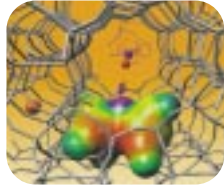


2000 Annual Report



Solving
complex
computing
problems



sgi[™]
One step ahead

Solutions
for technical
and creative
users



High-performance
computing and
visualization
solutions

Corporate Profile

SGI is the world's leading provider of scalable, high-performance computing and visualization solutions for technical and creative users. The company focuses on five principal market segments—manufacturing, the sciences, government, telecommunications, and media—where it helps Fortune 500 companies and major institutions solve large and complex computing problems using a combination of SGI™ professional skills, system performance, and visualization technologies. Unique SGI system solutions enable customers to enhance their core competencies and gain a tangible competitive edge in the markets they serve.

Founded in 1982, SGI is headquartered in Mountain View, California and maintains worldwide offices and manufacturing facilities. The company sells its products through a mix of direct sales and global distribution partners, and at the close of fiscal year 2000 employed more than 6,700 people. SGI's stock is traded on the New York Stock Exchange under the symbol SGI.

At SGI, we've long been known for the excellence of our products and technologies. In the past year, we've accomplished many things that we believe place our company solidly back on the road to growth and profitability. Among these accomplishments was the introduction of a new generation of products that puts SGI ahead of our competitors. Even more important, this new generation is enabling us to provide our customers with even better computing and visualization solutions—solutions that enable them to stay ahead of *their* competitors. That is our theme—and we invite you to explore this year's annual report and find out why.

www.sgi.com

Redefining Customer Needs and Markets



Robert Bishop
Chairman and
Chief Executive Officer

Putting SGI back on the
path to profitability

Focusing on our
core competencies

To our shareholders, customers, partners, and employees:

“Most of SGI’s net losses were incurred because of decisive actions we took to restructure the company.”

By any measure, fiscal year 2000 was an important time of transition for SGI as we sharpened our focus on what we do best: helping technical and creative professionals solve complex computing problems using a combination of our professional skills, system performance, and visualization technologies. We reinvigorated our entire product line by introducing a powerful array of next-generation solutions, and we divested SGI of businesses that were not tightly focused on our core competencies. Equally important, we substantially restructured the company by functionally centralizing operations and putting a new executive team in place. We believe these actions have significantly strengthened SGI’s position as the world’s preeminent provider of high-performance computing and visualization solutions.

In making these sweeping changes and laying a strong foundation for growth and profitability, it was necessary to take a number of steps that resulted in an unsatisfactory financial performance for the company. For the fiscal year ended June 30, 2000, SGI reported revenues of \$2.3 billion, compared with revenues of \$2.7

billion in the previous year. Net loss for the year was \$830 million, or \$4.52 per share, compared with fiscal 1999’s net income of \$54 million, or \$0.28 per share. It should be noted that, excluding a number of special adjustments, SGI’s net operating loss for the year was \$114 million. The company ended the year with a cash, cash equivalents, and marketable securities balance of \$384 million.

The Year in Review: Decisive Action

While SGI’s financial performance in total was disappointing, most of our net loss was incurred because of the decisive actions we took to restructure the company. It was clear to me upon assuming the post of chairman and CEO a year ago that SGI had strayed from the focus and core competencies that had historically made the company an acknowledged market and technology leader. The time had come to return to what we do best—which entailed streamlining the company and eliminating the facets of our business that had obscured our focus in recent years.

To that effect, SGI sold the Cray® vector super-computing business to Tera Computer Company.

This is no way diminished our commitment to high-performance supercomputing. In fact, we retained substantial intellectual property, patents, and 1,000 key technical personnel associated with hardware and software scalability and large system support. As a result of this divestiture, and the release of the third generation of SGI™ NUMA products based on our breakthrough NUMAflex™ technology, we're now better positioned than ever to support the high-performance computing market. In addition to the Cray divestiture, we sold much of our interest in Silicon Studio KK in Japan, as well as our media streaming server software startup, Kasenna Inc. We now retain less than 20% ownership interest in these ventures.

Although these moves strengthen SGI for the future, they had a negative impact on our bottom line for the year. The Cray divestiture contributed to the lower revenue SGI reported during the year, and we incurred \$103 million in pretax restructuring charges. Revenue was also adversely affected by multiple product transitions and the imminent release—in July, immediately after the fiscal year had ended—of the third-generation SGI NUMA product family, as customers delayed their purchases in anticipation of these events. Finally, supply constraints associated with our desktop products also entered into the equation; the company's operating loss included charges of approximately \$27 million related to reserves taken on certain spare parts and inventories.

Girding for Growth and Profitability

In addition to the steps outlined above, early in the year we modified our strategy for desktop workstations based on the Windows® operating system, abandoning our proprietary approach in favor of an open standards-based implementation. This

decision resulted in a one-time \$86 million charge that also contributed to our net losses for the year.

In conjunction with these moves, we substantially reduced SGI's headcount, streamlining our workforce from more than 9,100 people to approximately 6,700 employees. These and related steps resulted in a substantial reduction in the company's operating expenses, which decreased from \$330 million in the fourth quarter of fiscal year 1999 to just over \$240 million for the fourth quarter of fiscal year 2000.

Finally, we improved SGI's operating model by returning to a functionally centralized organization, which we believe is fundamental for a company with a sharply focused mission. We created three new executive vice president positions, two of which were filled by SGI veterans: Ken Coleman was promoted to the position of executive vice president of Global Sales, Services, and Marketing, while Warren Pratt was appointed executive vice president of Engineering and Manufacturing Operations. In addition, Hal Covert—an industry veteran who played a key role in enhancing Adobe Systems' profitability and market capitalization—joined SGI as executive vice president, chief financial officer, and chief administration officer. With these appointments, I'm confident that we now have one of the strongest and most seasoned executive management teams in the computer industry.

Increasing Shareholder Value

The actions we took this year were ultimately intended to increase shareholder value, under-

“We eliminated the facets of our business that had obscured our focus in recent years.”

“We substantially reduced expenses and returned to a centralized organization.”

“During the year SGI rolled out a wealth of new products focused on four vertical market segments.”

standing that the return on many of these decisions would take time to materialize. In order to deliver a more immediate benefit to investors, we divested our remaining 65% interest in MIPS Technologies, Inc. [MTI] to our shareholders. Shareholder value has indeed been positively affected by a steady increase in the price of MIPS stock, but as we expected, this distribution prompted a drop in the price of SGI stock. It is our belief that the other decisions that were made this year will rectify this imbalance in the coming fiscal year. The distribution of our shares in MIPS incurred an income tax provision that included a \$415 million deferred tax asset valuation allowance, as well as approximately \$85 million in residual U.S. tax related to the potential repatriation of accumulated foreign earnings.

A New Generation of Product Leadership

During the year, SGI rolled out a wealth of new products, all of which are focused on five vertical market segments—manufacturing, the sciences, government, telecommunications, and media. The most significant of these introductions occurred at the end of the fiscal year, when we announced the SGI™ 3000 family of systems, which employ a true breakthrough in modular design and architecture that we believe will revolutionize high-performance computing. Based on our patented NUMAflex modular technology, these products include the SGI™ Origin™ 3000 series of servers and the SGI™ Onyx® 3000 series of visualization systems.

We also strengthened our position in the desktop marketplace by introducing a new generation of Silicon Graphics® Octane2™ workstations, along with a powerful line of open standards-based desktop computers based on the Linux® and Windows NT® operating systems and the Intel® architecture. These

latter products join our MIPS® and IRIX® OS-based workstations to offer customers unsurpassed flexibility in choosing the right desktop products to meet their specific needs.

These introductions were complemented by a number of other product launches that we believe, taken together, will return SGI to the position of the world’s preeminent supplier of high-performance computing and visualization solutions. For more information on all of our products, please refer to the online version of this year’s annual report at www.sgi.com.

Moving Forward

In summary, fiscal 2000 was a year during which we made many important and fundamental changes at SGI. While many of these changes were difficult and painful, I believe they were absolutely necessary to put the company back on the path to profitability and provide lasting value for our shareholders.

As an SGI veteran dating back to 1986, I remember the days when our company was among the most successful in the industry. While market conditions have evolved dramatically in this time, I accepted the challenge of becoming chairman and CEO to return SGI to a preeminent position and to fully realize the considerable potential of our revolutionary, state-of-the-art products and technologies. I firmly believe we’re back on track to reach that goal, and I thank all of our shareholders, customers, partners, and employees for their patience and support.



Robert R. Bishop
Chairman and Chief Executive Officer

“We made fundamental changes that we firmly believe will provide lasting value to shareholders.”

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