

Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

SILICON GRAPHICS INC /CA/  
Form 10-Q  
February 14, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the quarterly period ended DECEMBER 31, 2000.

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

COMMISSION FILE NUMBER 1-10441

SILICON GRAPHICS, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

94-2789662  
(I.R.S. Employer  
Identification No.)

1600 AMPHITHEATRE PKWY., MOUNTAIN VIEW, CALIFORNIA 94043-1351  
(Address of principal executive offices) (Zip Code)

(650) 960-1980  
(Registrant's telephone number, including area code)

-----

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

YES  NO   
----

Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

As of February 2, 2001 there were 191,359,611 shares of Common Stock outstanding.

SILICON GRAPHICS, INC.  
QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited):

Condensed Consolidated Statements of Operations.....

Condensed Consolidated Balance Sheets.....

Condensed Consolidated Statements of Cash Flows.....

Notes to Condensed Consolidated Financial Statements.....

Item 2. Management's Discussion and Analysis  
of Results of Operations and Financial Condition.....

Item 3. Quantitative and Qualitative Disclosures About Market Risk.....

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.....

Item 6. Exhibits and Reports on Form 8-K.....

Signatures .....

TRADEMARKS USED IN THIS FORM 10-Q: Silicon Graphics, Octane, Onyx, Onyx2, O2 and IRIX are registered trademarks and Origin, Octane2 and SGI are trademarks of Silicon Graphics, Inc. MIPS is a registered trademark of MIPS Technologies, Inc. used under license by Silicon Graphics, Inc. UNIX is a registered trademark in the United States and other countries, licensed exclusively through X/Open Company Ltd. Windows NT is a registered trademark of Microsoft Corporation. Intel is a registered trademark of Intel Corporation. Linux is a registered trademark of Linus Torvalds in the U.S. and other countries. Red Hat is a registered trademark of Red Hat, Inc. Cray is a registered trademark, and Cray T90 is a trademark of Cray Inc.

# Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### SILICON GRAPHICS, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(In thousands, except per share amounts)

	Three Months Ended December 31,		Six D
	2000 ----	1999 ----	2000 ----
Product and other revenue.....	\$ 326,142	\$ 478,246	\$ 606,
Service revenue.....	160,765	169,947	307,
	-----	-----	-----
Total revenue.....	486,907	648,193	913,
Costs and expenses:			
Cost of product and other revenue.....	213,412	267,161	380,
Cost of service revenue.....	126,451	122,510	242,
Research and development.....	58,111	78,607	115,
Selling, general and administrative.....	182,237	183,487	367,
Other operating expense (1).....	--	(16,000)	(6,
	-----	-----	-----
Total costs and expenses.....	580,211	635,765	1,100,
	-----	-----	-----
Operating (loss) income.....	(93,304)	12,428	(186,
Gain on sale of marketable investments .....	10,756	--	49,
Interest and other income (expense), net.....	14,770	2,165	24,
	-----	-----	-----
(Loss) income before income taxes.....	(67,778)	14,594	(113,
Income tax provision (benefit).....	3,338	5,513	6,
	-----	-----	-----
Net (loss) income.....	(71,116)	9,081	(120,
Preferred stock dividend requirement.....	(131)	(131)	(
	-----	-----	-----
Net (loss) income available to common stockholders...	\$ (71,247)	\$ 8,950	\$ (120,
	-----	-----	-----
Net (loss) income per share - basic and diluted.....	\$ (0.38)	\$ 0.05	\$ (0
	-----	-----	-----
Common shares outstanding - basic .....	189,808	182,789	188,
	-----	-----	-----
Common shares outstanding - diluted.....	189,808	183,143	188,
	-----	-----	-----

(1) Amount represents a change in previously estimated restructuring costs in the six-month period ended December 31, 2000. Amount represents a change in previously estimated restructuring costs in the three-month period ended December 31, 1999 and a net charge for estimated restructuring costs in the six-month period ended December 31, 1999.

Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

-3-

SILICON GRAPHICS, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands)

	December 31, 2000	June 30, 2000 (1)
	----- (unaudited)	
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 214,774	\$ 251,811
Short-term marketable investments	6,038	6,270
Short-term restricted investments	47,600	--
Accounts receivable, net	394,538	347,515
Inventories	185,498	181,594
Prepaid expenses and other current assets	124,531	133,119
	-----	-----
Total current assets	972,979	920,309
Restricted investments	104,385	126,408
Property and equipment, net	324,374	466,726
Other assets	254,300	325,768
	-----	-----
	\$1,656,038	\$1,839,211
	=====	=====
<b>Liabilities and Stockholders' Equity:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 166,269	\$ 147,366
Accrued compensation	73,719	79,289
Deferred revenue	246,435	292,772
Other current liabilities	272,798	342,101
	-----	-----
Total current liabilities	759,221	861,528
Long-term debt and other	452,652	385,133
<b>Stockholders' equity:</b>		
Preferred stock	16,998	16,998
Common stock and additional paid-in-capital	1,418,979	1,410,663
Accumulated deficit	(970,617)	(832,219)
Treasury stock	(505)	(21,458)
Accumulated other comprehensive (loss) income	(20,690)	18,566
	-----	-----
Total stockholders' equity	444,165	592,550
	-----	-----
	\$1,656,038	\$1,839,211
	=====	=====

Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

- (1) The balance sheet at June 30, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

-4-

SILICON GRAPHICS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)

	Six Months Ended December 31,	
	2000	1999
Cash Flows From Operating Activities:		
Net loss	\$ (120,104)	\$ (203,820)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	66,239	96,320
Gain on sale of real estate	(7,513)	--
Gain on sale of marketable investments	(49,561)	--
Gain on sale of Cray product line	(23,506)	--
Restructuring	(6,221)	128,538
Other	(6,702)	(97,053)
Changes in operating assets and liabilities:		
Accounts receivable	(47,022)	161,996
Inventories	(3,696)	(22,082)
Accounts payable	18,902	(16,180)
Other assets and liabilities	5,819	(27,406)
Total adjustments	(53,261)	224,133
Net cash (used in) provided by operating activities	(173,365)	20,313
Cash Flows From Investing Activities:		
Proceeds from sale of real estate	184,723	--
Short-term investments:		
Purchases	(1,178)	(41,620)
Maturities	1,405	32,573
Purchases of restricted investments	(125,356)	(184,602)
Proceeds from the maturities of restricted investments	99,783	153,526
Capital expenditures	(71,476)	(195,397)
Decrease in other assets	43,237	2,046
Net cash provided by (used in) investing activities	131,138	(233,474)
Cash Flows From Financing Activities:		
Issuance of debt	93	--
Payments of debt principal	(3,527)	(11,668)
Sale of SGI common stock	8,886	35,431

Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

Repurchase of SGI common stock	--	(24,420)
Cash dividends-preferred stock	(262)	(262)
	-----	-----
Net cash provided by (used in) investing activities	5,190	(919)
	-----	-----
Net decrease in cash and cash equivalents	(37,037)	(214,080)
Cash and cash equivalents at beginning of period	251,811	571,117
	-----	-----
Cash and cash equivalents at end of period	\$ 214,774	\$ 357,037
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

-5-

SILICON GRAPHICS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED FINANCIAL STATEMENTS.

The consolidated financial statements include the accounts of SGI and our wholly-owned subsidiaries. The unaudited results of operations for the interim periods shown herein are not necessarily indicative of operating results for the entire fiscal year. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. The unaudited condensed consolidated financial statements included in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2000.

2. INVENTORIES.

(In thousands)	December 31, 2000	June 30, 2000
	-----	-----
Components and subassemblies	\$ 53,727	\$ 38,855
Work-in-process	41,902	50,051
Finished goods	34,930	45,896
Demonstration systems	54,939	46,792
	-----	-----
Total inventories	\$ 185,498	\$ 181,594
	=====	=====

3. RESTRICTED INVESTMENTS.

Restricted investments consist of short- and long-term investments pledged as collateral against letters of credit and an equity forward purchase arrangement. Restricted investments are held in the Company's name by major financial institutions.

## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

### 4. PROPERTY AND EQUIPMENT.

(In thousands)	December 31, 2000	June 30, 2000
Property and equipment, at cost	\$ 919,499	\$ 1,050,991
Accumulated depreciation and amortization	(595,125)	(584,265)
	-----	-----
Property and equipment, net	\$ 324,374	\$ 466,726
	=====	=====

### 5. OTHER ASSETS.

(In thousands)	December 31, 2000	June 30, 2000
Investments	\$ 93,857	\$ 152,642
Spare parts	94,674	98,601
Software licenses, goodwill and other	65,769	74,525
	-----	-----
	\$ 254,300	\$ 325,768
	=====	=====

-6-

### 6. RESTRUCTURING AND RELATED CHARGES.

During the first quarter of fiscal 2000, we announced and began to implement restructuring actions that resulted in aggregate charges of \$145 million. These charges included \$65.8 million for the elimination of approximately 1,100 positions across essentially all of our functions and locations. We also recorded operating asset write downs of \$26.6 million for fixed assets and evaluation units, prepaid license agreements and other intangible assets associated with the end of life of our Silicon Graphics-Registered Trademark-320 and Silicon Graphics-Registered Trademark-540 visual workstations and certain high-end graphics development projects that were canceled. Third party contract cancellation charges associated with the above actions totaled \$8.5 million. We planned to vacate approximately 1,500,000 square feet of leased sales and administrative facilities throughout the world, with lease terms expiring through fiscal 2004. We estimated this would require ongoing lease payments of \$26 million until subleases could be arranged, abandoning \$11 million of leasehold improvements and other fixed assets and incurring \$7 million in exit costs, including costs to restore facilities to original condition.

During the second through fourth quarters of fiscal 2000, we lowered our estimate of the total costs associated with the fiscal 2000 restructuring

Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

activities described above. As a result, a cumulative adjustment of approximately \$35 million was recorded in fiscal 2000. The adjustment primarily reflected far more favorable settlements of lease obligations attributable to extremely high demand for facilities in Mountain View, California. It also reflected our new approach to structuring our field organization. The adjustment further reflected lower than estimated severance and related charges due to higher than expected attrition and lower per person costs. We estimated that there would now be approximately 900 involuntary employee terminations associated with the fiscal 2000 restructuring activity. Estimated costs of contract cancellations were also adjusted due to favorable settlements.

During the first quarter of fiscal 2001, we again lowered our estimate of the total costs associated with the fiscal 2000 restructuring activities and recorded an adjustment of \$6 million. The adjustment primarily reflected lower than estimated facilities closure costs due to negotiating better than anticipated sublease arrangements. The adjustment also reflected lower than estimated severance and related charges attributable to higher than expected attrition and lower per person costs. As of December 31, 2000, all of the estimated positions have been eliminated. All remaining severance related charges are expected to be paid by March 31, 2001. The remaining facilities related accrual balance of approximately \$3 million at December 31, 2000 is expected to result in cash expenditures through fiscal 2004.

The following table depicts the restructuring activity during the first six months of fiscal 2001:

Category	Severance and Related Charges	Vacated Facilities	Total
Balance at June 30, 2000	\$ 3,265	\$ 6,440	\$ 9,705
Adjustments:			
Decrease	(2,590)	(3,631)	(6,221)
Increase	--	3,619	3,619
Expenditures:			
Cash	(533)	(2,692)	(3,225)
Non-cash	--	(756)	(756)
Balance at December 31, 2000	\$ 142	\$ 2,980	\$ 3,122

-7-

7. EARNINGS PER SHARE.

The following table sets forth the computation of basic and diluted (loss) income per share:

Three Months Ended  
December 31,

Six Mo  
Dece



Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

(in thousands, except per share amounts)	2000	1999	2000
Net (loss) income	\$ (71,116)	\$ 9,081	\$ (120,104)
Less preferred stock dividends	(131)	(131)	(262)
Net (loss) income available to common stockholders	\$ (71,247)	\$ 8,950	\$ (120,366)
Weighted average shares outstanding--basic	189,808	182,789	188,840
Employee stock options and restricted shares	--	354	--
Weighted average shares outstanding--diluted	189,808	183,143	188,840
Net (loss) income per share--basic and diluted	\$ (0.38)	\$ 0.05	\$ (0.64)
Potentially dilutive securities excluded from computations because they are anti-dilutive	12,662	8,578	13,891

8. COMPREHENSIVE (LOSS) INCOME.

The components of comprehensive (loss) income, net of tax, are as follows:

(In thousands)	Three Months Ended December 31,	
	2000	1999
Net (loss) income	\$ (71,116)	\$ 9,081
Change in unrealized (loss) gain on available-for-sale investments	(1,870)	262,628
Reclassification adjustment of accumulated unrealized gain related to the sale of investments	(6,776)	--
Change in unrealized loss on derivative instruments designated and qualifying as cash flow hedges	(4,633)	(1,095)
Foreign currency translation adjustments	(1,253)	(6,374)
Comprehensive (loss) income	\$ (85,648)	\$ 264,240

The components of accumulated other comprehensive (loss) income, net of tax, are as follows:

(In thousands)	December 31, 2000	June 30, 2000
Unrealized (loss) gain on available-for-sale investments	\$ (3,150)	\$ 30,699
Unrealized loss on derivative instruments designated and qualifying as cash flow hedges	(2,947)	(2,661)
Foreign currency translation adjustments	(14,593)	(9,472)
Accumulated other comprehensive (loss) income	\$ (20,690)	\$ 18,566

## 9. SEGMENT INFORMATION.

SGI is a leader in high-performance computing and advanced graphics solutions, offering powerful servers and visual workstations. We have three reportable segments: Servers, Visual Workstations and Global Services. Reportable segments are determined based on several factors including customer base, homogeneity of products, technology, delivery channels and other factors. The Server segment's current products include Silicon Graphics-Registered Trademark- Onyx2-Registered Trademark- and the next generation Onyx-Registered Trademark- 3000 family of graphics systems, the SGI-TM- Origin-TM- 200 family of servers, the SGI-TM- 1000 family of servers and the Origin-TM- 2000 and the next generation Origin-TM- 3000 family of high-performance servers. Fiscal 2000 results include the Cray-Registered Trademark- product line which was sold to Tera Computer Company ("Tera") in the third quarter of fiscal 2000. The Visual Workstation segment's current products include the Silicon Graphics-Registered Trademark- O2-Registered Trademark- and Silicon Graphics-Registered Trademark- Octane-Registered Trademark- visual workstations based upon the MIPS-Registered Trademark- microprocessor and the IRIX-Registered Trademark- operating system and the Silicon Graphics-Registered Trademark- 230, Silicon Graphics-Registered Trademark- 330 and Silicon Graphics-Registered Trademark- 550 visual workstations based upon the Intel-Registered Trademark- microprocessor and the Windows NT-Registered Trademark- and Red Hat-Registered Trademark- Linux-Registered Trademark- operating systems. Fiscal 2000 results include the Silicon Graphics 320 and 540 visual workstations based upon the Intel microprocessor and the Windows NT operating system which were discontinued in favor of more industry standard architectures. The Global Services segment supports our computer hardware and software products and provides professional services to help customers realize the full value of their information technology investments. Our professional services organization provides technology consulting, education, communication and entertainment services. We evaluate performance for each of these segments based on profit or loss from operations before interest and taxes.

In addition to the aforementioned reportable segments, expenses of the sales and marketing, manufacturing, finance and administration groups are allocated to the operating units and are included in the results reported. The revenue and related expenses of our wholly-owned software subsidiary Alias|Wavefront, as well as certain corporate-level operating expenses are not allocated to operating units and are included in "Other" in the reconciliation of reported revenue and operating profit. In addition, the revenue and related expenses of MIPS Technologies, Inc. ("MIPS"), a designer of high-performance processors and related intellectual property that was a majority-owned subsidiary until SGI distributed its interest in MIPS to its shareholders through a spin-off effective June 20, 2000, are also included in "Other" in the reconciliation of reported revenue and operating profit.

We do not identify or allocate assets or depreciation by operating segment, nor do we evaluate segments on these criteria. Operating units do not sell product to each other, and accordingly, there is no inter-segment revenue to be reported. Information on reportable segments is as follows (in thousands):

Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

	Three Months Ended December 31,			Six Months	
	Servers	Visual Workstations	Global Services	Servers	Wo
-----					
2000:					
Revenue from external customers	\$ 184,615	\$ 98,316	\$ 175,854	\$ 330,492	
Segment (loss) profit	\$ (70,503)	\$ (35,048)	\$ 7,980	\$ (142,522)	
-----					
1999:					
Revenue from external customers	\$ 273,484	\$141,320	\$ 180,556	\$488,377	
Segment (loss) profit	\$ (32,488)	\$ 12,079	\$ 434	\$ (89,074)	
Significant items:					
Non-recurring charges for contract cancellations and inventory and future support costs related to the Silicon Graphics 320 and 540 visual workstations	\$ --	\$ 18,000	\$ (3,300)	\$ --	
Vector supercomputer warranty-related charges	\$ (15,300)	\$ --	\$ --	\$ (15,300)	
-----					

-9-

Reconciliation to SGI as reported (in thousands):

	Three Months Ended December 31,		Six Mon
	2000	1999	2000 Decem
-----			
REVENUE:			
Total reportable segments	\$ 458,785	\$ 595,360	\$ 862,042
Other	28,122	52,833	51,201
Total SGI consolidated	\$ 486,907	\$ 648,193	\$ 913,243
=====			
OPERATING (LOSS) PROFIT:			
Total reportable segments	\$ (97,571)	\$ (19,975)	\$ (198,016)
Other	4,267	16,403	4,911
Restructuring	--	16,000	6,221
Total SGI consolidated	\$ (93,304)	\$ 12,428	\$ (186,884)
=====			

10. SALE LEASEBACK TRANSACTION

In December 2000, we completed the sale of a portion of our corporate real estate in Mountain View, California for approximately \$276 million. The transaction resulted in initial net proceeds of \$185 million with the balance of

## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

the transaction to be completed and the proceeds received prior to December 31, 2001. As part of the transaction, we leased back specific buildings on our current campus over periods ranging from 2 to 12 years. All of the leases involved in this transaction are classified as operating leases.

As a result of the transaction, we will recognize an overall gain of approximately \$64 million, of which \$8 million was recognized during the three month period ended December 31, 2000. The remaining gain will be recognized over the terms of the respective leases and will be recorded as an offset to rent expense.

### 11. RECENT ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ("SAB 101"), and amended it in March and June 2000. SAB 101 provides guidance on the recognition, presentation and disclosure of revenue in financial statements for all public registrants. Changes in our revenue recognition policy, if any, resulting from the interpretation of SAB 101 will be reported as a change in accounting principle. We are currently reviewing the impact of SAB 101 on our previously reported results of operations and will adopt SAB 101 during the fourth quarter of fiscal 2001.

### 12. CONTINGENCIES.

We are defending the lawsuits described below. We believe we have good defenses to the claims in each of these lawsuits and we are defending each of them vigorously.

We are defending putative securities class action lawsuits filed in the U.S. District Court for the Northern District of California and in California Superior Court for the County of Santa Clara in December 1997 and January 1998 alleging that SGI and certain of its officers made material misrepresentations and omissions during the period from July to October 1997. The U.S. District Court is considering plaintiffs' motion for a voluntary dismissal of the case without prejudice and defendants' motion for partial summary judgment. Discovery is proceeding in the California Superior Court case.

We are also defending a securities class action lawsuit involving Alias Research Inc., which we acquired in June 1995. The Alias case, which was filed in 1991 in the U.S. District Court for the District of Connecticut, alleges that Alias and a former officer and

-10-

director made material misrepresentations and omissions during the period from May 1991 to April 1992. The case has been remanded to the U.S. District Court. In December 2000, the District Court granted Plaintiffs' motion to amend their Complaint and the case is proceeding through discovery.

The U.S. Departments of Commerce and Justice are currently conducting civil and criminal investigations into SGI's compliance with export regulations in connection with several export sales to Tier 3 countries. See "Risks That Affect Our Business - Export Regulation."

## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

We routinely receive communications from third parties asserting patent or other rights covering our products and technologies. Based upon our evaluation, we may take no action or we may seek to obtain a license. There can be no assurance in any given case that a license will be available on terms we consider reasonable, or that litigation will not ensue.

We are not aware of any pending disputes, including those described above, that would be likely to have a material adverse effect on SGI's financial condition, results of operations or liquidity. However, our evaluation of the likely impact of these pending disputes could change in the future.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

This Quarterly Report on Form 10-Q includes forward-looking statements regarding our business, objectives, financial condition and future performance. These forward-looking statements include, among others, statements relating to expected levels of revenue, gross margin, operating expense, and future profitability, our business transition objectives, headcount reductions and the expected impact on our business of legal proceedings and government regulatory actions. We have based these forward-looking statements on our current expectations about future events. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. These statements are only predictions.

These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements. Such risks and uncertainties include, among other things: adverse changes in general economic or business conditions; adverse changes in the specific markets for our products, including expected rates of growth and decline in our current markets; adverse business conditions; changes in customer order patterns; the impact of employee attrition rates; heightened competition, reflecting rapid technological advances and constantly improving price/performance, which may result in significant discounting and lower gross profit margins; continued success in technological advancements and new product introduction, including timely development and successful introduction of strategic products for specific markets; inability to effectively implement our visual workstation and server strategy, including the development of appropriate distribution, marketing and customer support models; risks related to dependence on our partners and suppliers; risks related to foreign operations (including the downturn of economic trends, unfavorable currency movements, and export compliance issues); risks associated with implementation of our new business practices, processes and information systems; litigation involving export compliance, intellectual property or other issues; and other factors including those listed under the heading "Risks That Affect Our Business."

We undertake no obligation to publicly update or revise any forward-looking statements, whether changes occur as a result of new information, future events or otherwise. The matters addressed in this discussion, with the exception of the historical information presented, are forward-looking statements involving risks and uncertainties, including business transition and other risks discussed under the heading "Risks That Affect Our Business" and elsewhere in this report. Our actual results may differ significantly from the results discussed in the forward-looking statements.

## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

The following tables and discussion present certain financial information on a comparative basis. During the third and fourth quarters of fiscal 2000, respectively, we sold our Cray product line and distributed our remaining interest in MIPS through a spin-off. We believe it more relevant if certain current fiscal year results (revenue, gross margin and operating expenses other than restructuring activity) are compared with pro forma fiscal 2000 results. The pro forma results for the three and six month periods of fiscal 2000 used throughout this discussion are adjusted to exclude the results of operations of the Cray product line and MIPS.

-11-

### RESULTS OF OPERATIONS

(Numbers may not add due to rounding)	Three Months Ended December 31,		Six Months Ended December 31,		Pro F Three M End Decemb
\$ in millions, except per share amounts	2000	1999	2000	1999	19
Total revenue	\$ 487	\$ 648	\$ 913	\$ 1,233	\$ 5
Cost of revenue	340	390	623	831	3
Gross profit	147	259	290	402	2
Gross profit margin	30.2%	39.9%	31.8%	32.6%	37
Total operating expenses	240	246	477	704	2
Operating (loss) income	(93)	12	(187)	(302)	(
Interest and other income (expense), net	26	2	74	(2)	(
(Loss) income before income taxes	(68)	15	(113)	(304)	(
Net (loss) income	\$ (71)	\$ 9	\$ (120)	\$ (204)	\$
Net (loss) income per share - basic and diluted	\$ (0.38)	\$ 0.05	\$ (0.64)	\$ (1.12)	\$ (0.

-12-

### REVENUE

The following discussion of revenue is based on the results of our reportable segments as described in Note 9 to the Condensed Consolidated Financial Statements. Total revenue is principally derived from three reportable segments: Servers, Visual Workstations and Global Services. These segments were determined

## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

based on factors such as customer base, homogeneity of products, technology, delivery channels and other factors.

Revenue for the second quarter and the first six months of fiscal 2001 decreased \$77 million or 14% and \$164 million or 15%, respectively, compared with the corresponding periods of fiscal 2000 on a pro forma basis.

The following table presents total revenue by reportable segment:

(Numbers may not add due to rounding)	Three Months Ended December 31,		Six Months Ended December 31,		Pro Forma Three Months Ended December 31,	Pro Fo Month Dece
\$ in millions	2000	1999	2000	1999	1999	
Servers	\$ 185	\$ 273	\$ 330	\$ 488	\$ 236	
% of total revenue	38%	42%	36%	40%	42%	
Visual Workstations	\$ 98	\$ 141	\$ 195	\$ 301	\$ 141	
% of total revenue	20%	22%	21%	24%	25%	
Global Services	\$ 176	\$ 181	\$ 337	\$ 347	\$ 155	
% of total revenue	36%	28%	37%	28%	27%	
Other	\$ 28	\$ 53	\$ 51	\$ 97	\$ 31	
% of total revenue	6%	8%	6%	8%	6%	

Server revenue for the second quarter and the first six months of fiscal 2001 decreased 22%, or \$51 million and \$96 million, respectively, compared with the corresponding periods of fiscal 2000 on a pro forma basis.

Visual Workstation revenue for the second quarter and the first six months of fiscal 2001 decreased \$43 million, or 30%, and \$107 million, or 35%, respectively, compared with the corresponding periods of fiscal 2000 on a pro forma basis.

Revenue for the first six months of fiscal 2001 was affected by limited availability of the industry-standard ceramic packaging used by our supplier of custom ASICs for our Origin 3000 family of high-performance servers, Onyx 3000 family of graphics systems and Octane2-TM- graphics workstations. Although we do expect to receive significantly more of the constrained components in the third quarter of fiscal 2001 than we received in the second quarter of fiscal 2001, the timing of delivery of these components will be a critical factor in our ability to achieve our goals for the third quarter of fiscal 2001.

Global Services revenue is comprised of hardware and software support and maintenance, professional services and remanufactured systems sales. Global Services revenue for the second quarter and the first six months of fiscal 2001 increased \$21 million, or 13%, and \$45 million, or 15%, respectively, compared with the corresponding periods of fiscal 2000 on a pro forma basis. These increases primarily reflect an increase in professional services revenue and remanufactured systems sales, offset in part by a decline in our traditional customer support revenue.

Other revenue is principally comprised of our operating units that are not reportable segments, including the product and service revenue of our software subsidiary, Alias|Wavefront.

-13-

Total revenue by geographic area was as follows (in millions):

Area	Three Months Ended December 31,		Six Months Ended December 31,		Pro Forma Three Months Ended December 31,	Pro Forma Six Months Ended December 31,
	2000	1999	2000	1999	1999	1999
Americas	\$ 268	\$ 345	\$ 514	\$ 696	\$ 310	\$ 628
Europe	119	171	216	321	141	269
Rest of World	100	132	183	216	112	180
Total revenue	\$ 487	\$ 648	\$ 913	\$ 1,233	\$ 563	\$ 1,077

Geographic revenue as a percentage of total revenue was as follows:

Area	Three Months Ended December 31,		Six Months Ended December 31,		Pro Forma Three Months Ended December 31,	Pro Forma Six Months Ended December 31,
	2000	1999	2000	1999	1999	1999
Americas	55%	53%	56%	56%	55%	58%
Europe	24%	26%	24%	26%	25%	25%
Rest of World	21%	21%	20%	18%	20%	17%

The geographic revenue mix in the second quarter of fiscal 2001 did not shift significantly when compared with the corresponding period in fiscal 2000 on a pro forma basis. In terms of absolute dollars, a decline in revenue was experienced across all regions. The increase in Rest of World business as a percentage of total revenue in the first six months of fiscal 2001 compared with the corresponding period of fiscal 2000 on a pro forma basis is principally due to an increase in professional services revenue in Japan.

Our consolidated backlog at December 31, 2000 was \$386 million compared with \$298 million at June 30, 2000. The increase is primarily due to material shortages of wafer-starts and the ceramic packaging for many of our custom ASICs that impacted our ability to ship new products which contain these components.

#### GROSS PROFIT MARGIN

Cost of product and other revenue includes costs related to product shipments,



## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

including materials, labor, overhead and other direct or allocated costs involved in their manufacture or delivery. Costs associated with non-recurring engineering revenue are included in research and development expense. Cost of service revenue includes all costs incurred in the support and maintenance of our products, as well as costs to deliver professional services.

Gross margin for the second quarter decreased to 30.2% compared with the pro forma gross margin of 37.9% in the second quarter of fiscal 2000. Our second quarter gross margin was affected by the residual impact of several quarters of component issues which affected shipping patterns and was a factor in causing a higher percentage of our revenue to come from lower margin products during the quarter. In particular, we shipped a number of high end systems with low margin in the second quarter that ideally would have been delivered over a period of several quarters. Competition in the market for high performance servers and UNIX-Registered Trademark- workstations was also a factor. Despite the impact that decreased volumes and continuing pricing pressures has had on gross profit margin in both the Server and Visual Workstation segments, as well as in our Global Services business, we have been able to partially mitigate these effects by consolidation and outsourcing of certain manufacturing operations and continued improvements in manufacturing efficiencies and procurement practices.

Gross margin for the first six months of fiscal 2001 was 31.8% compared with pro forma gross margin of 29.6% in the first six months of fiscal 2000 reflecting certain adjustments related to our decision to discontinue the Silicon Graphics 320 and 540 visual

-14-

workstations. Without these adjustments, our gross profit margin for the first six months of fiscal 2000 would have been 37.6%. The adjustments that affected the pro forma gross margin for the first six months of fiscal 2000 include charges of approximately \$48 million for third party manufacturing contract cancellations and purchase commitments and for excess product demonstration inventory related to our Silicon Graphics 320 and 540 visual workstations, charges of \$23 million to cost of service revenue for future unrecoverable visual workstation support costs, and charges of \$15 million to cost of service revenue for estimated warranty related costs associated with the Cray T90-TM- supercomputer product line.

OPERATING EXPENSES	Three Months Ended December 31,		Six Months Ended December 31,		Pro Forma Three Months Ended December 31,
\$ in millions	2000	1999	2000	1999	1999
Research and development	\$ 58	\$ 79	\$ 115	\$ 164	\$ 67
% of total revenue	11.9%	12.1%	12.6%	13.3%	11.9%
Selling, general and administrative	\$ 182	\$ 183	\$ 368	\$ 412	\$ 176
% of total revenue	37.4%	28.3%	40.3%	33.4%	31.4%
Other	--	\$ (16)	\$ (6)	\$ 129	\$ (16)
% of total revenue	0%	(2.5%)	(0.7%)	10.4%	(2.8%)

## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

OPERATING EXPENSES (EXCLUDING OTHER OPERATING EXPENSE). Operating expenses for the second quarter and first six months of fiscal 2001 declined 1% and 10%, respectively, in absolute dollars, and increased as a percentage of total revenue, from 43% to 49% and from 50% to 53%, respectively, compared with the corresponding periods of fiscal 2000 on a pro forma basis. The decrease in operating expenses, in absolute dollars, resulted primarily from lower headcount as a result of restructuring activities and attrition. In addition, concentrated research and development spending and management focus on expense control contributed to the decline in operating expenses year over year. The increase in operating expenses as a percentage of revenue is directly attributable to the lower volume of sales in the first six months of fiscal 2001 compared with the corresponding periods in fiscal 2000. Our current goals require us to achieve sequential declines in operating expenses in the second half of fiscal 2001.

OTHER OPERATING EXPENSE. Other operating expense for the first six months of fiscal 2001 represents a \$6 million reduction to the restructuring costs we estimated during the first quarter of fiscal 2000. Other operating expense for the first six months of fiscal 2000 includes a charge for estimated restructuring costs of \$145 million, offset in part by a \$16 million reduction to these estimated restructuring costs. See Note 6 to the Condensed Consolidated Financial Statements, "Restructuring and Related Charges," for further information regarding these activities.

### INTEREST AND OTHER

INTEREST EXPENSE Interest expense for the second quarter and the first six months of fiscal 2001 remained relatively consistent compared with the corresponding periods of fiscal 2000.

INTEREST INCOME AND OTHER, NET Interest income and other, net includes interest on our cash investments, gains and losses on other investments, and other non-operating items. Interest income and other, net for the second quarter of fiscal 2001 increased \$21 million compared with the second quarter of fiscal 2000 on a pro forma basis principally due to an \$11 million gain on the sale of marketable securities, a \$12 million gain related to the sale of the Cray product line, and an \$8 million gain on the sale of corporate real estate, partially offset by lower interest income as a result of lower cash balances. The increase in interest and other income, net for the first six months of fiscal 2001 compared with the pro forma first six months of fiscal 2000 was primarily due to a \$50 million gain on the sale of marketable investments and a \$24 million gain related to the sale of the Cray product line.

-15-

TAXES Our provision for income taxes for the first six months of fiscal 2001 arose principally from taxes currently payable in foreign jurisdictions. The effective tax benefit rate for the first six months for fiscal 2000 was 23%, excluding the impact of the \$71 million year-to-date charge related to the Silicon Graphics 320 and 540 visual workstation product line, the impact of the \$15 million charge related to the Cray T90 supercomputer product line and the \$129 million year-to-date charge for estimated restructuring costs, which were tax effected at 37%. The fiscal 2000 benefit rate, excluding the charges related to the Silicon Graphics 320 and 540 products, the Cray T90 product line and estimated restructuring charges, differed from the Federal statutory rate primarily due to foreign losses for which no benefit was recognized.

## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

### FINANCIAL CONDITION

At December 31, 2000, cash and cash equivalents and marketable and restricted investments totaled \$373 million, down from \$384 million at June 30, 2000. Included in the December 31, 2000 and June 30, 2000 balances are approximately \$152 million and \$126 million, respectively, of restricted investments that serve as collateral for letters of credit and an equity forward purchase arrangement.

Operating activities used \$173 million during the first six months of fiscal 2001 compared with providing \$20 million during the first six months of fiscal 2000. To present cash flows from operating activities, net loss for the first six months of fiscal 2001 was adjusted for certain significant items. The first half of fiscal year 2001 net loss is adjusted to remove the impact of the \$50 million gain on the sale of marketable investments that is reflected as a cash flow from investing activities. The increase in accounts receivable, mainly attributable to the shipping of a significant percentage of products in the last month of the second quarter, negatively impacted operating cash flows.

Investing activities, other than changes in available-for-sale and restricted investments, provided \$156 million in cash during the first six months of fiscal 2001 compared with consuming \$193 million during the first six months of fiscal 2000. The principal source of cash during the first six months of fiscal 2001 was the \$185 million net cash proceeds received as a result of the sale-leaseback transaction involving a portion of our corporate real estate. The significant investing activity during the first six months of fiscal 2000 was our election to exercise an option to purchase five buildings on our Mountain View campus for approximately \$125 million that had been held under an off-balance sheet financing arrangement.

Financing activities provided \$5 million during the first six months of fiscal 2001 compared with using \$1 million during the first six months of fiscal 2000. The principal financing activities during the first six months of fiscal 2001 included \$9 million in proceeds from the issuance of stock, offset in part by \$4 million in debt payments. The principal financing activities during the first six months of fiscal 2000 included the use of \$24 million to repurchase shares of our common stock and \$12 million to retire debt, offset in part by proceeds from employee stock purchase plan issuances and employee stock option exercises.

At December 31, 2000, our principal sources of liquidity included cash and cash equivalents and marketable investments of \$221 million. We believe that these principal sources of liquidity, along with cash generated from our expected results of operations and the sale or refinance of certain non-strategic assets such as real estate, should be adequate to fund our projected cash flow needs.

### RISKS THAT AFFECT OUR BUSINESS

SGI operates in a rapidly changing environment that involves a number of risks, some of which are beyond our control. This discussion highlights some of these risks.

**Business Transition.** SGI has had declining revenue and has been unprofitable on an operating basis for each of the past three fiscal years. Our plan to restore growth and profitability will require significant transitions in product strategy and in operating expenses. We have announced product roadmaps for both the server and workstation businesses that will, over the next five years, supplement our products based on the MIPS processor architecture with products based on the Intel processor architecture, and from the IRIX operating system to Linux and Windows NT. This process will

## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

involve our supporting both architectures indefinitely in order to provide flexibility and support to our customers. Risks associated with this strategy include uncertainty among employees, customers and partners, potential customer defection and higher operating expenses. There can

-16-

be no assurance that we will introduce the new products required for these transitions as planned, successfully support our customer and partner base as they adopt these new products or otherwise manage this process in a way that will allow us to recover from this uncertainty.

**New Products.** In the last quarter of fiscal 2000 and the first quarter of 2001 we introduced major new products in every segment of our computer system business, including the Origin 3000 family of high-performance servers, new graphics subsystems both in the visual workstation and Onyx high-performance graphics systems families, and new Intel processor-based workstations and servers. Our ability to meet our objectives for fiscal 2001 is highly dependent on the success of these new products. Our second quarter results suffered from various industry-wide and world-wide supply constraints, including, in particular constraints on the ceramic packaging for ASICs that are critical components of our systems. We are working with our suppliers to resolve these supply issues and while the impact during the second quarter was less significant than during our first quarter, we cannot be assured that we will receive sufficient supplies at the delivery dates that will enable us to meet our objectives for the third quarter and beyond. Any extended failure to meet these objectives could affect not only our ability to ship our backlog but to continue to attract new orders.

**Working Capital Requirements.** Primarily as a result of net losses, our operating activities consumed \$173 million in cash during the first six months of fiscal 2001. At December 31, 2001 we had \$221 million in unrestricted cash and marketable investments. While we believe that this level of liquidity should be adequate to fund our business, this belief is based upon our expectations for operating results over the next several quarters. If we fail to a material extent to meet these expectations then we could consume more cash than we anticipate, in which case we would need to obtain alternative sources of liquidity, such as sales of assets, sales of securities or borrowings. We have no assurance that these alternatives would be available.

**Expense Reduction Program.** While our operating expenses, excluding other operating expenses, have declined from \$1.5 billion in fiscal 1998 to \$1.3 billion in fiscal 1999 and to \$1.1 billion in fiscal 2000, our expenses remain out of line with our revenues. We expect that we will be designing and implementing global systems for Enterprise Resource Planning and Customer Relationship Management, improving the efficiency of related business processes, and taking other additional steps in fiscal 2001 to address this issue. While our objective is to reduce our costs in ways that will not have a material impact on revenue levels, there is no assurance that this will be achieved.

**Dependence On Partners And Suppliers.** Our business has always involved close collaboration with partners and suppliers. However, many elements of our current business strategy, including the longer-term transition to the Intel architecture and additional outsourcing of manufacturing, will increase our dependence on Intel and other partners, and on our manufacturing partners and other component suppliers. Our business could be adversely affected, for example, if Intel fails to meet product release schedules, if we experience

## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

supply constraints such as those that currently exist, or if we experience any other interruption or delay in the supply chain. The competitiveness of our system products, particularly our servers, is significantly affected by the availability on our platform of third-party software applications that are important to customers in our target markets. Our ability to work with our software partners to ensure porting of these applications to our IRIX operating system and, in the future, to Linux, is a key factor to our business success.

Employees. Our success depends on our ability to continue to attract, retain and motivate highly qualified technical, marketing and management personnel, who are in great demand. The uncertainties surrounding SGI's business prospects have increased the challenges of retaining world-class talent. We have initiated hiring programs to attract key employees and are taking steps to retain employees, but there is no assurance that these programs will succeed.

Product Development And Introduction. Our continued success depends on our ability to develop and rapidly bring to market technologically complex and innovative products. Product transitions are a recurring part of our business. A number of risks are inherent in this process.

The development of new technology and products is increasingly complex and uncertain, which increases the risk of delays. The introduction of new computer systems requires close collaboration and continued technological advancement involving multiple hardware and software design teams, internal and external manufacturing teams, outside suppliers of key components such as semiconductor and storage products and outsourced manufacturing partners. The failure of any one of these elements could cause our new products to fail to meet specifications or to miss the aggressive timetables that we establish. There is no assurance that acceptance of our new systems will not be affected by delays in this process. As noted above, our ability to successfully attract and retain key technical, marketing and management personnel in a competitive hiring environment has a direct impact on our ability to maintain our product development timetables.

Short product life cycles place a premium on our ability to manage the transition to new products. We often announce new products in the early part of a quarter while the product is in the final stages of development and testing, and seek to manufacture and ship the product in volume during the same quarter. Our results could be adversely affected by such factors as development delays, the release of products to manufacturing late in any quarter, quality or yield problems experienced by

-17-

suppliers, variations in product costs and excess inventories of older products and components. In addition, some customers may delay purchasing existing products in anticipation of new product introductions.

Most products are upgraded during their product life cycle. The ability to upgrade products in a timely fashion is necessary to compete in the computer industry. Delay in introducing updates and upgrades can adversely affect acceptance and demand for product.

Period To Period Fluctuations. Our operating results may fluctuate for a number of reasons. Delivery cycles are typically short, other than for large-scale server products. A little over half of each quarter's product

## Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

revenue results from orders booked and shipped during the third month, and disproportionately in the latter half of that month. These factors make the forecasting of revenue inherently uncertain. Because we plan our operating expenses, many of which are relatively fixed in the short term, on expected revenue, even a relatively small revenue shortfall may cause a period's results to be substantially below expectations. Such a revenue shortfall could arise from any number of factors, including lower than expected demand, supply constraints, delays in the availability of new products, transit interruptions, overall economic conditions, the California energy situation or natural disasters. Demand can also be adversely affected by product and technology transition announcements by SGI or our competitors. The timing of customer acceptance of certain large-scale server products may also have a significant effect on periodic operating results. Margins are heavily influenced by mix considerations, including geographic concentrations, the mix of product and service revenue, and the mix of server and desktop product revenue including the mix of configurations within these product categories.

Our results have typically followed a seasonal pattern, with stronger sequential growth in the second and fourth fiscal quarters, reflecting the buying patterns of our customers.

Our stock price, like that of other technology companies, is subject to significant volatility. If revenue or earnings in any quarter fail to meet the investment community's expectations, there could be an immediate impact on our stock price. The stock price may also be affected by broader market trends unrelated to our performance.

**Competition.** The computer industry is highly competitive, with rapid technological advances and constantly improving price/performance. Most of our competitors have substantially greater technical, marketing and financial resources and, in some segments, a larger installed base of customers and a wider range of available applications software. Competition may result in significant discounting and lower gross margins.

**Impact Of Government Customers.** A significant portion of our revenue is derived from sales to the U.S. government, either directly by us or through system integrators and other resellers. Sales to the government present risks in addition to those involved in sales to commercial customers, including potential disruptions due to appropriation and spending patterns and the government's reservation of the right to cancel contracts for its convenience. A portion of our business requires security clearances from the United States government. We have implemented measures to maintain our clearances in light of the fact that our CEO, Mr. Robert Bishop, is not a United States citizen. However, these arrangements are subject to customer review and approval and periodic review by the Defense Security Service of the Department of Defense. Any disruption or limitation in our ability to do business with the United States government could have an adverse impact on SGI.

**Export Regulation.** Our sales to foreign customers are subject to export regulations. Sales of many of our high-end products require clearance and export licenses from the U.S. Department of Commerce under these regulations. The Departments of Commerce and Justice are currently conducting civil and criminal investigations into SGI's compliance with the export regulations in connection with several export sales to Tier 3 countries. We believe that these matters will be resolved without a significant adverse effect on our business. However, there is no assurance that these matters will not have an unforeseen outcome that could impair the conduct of our business with the U.S. government or our sales outside the United States.

Our international sales would also be adversely affected if such regulations were tightened, or if they are not modified over time to reflect the increasing performance of our products.

Intellectual Property. We routinely receive communications from third parties asserting patent or other rights covering our products and technologies. Based upon our evaluation, we may take no action or may seek to obtain a license. In any given case there is a risk that a license will not be available on terms that we consider reasonable, or that litigation will ensue. We expect that, as the number of hardware and software patents issued continues to increase, and as competition in the markets we address intensifies, the volume of these intellectual property claims will also increase.

-18-

Market Risk. In the normal course of business, our financial position is routinely subjected to a variety of risks, including market risk associated with interest rate movements and currency rate movements on non-U.S. dollar denominated assets and liabilities, as well as collectibility of accounts receivable. We regularly assess these risks and have established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, we do not anticipate material losses in these areas.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information required under this Item 3 is included in the section above entitled Market Risk.

-19-

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are defending putative securities class action lawsuits filed in the U.S. District Court for the Northern District of California and in California Superior Court for the County of Santa Clara in December 1997 and January 1998 alleging that SGI and certain of its officers made material misrepresentations and omissions during the period from July to October 1997. The U.S. District Court is considering plaintiffs' motion for a voluntary dismissal of the case without prejudice and defendants' motion for partial summary judgment. Discovery is proceeding in the California Superior Court case.

We are also defending a securities class action lawsuit involving Alias Research Inc., which we acquired in June 1995. The Alias case, which was filed in 1991 in the U.S. District Court for the District of Connecticut, alleges that Alias and a former officer and director made material misrepresentations and omissions during the period from May 1991 to April 1992. The case has been remanded to the U.S. District Court. In December, the District Court granted Plaintiffs' motion to amend their Complaint and the case is proceeding through discovery.

The U.S. Departments of Commerce and Justice are currently conducting civil and

Edgar Filing: SILICON GRAPHICS INC /CA/ - Form 10-Q

criminal investigations into SGI's compliance with export regulations in connection with several export sales to Tier 3 countries. See "Risks That Affect Our Business - Export Regulation."

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits  
None
- (b) Reports on Form 8-K.  
None

-20-

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.

Dated: February 13, 2001

SILICON GRAPHICS, INC.  
a Delaware corporation

By: Harold L. Covert

-----  
Harold L. Covert  
Executive Vice President, Chief  
Financial Officer and Chief  
Administrative Officer  
(Principal Financial Officer)

Jeffrey Zellmer

-----  
Jeffrey Zellmer  
Vice President, Corporate Controller  
(Principal Accounting Officer)

-21-