SILICON GRAPHICS INC
Form DEF 14A
November 03, 2005
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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

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨	Preliminary Proxy Statement	¨ **Confidential, for Use of the Commission**
x	Definitive Proxy Statement	**Only (as permitted by Rule 14a-6(e)(2))**
¨	Definitive Additional Materials	
¨	Soliciting Material Pursuant to §240.14a-12	

Silicon Graphics, 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):

x 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.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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November 3, 2005

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Silicon Graphics, Inc. to be held on December 6, 2005 at 3:00 p.m. at the Crowne Plaza Hotel, 4290 El Camino Real, Palo Alto, California.

The Notice of Annual Meeting and Proxy Statement that accompany this letter provide an outline of the business to be conducted at the meeting. In addition to the matters to be voted on, there will be a report on the progress of the Company and an opportunity for stockholders to ask questions.

We hope you will be able to join us. To ensure your representation at the meeting, we urge you to vote your shares as soon as possible. The proxy card includes instructions on how to vote on the Internet, by telephone or by returning your proxy card. Your vote is very important.

We encourage you to receive future annual reports and proxy statements from SGI electronically. This will help us save costs in producing and distributing these materials. If you wish to receive our annual report and proxy statement electronically next year, please follow the instructions on the enclosed proxy card.

Sincerely,

/s/ Robert R. Bishop

ROBERT R. BISHOP
Chairman and Chief Executive Officer

Silicon Graphics, Inc.

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SILICON GRAPHICS, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

December 6, 2005

The Annual Meeting of Stockholders of Silicon Graphics, Inc. will be held on Tuesday, December 6, 2005 at 3:00 p.m., local time, at the Crowne Plaza Hotel, 4290 El Camino Real, Palo Alto, California, for the following purposes:

1. To elect two Class I directors of the Company to serve for three-year terms.

2. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for the fiscal year ending June 30, 2006.

3. To consider any other business that may properly come before the annual meeting or any adjournment or postponement of the annual meeting.

The Proxy Statement accompanying this Notice describes these matters more fully.

October 11, 2005 is the record date for notice and voting. Only stockholders of record at the close of business on that date may vote at the annual meeting or any adjournment thereof.

We invite all stockholders to attend the meeting in person. Even if you plan to attend, please vote your shares as soon as possible. You may vote by telephone, on the Internet or by signing and returning the proxy card in the enclosed envelope.

Sincerely,

/s/ Sandra M. Escher

Sandra M. Escher
Senior Vice President, General Counsel and Secretary

Mountain View, California

November 3, 2005

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SILICON GRAPHICS, INC.

2005 ANNUAL MEETING OF STOCKHOLDERS

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

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SILICON GRAPHICS, INC.

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

Your vote is very important. For this reason, our Board of Directors (the Board) is requesting that you permit your shares of common stock to be represented at Silicon Graphics, Inc. s 2005 Annual Meeting of Stockholders by the proxies named on the enclosed proxy card. This proxy statement contains important information for you to consider in deciding how to vote on the matters brought before the meeting.

General Information

Silicon Graphics, Inc., referred to in these proxy materials as SGI, we or the Company, is soliciting the enclosed proxy for use at the Annual Meeting of Stockholders to be held on December 6, 2005 at 3:00 p.m., local time, or at any adjournment thereof, for the purposes set forth in this proxy statement and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the Crowne Plaza Hotel, 4290 El Camino Real, Palo Alto, California. SGI s principal offices are located at 1500 Crittenden Lane, Mountain View, California 94043-1351, and our telephone number at that location is 650-960-1980.

These proxy solicitation materials will be mailed on or about November 7, 2005 to all stockholders entitled to vote at the meeting.

Who May Vote at the Annual Meeting

You may vote your stock if our records show that you owned your shares on the record date, which is October 11, 2005. As of the record date, there were issued and outstanding 268,272,438 shares of our common stock, $0.001 par value.

Our Certificate of Incorporation provides for cumulative voting for the election of directors. Stockholders may allocate among one or more candidates the number of votes equal to the number of directors to be elected multiplied by the number of shares or equivalent shares of common stock held. However, no stockholder may cumulate votes unless prior to the voting the candidate s name has been placed in nomination in a timely manner in accordance with our bylaws and a stockholder has given notice prior to the meeting of the intention to cumulate votes.

On all other matters, each share of common stock has one vote.

Principal Share Ownership

As of October 11, 2005, the following persons were known by the Company to be the beneficial owners of more than 5% of any class of our voting securities.

This information is based on periodic SEC filings by stockholders and may not reflect current ownership.

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	Class of Securities	Number of Shares Beneficially Owned(1)	Percent of Class
Amaranth LLC (2) One American Lane Greenwich, CT 06831	Common Stock	19,860,800	7.40%
Aristeia Capital, LLC (3) 277 Park Avenue, 27th Floor New York, NY 10726	Common Stock	21,357,600	7.96%
Capital Research & Management Co. (4) 333 South Hope St., 55th Floor Los Angeles CA 90071	Common Stock	14,000,000	5.22%
Credit Suisse First Boston (5) PO Box 900 Zurich, Switzerland	Common Stock	16,218,058	6.05%
Deutsche Bank AG (6) Taunusanlage 12 D-60325 Frankfurt Am Main Ge I8	Common Stock	13,359,176	4.98%
Morgan Stanley (7) 1585 Broadway New York, NY 10036	Common Stock	17,605,561	6.56%

(1) To the Company s knowledge, the persons named in the table have sole voting and investment power with respect to the shares of the Company s common stock beneficially owned except as otherwise indicated. Calculated based on 268,272,438 shares of the Company s common stock outstanding on October 11, 2005, adjusted as required by SEC rules. To the extent a stockholder has disclosed ownership of the Company s 6.50% Senior Secured Convertible Notes due 2009 on Schedule 13G, the SEC rules treat as outstanding all shares of common stock that such holder would receive upon conversion of the Notes for the purpose of computing the number of shares beneficially owned and percentage ownership of that holder; however, the SEC rules do not treat as outstanding any other portion of the 150,862,400 shares of common stock issuable upon conversion of the Notes as of October 11, 2005.

(2) As reported on a Schedule 13G filed February 11, 2005. Amaranth LLC and various entities and individuals affiliated with it share voting and investment discretion with respect to the reported securities. Assumes conversion of $24,826,000 principal amount of the Company s 6.50% Senior Secured Convertible Notes due 2009 into an aggregate of 19,860,800 shares of the Company s common stock.

(3) As reported on a Schedule 13G/A filed February 14, 2005.

(4) As reported on a Schedule 13G/A filed February 14, 2005.

(5) As reported on a Schedule 13G filed February 14, 2005. Credit Suisse First Boston and various entities affiliated with it share voting and investment discretion with respect to the reported securities.

(6) As reported on a Schedule 13G filed February 9, 2005.

(7) As reported on a Schedule 13G filed February 15, 2005. Morgan Stanley and various entities affiliated with it share voting and investment discretion with respect to certain of the reported securities.

Cost of This Proxy Solicitation

SGI will pay the cost of soliciting proxies. We will pay Georgeson Shareholder Communications Inc., a proxy solicitation firm, a fee expected not to exceed $9,000 for its services in the solicitation of proxies and will reimburse the firm for certain out-of-pocket expenses. We may also reimburse intermediaries for their expenses in forwarding solicitation materials to beneficial owners. Our directors, officers and employees may also solicit proxies, without additional compensation.

Householding

The SEC has adopted rules that permit companies and intermediaries, such as brokers, to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are SGI stockholders will be householding our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, you may (1) notify your broker, (2) direct your written request to Investor Relations, Silicon Graphics, Inc., 1500 Crittenden Lane, Mountain View, California 94043, or (3) call our Investor Relations department at 650-933-6102. We will promptly deliver, upon request to the address or telephone number listed above, a separate copy of the annual report and proxy statement to a stockholder at a shared address to which a single copy of the documents was delivered. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker.

Voting Your Proxy

Whether you hold shares in your name or through a broker, bank or other nominee, you may vote without attending the meeting. You may vote by granting a proxy or, for shares held through a broker, bank or other nominee, by submitting voting instructions to that nominee. For shares held through a broker, bank or other nominee, follow the instructions on the voting instruction card included with your voting materials. If you provide specific voting instructions, your shares will be voted as you have instructed and as the proxy holders may determine within their discretion with respect to any other matters that properly come before the meeting.

If you hold shares in your name, and you sign and return a proxy card without giving specific voting instructions, your shares will be voted as recommended by our Board on all matters and as the proxy holders may determine in their discretion with respect to any other matters that properly come before the meeting. If you hold your shares through a broker, bank or other nominee and you do not provide instructions on how to vote, your broker or other nominee may have authority to vote your shares on certain matters. New York Stock Exchange (NYSE) regulations prohibit brokers or other nominees that are NYSE member organizations from voting in favor of proposals relating to non-routine matters, such as equity compensation plans and certain other matters, unless they receive specific instructions from the beneficial owner of the shares to vote in that manner. NASD member brokers are also prohibited from voting on these types of proposals without specific instructions from beneficial holders. In the absence of controlling precedent to the contrary, we intend not to consider broker non-votes (that is, shares held by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote those shares as to a particular matter) in determining whether the requisite majority of votes cast has been obtained with respect to a particular matter.

Votes Needed to Hold the Meeting

The quorum requirement for the transaction of business at the Annual Meeting is that holders of a majority of the shares of common stock entitled to vote must be present in person or by proxy. Both abstentions and broker non-votes will count for purposes of establishing a quorum.

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Internet or Telephone Voting

For Shares Directly Registered in the Name of the Stockholder. Stockholders with shares registered directly with EquiServe, our transfer agent, may vote by telephone by calling 877-779-8683 or may vote on the Internet at the following address on the World Wide Web: *http://www.eproxyvote.com/sgi*.

For Shares Registered in the Name of a Brokerage Firm or Bank. A number of brokerage firms and banks are participating in a program for shares held in street name that offers telephone and Internet voting options. This program is different from the program provided by EquiServe for shares registered in the name of the stockholder. If your shares are held in an account at a brokerage firm or bank participating in this program, you may vote those shares by calling the telephone number referenced on your voting form. If your shares are held in an account at a brokerage firm or bank participating in the street name program, you already have been offered the opportunity to elect to vote using the Internet. Votes submitted via the Internet through the street name program must be received by twelve noon (Eastern Time) on December 5, 2005. Giving a proxy in this manner will not affect your right to vote in person should you decide to attend the Annual Meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from the record holder.

The telephone and Internet voting procedures are designed to authenticate stockholders identities, to allow stockholders to give their voting instructions and to confirm that stockholders instructions have been recorded properly. We have been advised by counsel that the telephone and Internet voting procedures that have been made available through EquiServe and the street name program are consistent with the requirements of applicable law. Stockholders voting via the Internet through either of these programs should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that must be borne by the stockholder.

Changing Your Vote

Any proxy given in response to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Corporate Secretary of the Company at our principal offices a written notice of revocation or a duly executed proxy bearing a later date, or by attending the meeting and voting in person.

Deadline for Receipt of Stockholder Proposals for 2006 Annual Meeting

Proposals of stockholders intended to be presented at our 2006 annual meeting of stockholders must be received by our Corporate Secretary no later than July 6, 2006 in order to be included in the proxy materials for that meeting.

If you intend to present a proposal at our 2006 annual meeting, but you do not intend to have it included in our 2006 proxy statement, notice must be received by our Corporate Secretary no later than July 6, 2006. The notice must comply with the provisions in our By-Laws, which are available on our website at *http://www.sgi.com/company_info* under the heading Corporate Governance .

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PROPOSAL 1

ELECTION OF DIRECTORS

We have six directors serving on our Board, divided into three classes serving staggered terms. As a result of Charles Steinberg s retirement from the Board in February 2005, the Company will re-classify the board membership structure in order to equalize the membership size of the three classes. Lewis S. Edelheit, who is up for re-election this year, is nominated for re-election as a Class I director to a three-year term expiring at the 2008 Annual Meeting. Anthony R. Muller, who was elected as a Class II director in 2003, is nominated for re-election as a Class I director to serve a three-year term expiring at the 2008 Annual Meeting. The Board has nominated these individuals for election to the Board at the recommendation of the Corporate Governance and Nominating Committee, which consists solely of independent directors as defined by the rules of the New York Stock Exchange. Following the Annual Meeting, at which two Class I directors are to be elected, the Board will be comprised of two directors in Class I, two in Class II and two in Class III. The current Class II directors terms expire at the 2006 Annual Meeting, and the current Class III directors terms expire at the 2007 Annual Meeting. The Board has adopted a resolution to reduce the number of directors from seven to six pursuant to the terms of our bylaws.

Directors and Nominees for Director

Unless otherwise instructed, the proxy holders will vote for the nominees named below. In the unexpected event that any nominee becomes unavailable or declines to serve, the proxy holders will vote the proxies in their discretion for any nominee designated by the Board to fill the vacancy. If additional persons are nominated, the proxy holders intend to cumulate their votes if necessary to elect the nominees listed below, and, in that event, the specific nominees to be voted for will be determined by the proxy holders.

Name	Class	Age	Principal Occupation	Director Since
Nominees for Director				
Lewis S. Edelheit, Ph.D.	I	63	Former Senior Vice President, Corporate Research & Development, General Electric Company	2002
Anthony R. Muller	I	62	Former Executive Vice President and Chief Financial Officer, JDS Uniphase Corporation	2003
Continuing Directors				
Robert R. Bishop	III	63	Chairman and Chief Executive Officer, Silicon Graphics, Inc.	1993
James A. McDivitt	II	76	Former Senior Vice President, Government Operations and International, Rockwell International Corporation	1987
Arthur L. Money	II	65	Former Assistant Secretary of Defense for Command, Control, Communications and Intelligence and Chief Information Officer, U.S. Department of Defense	2001
Robert M. White, Ph.D.	III	67	University Professor Emeritus at Carnegie Mellon University and Consulting Professor at Stanford University	2002

Except as indicated below, each nominee or incumbent director has been engaged in the principal occupation set forth above during the past five years. There are no family relationships among our directors or executive officers.

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Mr. Bishop was appointed the Chairman of the Board and Chief Executive Officer of Silicon Graphics, Inc. in the fall of 1999. From 1996 to 1999, he was the non-executive Chairman of the Board of Silicon Graphics World Trade Corporation, and from 1986 to 1995 he was the President of Silicon Graphics World Trade Corporation.

Dr. Edelheit served as Senior Vice President of General Electric s corporate research and development and in similar capacities from 1992 until his retirement in December 2001. He began his career at General Electric in 1969, where he helped pioneer major advances in computed tomography. Between 1986 and 1991, he left General Electric to become President and CEO of Quantum Medical Systems and remained its President after it was acquired by Siemens Corporation. He is a member of the National Academy of Engineering and a Fellow of the American Physical Society. He is also a director of Sonic Innovations, Inc., a director of VWR International, Inc., a non-public company and Chairman of the Laboratory Advisory Committee of the Pacific Northwest National Laboratory, a non-public research laboratory.

Mr. McDivitt was Senior Vice President, Government Operations and International, of Rockwell International Corporation until his retirement in March 1995. He currently serves as the Lead Director for the Company s Board.

Mr. Money served as the Assistant Secretary of Defense for Command, Control, Communication and Intelligence (C3I) from October 1999 to April 2001. Prior to his Senate confirmation in that role, he was the Senior Civilian Official, Office of the ASD (C31) from February 1998. Mr. Money also served as the Chief Information Officer for the Department of Defense from 1998 to 2001. From 1996 to 1998, he served as Assistant Secretary of the Air Force for Research, Development and Acquisition, and as CIO for the Air Force. Prior to his government service, Mr. Money held senior management positions with ESL Inc., a subsidiary of TRW, and the TRW Avionics and Surveillance Group, including the position of President of ESL between January 1990 and January 1996. He is also a director of CACI International, Terremark Worldwide, Inc., Essex Corporation, Intelli-Check, Intevac Corporation, Safenet Inc. and Steelcloud, Inc.

Mr. Muller served as Executive Vice President and Chief Financial Officer of JDS Uniphase Corporation, a manufacturer of optical products for communications and industrial, commercial and consumer applications from May 2000 until his retirement in February 2003. Before that, he served as Senior Vice President and Chief Financial Officer of JDS Uniphase Corporation from January 1998 to May 2000. He served as a member of the board of directors of Uniphase Corporation from 1984 to 1998. Mr. Muller also serves as a member of the board of directors of WebEx Communications.

Dr. White currently serves as University Professor Emeritus of Electrical and Computer Engineering (ECE) at Carnegie Mellon University and Consulting Professor of Materials Science and Engineering at Stanford University. He joined Carnegie Mellon University in 1993 as head of ECE and subsequently served as director of the Data Storage Systems Center. Prior to that, he served as the first Undersecretary of Commerce for Technology under President George H. Bush and held senior management positions at Control Data Corporation and Xerox s Palo Alto Research Center. He is also a director of STMicroelectronics N.V., and ENSCO, Inc., a private company, and a member of the National Academy of Engineering.

Corporate Governance

Corporate Governance Guidelines

The Board has adopted corporate governance guidelines. These guidelines govern, among other things, Board member qualifications, responsibilities, compensation, education, management succession, committee composition and charters, as well as Board self-evaluation. The corporate governance guidelines are available on our website at *http://www.sgi.com/company_info/* under the heading Corporate Governance .

Lead Director

As provided in the corporate governance guidelines, the non-management members of the Board periodically designate a Lead Director. James A. McDivitt currently serves as the Lead Director. In this role, his duties include serving as chairman of the non-management directors executive sessions, providing advice to the Chairman of the Board in planning meetings, and such other duties as the Board may delegate to assist in meeting its responsibilities.

About the Board and its Committees

The Board and its committees meet throughout the year on a regular schedule, and hold special meetings or act by written consent as needed. During fiscal 2005, the Board held sixteen meetings, either in person or by telephone. Each regularly scheduled meeting of the Board includes a separate executive session for the non-management members of the Board.

Our corporate governance guidelines require that at least a majority of the Board be independent within the meaning of the corporate governance listing standards of the New York Stock Exchange. The Board has determined that, except for Robert R. Bishop, our Chairman and Chief Executive Officer, none of its directors has a material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and each of them is independent within the meaning of our director independence standards, which reflect the director independence standards of the New York Stock Exchange. The Board of Directors periodically reviews its standing committees, the committee charters, and the appointment of directors to serve on standing committees. We currently have three standing committees: the Audit Committee, the Compensation and Human Resources Committee and the Corporate Governance and Nominating Committee. The Board has determined that all members of these committees are independent directors within the meaning of the requirements of the New York Stock Exchange, the Sarbanes-Oxley Act of 2002 and related SEC rules. Each of our standing committees operates under a written charter adopted by the Board and each committee s charter is available on our website at *http://www.sgi.com/company_info* under the heading Corporate Governance .

Audit Committee. The members of the committee are Anthony R. Muller (chair), James A. McDivitt, and Robert M. White. Charles Steinberg served on the committee until his February 2005 retirement from the Board at which time Mr. White joined the committee. The committee held ten meetings during fiscal 2005, either in person or by telephone. The Board has determined that Mr. Muller qualifies as an audit committee financial expert as that term is defined in the SEC regulations. Among other matters, the committee:

- Hires and replaces the independent auditors as appropriate;
- Evaluates the performance and independence of the independent auditors and pre-approves any audit and non-audit services provided by the independent auditors and approves fees related to such services;
- Reviews and discusses with management, the internal auditors and the independent auditors our financial statements and accounting principles; and
- Oversees the internal auditing functions and controls.

Compensation and Human Resources Committee. The members of the committee are Lewis S. Edelheit (chair), Arthur L. Money and Anthony R. Muller. Charles Steinberg served as the chair of the committee until his February 2005 retirement from the Board at which time Mr. Edelheit was appointed as chair and Mr. Money joined the committee. The committee held four meetings during fiscal 2005, either in person or by telephone. Among other matters, the committee:

Reviews and approves our compensation and benefits policies, including equity compensation plans;

Reviews management performance and our succession planning; and

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Reviews and approves executive compensation policies, including compensation of the chief executive officer.

Corporate Governance and Nominating Committee. The members of the committee are James A. McDivitt (chair), Lewis S. Edelheit and Robert M. White. The Corporate Governance and Nominating Committee held four meetings in fiscal 2005. Among other matters, the committee:

Identifies individuals qualified to become Board members and recommends directors for appointment to Board committees;

Makes recommendations to the Board as to determinations of director independence;

Evaluates Board performance and oversees and sets compensation for our directors; and

Oversees corporate governance and compliance policies and procedures.

The Corporate Governance and Nominating Committee identifies, investigates and recommends prospective directors to the Board with the goal of creating a balance of knowledge, experience and capability. Candidates for director nominees are reviewed in the context of the current composition of the Board, the operating requirements of the Company and the long-term interests of stockholders. In conducting this assessment, the committee considers issues of judgment, diversity, age, skills, background, experience and such other factors as it deems appropriate given the current needs of the Board and the Company.

Candidates for director suggested by stockholders will be considered by the Corporate Governance and Nominating Committee. The committee screens all potential candidates in the same manner regardless of the source of the recommendation. Such suggestions should include the candidate s name and qualifications and may be submitted in writing to the Corporate Secretary, Silicon Graphics, Inc., 1500 Crittenden Lane, Mail Stop 554, Mountain View, CA 94043-1351. In addition, nominations for director may be made by a stockholder entitled to vote who complies with the advance notice provision in our By-Laws, which are available on our website at *http://www.sgi.com/company_info* under the heading Corporate Governance . For our 2006 annual meeting of stockholders, we must receive this notice between August 8, 2006 and September 7, 2006.

Each director attended at least 75% of the aggregate number of meetings of the Board and committees on which such director served during fiscal 2005. Local members of the Board are encouraged to attend annual meetings of our stockholders and directors from outside California are encouraged to listen to the webcast of the meetings. Four directors attended the 2004 annual meeting of stockholders in person.

Contacting the Board of Directors

The Board, including a majority of the company s independent directors, has adopted a formal process by which stockholders may communicate with the Board. Stockholders may communicate with the Board at any time by writing to our Corporate Secretary at 1500 Crittenden Lane, Mail Stop 554, Mountain View, CA 94043 or by sending an email to the Board at *boardcommunication@sgi.com*. All concerns will be received and processed by our Corporate Secretary as further described on our website at *http://www.sgi.com/company_info/corporate_governance/contact_board.html*. Concerns relating to SGI accounting, internal accounting controls or auditing matters will be referred to the Audit Committee. Other concerns will be referred to the independent Lead Director of the Board.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all officers, directors and employees. The Code of Business Conduct and Ethics encompasses our code of ethics applicable to our Chief Executive Officer, principal financial officer, and principal accounting officer and controller. The Code of Business Conduct and Ethics is available on our website at *http://www.sgi.com/company_info* under the heading Corporate Governance . You may also request a copy of the Code of Business Conduct and Ethics, free of charge, by writing or calling us at: Silicon Graphics, Inc., Attn: Investor Relations, 1500 Crittenden Lane, Mountain View, California 94043; telephone: (650) 933-6102. We intend to make any required disclosures regarding amendments to or waivers granted to any of our directors or executive officers under the Code of Business Conduct and Ethics on our website.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation and Human Resources Committee during fiscal 2005 were Dr. Edelheit, Mr. Muller, Mr. Steinberg, until his retirement from the Board in February 2005, and Mr. Money, who joined the committee upon Mr. Steinberg s retirement in February 2005. Each committee member is a non-employee director. No interlocking relationship exists between the Board or Compensation and Human Resources Committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

Director Compensation

Employee directors are not compensated for their service on the Board.

Each non-employee director receives a fee of $6,000 per quarter and $2,000 for each Board and committee meeting attended. The chair of each committee receives an additional $1,000 for each committee meeting attended. The Lead Director receives an additional fee of $3,000 per quarter.

Mr. Money, Mr. McDivitt and Dr. White also serve on the board of our federal government sales subsidiary and receive fees of $2,000 per meeting attended, except that Mr. Money receives an additional $1,000 per meeting attended as chairman of the subsidiary s board.

Each non-employee director is granted an option to purchase 50,000 shares of common stock on the date on which he or she first becomes a director. These options become exercisable in installments on the first two anniversary dates following the date of grant, subject to accelerated vesting on a change in control. At the time of the regularly scheduled October meeting of the Board (or if the Board does not meet in October, at the next regularly scheduled meeting), each non-employee director who has served on the Board for at least six months also receives an option to purchase 20,000 shares of common stock which is fully exercisable on the date of grant. The exercise price of the initial option grants and the annual option grants to directors is the fair market value at the time of grant. Options granted to non-employee directors expire after ten years, and can only be exercised while the optionee is a director, or within three months after service as a director terminates or within one year after a director s service terminates due to death, disability or retirement from the Board with more than five years of service at age 65 or above.

Vote Required

Directors must be elected by a plurality of the votes cast at the Annual Meeting. This means that the two nominees receiving the highest number of votes will be elected. Abstentions will have no effect on the election of directors. If you hold your shares through a broker, bank or other nominee and you do not instruct them how to vote on this proposal, your broker may have authority to vote your shares. You may give each nominee one vote for each share you hold; or you may cumulate your votes by giving one candidate a number of votes equal to the number of directors to be elected which is two, multiplied by the number of shares or equivalent shares you hold; or you may distribute your votes among as many candidates as you wish. However, you may not cast votes for more than two nominees. No stockholder may cumulate votes unless prior to the voting the candidate s name has been placed in nomination in a timely manner in accordance with our bylaws and a stockholder has given notice prior to the meeting of the intention to cumulate votes.

Recommendation

The Board recommends that you vote FOR each of the nominees to the Board set forth in this Proposal 1.

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PROPOSAL 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Ernst & Young LLP (E&Y), an independent registered public accounting firm, to audit the consolidated financial statements of the Company for the fiscal year ending June 30, 2006. We are asking the stockholders to ratify this appointment. In the event of a majority vote against ratification, the Audit Committee may reconsider its selection, and in any event is entitled to change independent registered public accounting firms at a later date. E&Y has audited our financial statements since the Company was formed in fiscal 1982. Representatives of E&Y are expected to be present at the meeting with the opportunity to make a statement, and to be available to respond to appropriate questions.

Fees Paid to the Independent Registered Public Accounting Firm

In connection with the audit of the 2005 financial statements, we entered into an engagement letter with E&Y which set forth the terms by which E&Y will perform audit services for the Company. That agreement is subject to alternative dispute resolution procedures and an exclusion of punitive damages.

During fiscal 2005 and 2004, the aggregate fees billed by E&Y for professional services were as follows:

	Fiscal Year Ended	
	June 24, 2005	**June 25, 2004**
Audit Fees: (1)	$ 7,395,000	$ 4,175,000
Audit-Related Fees: (2)	4,000	309,000
Tax Fees: (3)	221,000	536,000
All Other Fees: (4)	2,000	21,000
Total	$ 7,622,000	$ 5,041,000

(1) Represents fees for professional services rendered in connection with the audit of the annual financial statements and for the review of the quarterly financial statements, advice on accounting matters that arose during the audit, services associated with SEC registration statements and audit services provided in connection with other statutory or regulatory filings. Fiscal 2005 includes approximately $3,299,000 in fees for assurance services provided in connection with assessment and testing of internal controls in connection with Section 404 of the Sarbanes Oxley Act of 2002 (Section 404).

(2) Represents assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported in footnote (1) above. Fiscal 2005 fees consist of employee benefit plan audits. Fiscal 2004 fees represent assurance and related services surrounding the documentation of internal control policies and procedures over financial reporting in connection with Section 404. In February 2004, the SEC announced a delay in the effectiveness of Section 404 that made it effective for our fiscal year ended June 24, 2005.

(3)

Represents fees for international and U.S. tax planning and compliance services as well as consultation and assistance surrounding matters with various income and sales tax authorities.

(4) Represents fees for services provided in connection with other miscellaneous items not otherwise included in the categories above.

In accordance with its charter, the Audit Committee approves in advance all audit and non-audit services to be provided by E&Y. In certain cases, the Audit Committee may delegate authority to pre-approve non-audit services on a preliminary basis to one or more members of the Audit Committee, provided that such pre-approvals are communicated to the full Committee at its next meeting. During fiscal 2005, all services were pre-approved by the Audit Committee in accordance with this policy.

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In September 2005, E&Y issued its Independence Standards Board Standard No. 1 independence letters to the Audit Committee of our Board of Directors. E&Y reported that it is independent under applicable standards in connection with its audit opinion for the financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 24, 2005. SGI and E&Y continue to evaluate and review processes relevant to the maintenance of E&Y s independence. The Audit Committee has discussed with E&Y its independence from SGI.

Recommendation

The Board recommends voting FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2006.

OTHER INFORMATION

Security Ownership of Management

The following table sets forth the beneficial ownership of SGI s common stock as of October 11, 2005 by each director or nominee director, by each of the current executive officers named in the table under Executive Officer Compensation below, and by all such persons and all current executive officers as a group:

Name	Number of Shares Beneficially Owned(1)	Percent of Common Stock
Robert R. Bishop	7,231,044	2.67%
Lewis S. Edelheit	90,000	*
James A. McDivitt	265,004	*
Arthur L. Money	111,000	*
Anthony R. Muller	95,000	*
Robert M. White	90,000	*
Warren Pratt	1,111,938	*
Eng Lim Goh	590,285	*
Anthony K. Robbins	1,219,228	*
Jeffrey V. Zellmer	562,656	*
All executive officers and directors as a group (13 persons)	12,117,387	4.39%

* Less than 1%.

(1) Calculated based on shares of our common stock outstanding on October 11, 2005, adjusted as required by SEC rules. Unless otherwise indicated, the persons named have sole voting and investment power over the shares shown as being beneficially owned by them, subject to community property laws, where applicable. The table includes the following shares issuable on exercise of options that were exercisable on October 11, 2005, or within 60 days thereafter: Mr. Bishop, 2,960,000 shares; Dr. Edelheit, 90,000 shares; Mr. McDivitt, 100,000 shares; Mr. Money, 110,000 shares; Mr. Muller, 90,000 shares; Dr. White, 90,000 shares; Dr. Pratt, 1,111,938 shares; Dr. Goh, 571,200 shares; Mr. Robbins, 1,182,200 shares; Mr. Zellmer, 542,900 shares; and all directors and executive officers as a group, 7,582,338 shares.

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REPORT OF THE COMPENSATION

AND HUMAN RESOURCES COMMITTEE

OF THE BOARD OF DIRECTORS

The following Report of the Compensation and Human Resources Committee of the Board shall not be deemed to be soliciting material or to be filed with the SEC nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933 (the Securities Act) or the Securities Exchange Act of 1934 (the Exchange Act), each as amended, except to the extent that SGI specifically incorporates it by reference into such filing.

The Compensation and Human Resources Committee of the Board of Directors reviews and approves executive compensation policies, including compensation of the Chief Executive Officer. The Committee administers SGI s stock incentive plans, approves stock option grants for employees, and reviews management performance and the Company s succession planning. The Committee is currently composed of three independent directors, as defined by the listing standards of the New York Stock Exchange.

Compensation Philosophy

The goals of SGI s compensation program are to align compensation with SGI s overall business objectives and performance, to foster teamwork and to enable SGI to attract, retain and reward employees who contribute to its long-term success. In addition, the Committee seeks to establish compensation policies that allow SGI flexibility to respond to changes in its highly competitive and rapidly changing business environment.

Executive Compensation Components

Compensation for SGI s executive officers generally consists of base salary, annual cash bonus opportunities and long-term incentive equity awards. The Committee assesses the past performance and anticipated future contribution of each executive officer in establishing the total target amount and mix of each element of compensation. The Committee reviews the other elements of compensation in making its decisions about any element of compensation.

Salary. The salaries of the executive officers, including the Chief Executive Officer, are determined by the Committee with reference to several surveys of salaries paid to executives with similar responsibilities at comparable companies, primarily in the high technology industry. These comparable companies are not included in the S&P Computer Hardware Index reflected in the performance graph in this proxy statement. The peer group for each executive officer is composed of executives whose responsibilities are similar in scope and content. SGI seeks to set executive compensation levels that are competitive with the average levels of peer group compensation. The Company deferred its annual salary review for executive officers for fiscal 2005, although in one case, a modest adjustment was made to reflect additional management responsibilities.

Annual Incentive Compensation. The Committee annually reviews and approves an executive incentive program to tie incentive payments to executive officers to certain Company financial goals. During fiscal 2005, all executive officers were eligible for target bonuses based on a percentage of their base salary, depending on their positions. The bonus, if awarded, is computed as a percentage of that target based on SGI s performance in achieving specified objectives, as determined by the Committee. For fiscal 2005, these objectives included the achievement by SGI of certain revenue and operating profit goals. No payments were made for fiscal 2005 under this program.

Variable Compensation. The Committee also annually reviews and approves a variable compensation plan for certain executives in the Company s sales, service and product groups. During fiscal 2005, these executives were eligible for target bonuses based on a percentage of their base salary. The bonus, if awarded, is computed as a percentage of that target based on the achievement of revenue and margin goals in the executive s specific area of responsibility. Payments were made to one eligible executive officer under this plan for fiscal 2005.

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Stock Options and Restricted Stock Awards. Stock options and restricted stock awards are designed to align the interests of executives with the long-term interests of the stockholders. Historically, the Committee has granted equity awards that vest over a period of service to substantially all of the Company s employees, including its executive officers, to encourage retention and contributions to improved Company performance. No stock options or restricted stock awards were granted to executive officers during fiscal 2005.

Fringe Benefits. As described under the Summary Compensation Table, certain of our executive officers receive additional benefits approved by the Committee. For example, certain executive officers receive car allowances and one executive officer receives a housing allowance. In fiscal 2005, Mr. Bishop received a small reimbursement for taxes in connection with his car allowance, while Dr. Goh received a reimbursement totaling less than $10,000 for taxes in connection with a patent bonus award and car and housing allowances. Otherwise, the benefit plans for executive officers are substantially similar to those of other employees. For example, the Company makes matching contributions (up to a certain limit) for all employees who participate in the Company s 401(k) savings plan, including executive officers.

Compensation of the Chief Executive Officer. Our Chairman and Chief Executive Officer, Robert R. Bishop, received an annual base salary of $800,000 during fiscal 2005. His salary has remained unchanged since he joined the Company in the fall of 1999. The Committee conducts a quarterly review and measurement of Mr. Bishop s performance against objectives set by the Committee, including the Company s revenue and operating profit goals as well as individual performance measures. The Committee set Mr. Bishop s target bonus under the fiscal 2005 executive incentive program at 100% of his base salary. As described above, no payments were made under this program for fiscal 2005.

Section 162(m)

SGI is subject to Section 162(m) of the U.S. Internal Revenue Code, which limits the deductibility of certain compensation payments to its executive officers. SGI does not have a policy requiring the Committee to qualify all compensation for deductibility under this provision. The Committee s current view is that SGI derives substantial benefits from the flexibility provided by the current system, in which the selection and quantification of performance targets are modified from year to year to reflect changing conditions. However, the Committee considers the net cost to SGI in making all compensation decisions and will continue to evaluate the impact of this provision on its compensation programs.

COMPENSATION AND HUMAN RESOURCES COMMITTEE
Lewis S. Edelheit, *Chairman*
Arthur L. Money

Anthony R. Muller

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REPORT OF THE AUDIT COMMITTEE

OF THE BOARD OF DIRECTORS

The following Report of the Audit Committee of the Board shall not be deemed to be soliciting material or to be filed with the SEC nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that SGI specifically incorporates it by reference into such filing.

The management of the Company is responsible for establishing and maintaining internal controls and for preparing the Company s consolidated financial statements. The independent auditors are responsible for auditing the financial statements. It is the responsibility of the Audit Committee of the Board to oversee these activities and otherwise to fulfill the responsibilities outlined in its charter. These responsibilities also include hiring and replacing the independent auditors and evaluating the performance and independence of the independent auditors.

The Board has adopted a written charter for the Audit Committee, amended as of May 2004. Each member of the Audit Committee is independent as defined under the listing standards of the New York Stock Exchange and SEC rules.

The Audit Committee has reviewed and discussed with management the audited financial statements for the fiscal year ended June 24, 2005, including a discussion of significant judgments and accounting principles.

The Audit Committee has discussed with Ernst & Young LLP, the matters required to be discussed by Statement on Auditing Standards No. 60, 61 and 99, which includes, among other items, matters encountered during the conduct of the audit of the Company s financial statements and also discussed NYSE listing requirements surrounding the auditor s internal quality-control procedures and outcome of any quality control reviews within the preceding five years.

The Audit Committee has received and reviewed the written disclosures and the letter from the independent auditors required by the Independence Standards Board Standard No. 1, which relates to the auditors independence from the Company. The Audit Committee has discussed with Ernst & Young LLP its independence from the Company.

The Committee discussed with the Company s internal and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting. To avoid certain potential conflicts of interest, the law prohibits a publicly traded company from obtaining certain non-audit services from its independent audit firm. The Company obtains these services from other service providers as needed. The Audit Committee has been reducing the scope and amount of permissible non-audit services obtained from Ernst & Young and obtaining those services from other providers. This activity continued in fiscal 2005 and will continue in fiscal 2006. See Fees Paid to the Independent Registered Public Accounting Firm for more information regarding fees paid to Ernst & Young for services in fiscal 2005 and 2004.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors and the Board approved that the audited financial statements be included in the Company s annual report on Form 10-K filed with the SEC, for the fiscal year ended June 24, 2005.

AUDIT COMMITTEE

Anthony R. Muller, *Chairman*

James A. McDivitt

Robert M. White

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EXECUTIVE OFFICER COMPENSATION

Summary Compensation Table

The following table sets forth the cash and equity compensation for the most recent three fiscal years for Robert R. Bishop, Chief Executive Officer, and each of the four other most highly compensated executive officers of SGI as of June 24, 2005.

		Annual Compensation			Long Term Compensation Awards	
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Bonus ($)(1)**	**Other Annual Compensation ($)(2)**	**Options (#)**	**All Other Compensation ($)(3)**
Robert R. Bishop (4)	2005	$ 800,000		$ 2,349		$ 8,237
Chairman and Chief Executive	2004	800,000	$ 160,000		500,000	9,115
Officer	2003	800,000				9,116
Warren C. Pratt	2005	$ 495,000		$ 5,307,812		$ 3,113
Chief Operating Officer and	2004	495,000	$ 79,200	279,164	250,000	3,113
Executive Vice President	2003	495,000		310,781		2,780
Eng Lim Goh	2005	$ 365,000	$ 1,000	$ 9,968		$ 896
Senior Vice President and	2004	365,000	31,000	2,392	150,000	747
Chief Technology Officer	2003	365,000			200,000	597
Anthony K. Robbins	2005	$ 357,200				$ 3,040
President, SGI Federal and	2004	370,938	$ 199,252		175,000	2,732
Senior Vice President, SGI Global Defense Strategies	2003	357,200	98,231	$ 412	250,000	2,426
Jeffrey V. Zellmer	2005	$ 325,000				$ 1,988
Senior Vice President and	2004	325,000	$ 41,000	$ 64,045	150,000	1,857
Chief Financial Officer	2003	325,000		255,609	225,000	1,726

(1) The bonus column for Mr. Robbins includes commissions paid.

(2) Perquisites and other personal benefits did not exceed $50,000 or 10% of any named executive officer s salary for fiscal 2005, 2004 or 2003 these benefits consisted of car allowances for Mr. Bishop and Dr. Goh; a housing allowance for Dr. Goh; and certain sales recognition awards for Mr. Robbins. The amounts set forth above consist of the following: Mr. Bishop amounts reimbursed by the Company for payment of taxes for fiscal 2005 in connection with a car allowance; Dr. Pratt loan forgiveness, income on imputed interest and amounts reimbursed by the Company for payment of taxes in connection with the loans described in Certain Transactions in the amounts of $5,307,812, $279,164, and $270,927 for fiscal 2005, 2004 and 2003, respectively, and tax equalization payments for fiscal 2003; Dr. Goh amounts reimbursed by the Company for payment of taxes for fiscal 2005 in connection with a patent bonus award and car and housing allowances and for fiscal 2004 in connection with a patent bonus award; Mr. Robbins amounts reimbursed by the Company for payment of taxes for fiscal 2003 in connection with sales recognition awards; Mr. Zellmer loan forgiveness, income on imputed interest and amounts reimbursed by the Company for fiscal 2004 and 2003 for payment of taxes in connection with a loan that was forgiven in accordance with its terms in July 2003.

(3) Includes the Company s contribution of $1,200 for each fiscal year to the 401(k) savings plan for each named executive officer other than Mr. Bishop and Dr. Goh. The remaining amount for each named executive officer represents term life insurance premiums paid by the Company.

(4) Mr. Bishop elected to defer his salary and bonus for fiscal 2003 and a portion of fiscal 2004.

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Option Exercises in Fiscal 2005 and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at June 24, 2005		Value of Unexercised In-the-Money Options at Fiscal Year End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert R. Bishop	0		2,840,000	410,000	$ 0	$ 0
Warren C. Pratt	0		1,071,411	209,000	0	0
Anthony K. Robbins	0		1,131,450	188,500	48,000	0
Eng Lim Goh	0		529,200	157,000	24,000	0
Jeffrey V. Zellmer	0		497,900	165,000	32,000	0

(1) The amounts in this column reflect the difference between the closing market price of the common stock on June 24, 2005, which was $0.73, and the option exercise price. The actual value of unexercised options fluctuates with the market price of the common stock.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership on Form 3 and changes in ownership on Forms 4 or 5 with the SEC. Based on the written representations of its directors and executive officers and a review of the copies of such forms filed during the fiscal year ended June 24, 2005, we believe that our executive officers, directors and ten percent stockholders complied with all Section 16(a) filing requirements.

Equity Compensation Plan Information

	As of June 24, 2005		
	Number of shares to be issued on exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of shares remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders (1)	19,180,123	$ 2.6090	15,869,675(2)
Equity compensation plans not approved by stockholders (3)	15,956,691	$ 2.4715	2,037,617
Total	35,136,814	$ 2.5466	17,907,292

(1) Additionally there are outstanding options to purchase an aggregate of 304,586 shares of our common stock at a weighted average exercise price of $6.0978 per share. The options were assumed in connection with an acquisition in 1996. No additional awards can be granted

under this assumed plan.

(2) Includes 9,015,009 shares available at June 24, 2005 for future issuance under the Employee Stock Purchase Plan.

(3) Consists of the Amended and Restated 1996 Supplemental Non-Executive Equity Incentive Plan, which is described below.

Amended and Restated 1996 Supplemental Non-Executive Equity Incentive Plan

The Board approved the 1996 Supplemental Non-Executive Equity Incentive Plan in April 1996 and amended the plan to increase the number of authorized shares in July 2001. The plan was not submitted to a stockholder vote. Under the plan, stock awards and nonstatutory stock options may be granted to Company employees with a status below vice-president. Subject to certain adjustments upon a change in capitalization, as of June 24, 2005, the number of shares of our common stock issuable pursuant to options outstanding under the plan was 15,956,691, and 2,037,617 shares remained available for grant. The plan will remain in effect until terminated by the Board. The Compensation and Human Resources Committee is responsible for administering the plan.

The per share exercise price for the shares issuable is determined by the committee, which has generally been the fair market value of the shares on the date of grant. Currently, we generally grant options with seven-year

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terms. Options may not have terms longer than ten years. However, in the event a holder ceases to be an employee of the Company, such holder may be required to exercise the option or right prior to the end of the seven-year period. The Committee determines the vesting schedules of awards granted under the plan. Unless otherwise determined by the committee at the time of grant, any options will become exercisable in full if, within 24 months after a change in control of the Company, the option holder s employment is terminated without cause or the option holder resigns due to certain involuntary relocations or reductions in compensation.

The Board may amend, alter, suspend or terminate the plan at any time, subject to compliance with applicable rules and regulations. However, no amendment, alteration, suspension or termination of the plan may impair the rights of any holder of an option or right, unless mutually agreed between the holder and the Company.

CERTAIN TRANSACTIONS

Arrangements with Executive Officers

Employment Continuation Agreements. We have entered into employment continuation agreements with each of our executive officers and senior vice presidents with the goal of encouraging the continued employment of key executives in the event of a potential change in control of SGI. Under the agreements, each executive officer and senior vice president is entitled to a termination payment equal to two years of his or her compensation if employment with SGI is terminated within 24 months after a change in control, and is granted full vesting of options and restricted stock effective after a change in control.

Executive Loans. During fiscal 2001 and 2002, we extended certain loans to Dr. Pratt as described below. The loans were intended to provide a retention incentive and were approved by the Compensation and Human Resources Committee of the Board. Since the loans were extended, federal legislation has been enacted prohibiting such extensions of credit to executive officers and accordingly, no future extensions of credit will be made by the Company, although we have continued to honor our contractual obligations under pre-existing extensions of credit.

Dr. Pratt was made Chief Operating Officer in April 2001. Under his amended employment agreement entered into at that time, referred to as the Letter Agreement, we committed to extend credit of $5 million to Dr. Pratt, to be paid in annual installments through May 2004 subject to his continued employment with the Company. Pursuant to this agreement, we advanced funds of $2 million in May 2001 and an additional $1 million in each of May 2002, 2003, and 2004. This loan matured in accordance with its terms on May 15, 2005, referred to as the Measurement Date. The terms of the loan provided for Dr. Pratt to repay the loan in an amount equal to the value of his vested stock options and restricted stock held or sold from May 2000 through the Measurement Date, with the remaining balance to be forgiven. In accordance with the Letter Agreement, on May 16, 2005, Dr. Pratt repaid $120,008 of the outstanding principal amount of the loan, an amount equal to the market value of his vested options and restricted stock at the Measurement Date, and the remaining amount of the loan was forgiven. Dr. Pratt is responsible for any income taxes resulting from the forgiveness of the remaining amount of the loan pursuant to its terms. In connection with the settlement of the loan in May 2005, Dr. Pratt entered into a Release Agreement with the Company pursuant to which Dr. Pratt released the Company and our officers, directors and affiliates from all claims and liabilities that might otherwise arise from or be asserted with respect to his employment at SGI.

In September 2000, we also made Dr. Pratt two five-year relocation loans secured by his California residence. Dr. Pratt received a $250,000 loan with an annual interest rate of 6.75% to be repaid in September 2005 or on the earlier sale of the residence or termination of his employment. Dr. Pratt also received a $500,000 loan at no interest to be forgiven in monthly installments over five years subject to continued employment with the Company. To the extent that Dr. Pratt is subject to income tax as a result of the interest free nature of the loan, we agreed to pay

Dr. Pratt an amount, which after the imposition of taxes on the amount, will equal the amount of the income taxes arising due to the interest free nature of the loan or the forgiveness of principal and interest under the loan. Dr. Pratt s maximum aggregate indebtedness to the Company during fiscal 2005 under these relocation loans was $149,119. Dr. Pratt fully repaid the $250,000 loan in August 2004. The $500,000 loan was fully forgiven in accordance with its terms in September 2005.

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COMPANY STOCK PRICE PERFORMANCE GRAPH

Comparison of Five Year Cumulative Total Return

The information contained in the performance graph shall not be deemed to be soliciting material or to be filed with the SEC nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that SGI specifically incorporates it by reference into such filing.

In accordance with SEC rules, we are required to present a table showing a line-graph presentation comparing cumulative five-year returns on an indexed basis with a broad equity market index and either a nationally recognized industry standard or an index of peer companies selected by the Company. We have selected the S&P 500 Index for the broad equity index and the S&P Computer Hardware Index as an industry standard for the five fiscal year period commencing June 30, 2000 ending June 24, 2005. The stock price performance shown on the graph below is not necessarily of future performance.

* Assumes $100 invested on June 30, 2000 in SGI common stock, the S&P 500 Stock Index, and the S&P Computer Hardware, with reinvestment of dividends.

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OTHER MATTERS

We know of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed form of proxy to vote the shares they represent as the Company or Management may recommend.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Sandra M. Escher

Sandra M. Escher
Senior Vice President, General Counsel and Secretary

Dated: November 3, 2005

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