (1,539)

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 83% and 77% of the total accounts receivable balance at February 29, 2012 and November 30, 2011, respectively. 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 three months ended February 29, 2012 revenues from three customers represented 83% of total revenues and during the three months ended February 28, 2011, revenues from four customers represented 77% of total revenues. No other customer accounted for more than 10% of revenues.

8. Intangible Assets

Identified Intangible Assets

	February 29, 2012	November 30, 2011
Existing technology	$ 4,600	$ 4,600
Patents and core technology	12,700	12,700
In process research and development	2,100	2,100
Software	1,200	1,200
Customer relationships	3,300	3,300
	23,900	23,900
Accumulated amortization	(13,842)	(12,872)
	$ 10,058	$ 11,028

Goodwill

There were no changes in the carrying amount of goodwill for the three months ended February 29, 2012.

9. Inventories

	February 29, 2012	November 30, 2011
Finished goods	$ 40,394	$ 41,190
Work in progress	25,543	19,785
Raw materials	86,515	103,205
	$ 152,452	$ 164,180

10. Income Taxes

The provision for income taxes for the three month period ended February 29, 2012 was based on an effective tax rate of 17%. The difference between this rate and the U.K. statutory rate of 25% 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 benefit of $52 in the three months ended February 29, 2012, is a benefit of $1,489 resulting from the recognition of a deferred tax asset for the Company s Malaysian operations and a benefit of $495 resulting from the lapse of the applicable statute of limitations for the Company s 2009 U.K. tax return.

The Malaysian deferred tax asset has been recorded due to the assumption that certain timing differences will reverse following the expiry of specific tax incentives. A renewal of the tax incentives has been applied for and if granted this asset will reverse as a tax expense. This amount relates to the 2011 fiscal year and the Company has determined that this amount should have been recognized in its 2011 financial statements. The Company has also determined that this amount was not material relative to the year ended November 30, 2011 and to estimated income for the year ending November 30, 2012 and therefore has corrected this error as an out of period adjustment in the three months ended February 29, 2012.

The benefit for income taxes for the three month period ended February 28, 2011 was based on an effective tax rate of 18%. The difference between this rate and the UK 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 benefit of $1,652 in the three months ended February 28, 2011, is an amount of $2,219 resulting from the completion of an enquiry into U.K. tax returns for 2007 and 2008.

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 three months ended February 29, 2012:

		Amount of liability
Balance at November 30, 2011	$	4,928
Accruals for warranties issued during the period		418
Settlements made during the period		(951)
Balance at February 29, 2012	$	4,395

12. Segment Information

Description of segments. The Company reports its operations in the following two product groups, each of which comprises a reportable segment.

Description of the Company s segments:

Enterprise Data Storage Solutions. Provision of HDD based storage enclosures, integrated application platforms and high performance computing data storage solutions to Original Equipment Manufacturers.

HDD Capital Equipment. Provision of process, inspection and test equipment to the HDD 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			
	February 29, 2012		February 28, 2011	
Revenues:				
Enterprise Data Storage Solutions	$	272,069	$	334,186
HDD Capital Equipment	$	23,597	$	26,313
Total Segments	$	295,666	$	360,499
Gross profit:				
Enterprise Data Storage Solutions	$	47,113	$	47,347
HDD Capital Equipment	$	6,027	$	2,551
Total Segments	$	53,140	$	49,898
Equity Compensation (note 3)	$	(101)	$	(444)
Total	$	53,039	$	49,454
Depreciation and amortization:				
Enterprise Data Storage Solutions	$	2,286	$	2,732

HDD Capital Equipment	$	1,719	$	2,260
Total Segments	$	4,005	$	4,992
Corporate	$	1,124	$	1,086
Total	$	5,129	$	6,078

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: April 17, 2012	By:	/s/ Richard Pearce Name: Richard Pearce Title: Chief Financial Officer

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