

**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

(Mark One)

- Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the fiscal year ended June 30, 1999.
- 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 Number)

1600 Amphitheatre Parkway, Mountain View, California 94043-1351  
(Address of principal executive offices and zip code)

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

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Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered:</u>
Common Stock, \$0.001 par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange
5 1/4% Senior Convertible Notes	New York Stock Exchange

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [  ]

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on September 1, 1999 on the New York Stock Exchange as reported in The Wall Street Journal, was approximately \$1,605 million. Shares of voting stock held by each executive officer and director and by each person who owns 5% or more of any class of registrant's voting stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

**As of September 1, 1999, the registrant had outstanding 182,872,109 shares of Common Stock.**

**DOCUMENTS INCORPORATED BY REFERENCE**

Parts of the Proxy Statement for registrant's Annual Meeting of Stockholders to be held October 27, 1999 are incorporated by reference into Part III, and parts of the registrant's Annual Report to Stockholders for the fiscal year ended June 30, 1999 are incorporated by reference into Parts I, II and IV of this Report on Form 10-K.

## PART I

### ITEM 1. BUSINESS

#### General

Silicon Graphics is a leader in high-performance computing. The Company's broad range of visual computing systems deliver advanced 3D graphics and computing capabilities for engineering and creative professionals. SGI servers and supercomputers are the market leaders in technical computing applications, with a growing presence in strategic business analysis, internet data center and media serving applications.

The Company's Alias|Wavefront subsidiary markets applications software targeted at engineering and creative professionals in the digital content creation and manufacturing sectors. The Company's MIPS Technologies, Inc. subsidiary designs and licenses RISC processor intellectual property and core technology for the digital consumer and high-end control-oriented embedded markets.

#### Products

The Company's computer systems range from desktop workstations to servers and supercomputers. Most of these systems are designed around MIPS® RISC microprocessors developed by the Company and the IRIX® operating system, which is the Company's enhanced version of the UNIX® operating system. Over the next several years, the Company plans to introduce new generations of its products based on the Intel® microprocessor architecture and the Linux and Windows NT® operating systems.

#### **Visual Computing Products**

Silicon Graphics desktop workstations combine key elements of workgroup collaboration, interactive media and computing at a range of prices and performance. Systems in this family can be used for tasks as diverse as manipulating 3D models for computer-aided design (CAD), crunching numbers for chemistry and geographic information systems applications, or functioning as a tool for video editing, animation rendering, technical publishing, World Wide Web and intranet authoring and serving, and software development.

**Desktop Systems** The Company offers the O2® and Octane® families of desktop workstations based on the MIPS microprocessor architecture and the IRIX operating system, and in the second half of fiscal 1999, introduced the Visual Workstation family of desktop workstations based on the Intel microprocessor architecture and the Windows NT operating system. The O2 family of entry-level desktop workstations features advanced 3D graphics and imaging, real-time video capability and interactive and professional quality graphics, audio and imaging capabilities. The O2 workstation has significant appeal in markets such as mechanical CAD, chemistry, color publishing, film and video, software development, education and media authoring. The Octane family of single and dual processor workstations is designed to provide the strongest graphics and computational capability available in the desktop category, for applications such as 3D solids modeling, mechanical CAD, digital prototyping, 3D visualization, animation, architectural design and professional audio and video production. The Visual Workstation family is designed to provide key functionality for the digital content creation and graphics enthusiast markets.

**Advanced Graphics Systems** The Onyx2™ family of graphics supercomputers uses multiple microprocessors and sophisticated graphics subsystems to handle the most demanding visual computing tasks. Graphics subsystems available with these servers include the Onyx2Reality and InfiniteReality® graphics subsystems. The Onyx2 family is well-suited for applications such as computational chemistry, oil and gas research, molecular modeling, global

weather modeling, structural dynamics, fluid dynamics, image processing, visual simulation, medical imaging and chemistry, interactive entertainment and digital film and video production.

**Alias|Wavefront** The Company's Alias|Wavefront subsidiary supplies modeling and animation application software used by creative professionals in the entertainment, industrial design and visualization and graphic design markets. Its industry-leading products run on the Windows NT and IRIX operating systems and include the Maya® family of 3D entertainment products, StudioPaint 3D and the Alias Studio™ and AutoStudio™ industrial design and visualization products. Alias|Wavefront is based in Toronto, Ontario with sales offices across North America, Europe and Asia and worldwide distribution.

### **Servers and Supercomputers**

**Origin200** The Origin 200 is a deskside server employing from one to four processors. The Origin200 server is designed for departmental and other workgroup serving applications as well as Web serving.

**Origin2000** The Origin 2000 family of high-performance servers is based on the Company's innovative cache coherent non-uniform memory access (ccNUMA) architecture, which offers the ability to scale from as few as four to as many as hundreds of processors while maintaining almost linear performance per processor. This "pay as you go" flexibility is highly attractive to customers because it allows them to buy what they need today, add as needed while protecting their investment, and redeploy when conditions change. Key applications in the technical and scientific markets include finite element analysis (to determine the impact of elements like stress and temperature), quantum chemistry calculation, seismic analysis and computational fluid dynamics. The Origin2000 line is also targeted at certain enterprise segments that have bandwidth and computational requirements similar to those of the technical market. These "technical enterprise" markets include strategic business analysis (data mining to analyze and organize database information), internet data centers and digital asset management.

**SGI1000 Family** In August 1999, the Company introduced a new family of server products, the SGI™1000 server family. This server family utilizes 32-bit Intel microprocessors and will include projects ranging from a two-microprocessor rack-optimized server, to a four-microprocessor workgroup and applications server, to powerful eight-microprocessor database servers.

**SGI1400** The SGI™1400M and the SGI™1400L are the first products in the new SGI1000 server family. These servers use four microprocessors and ship with either Microsoft® Windows NT or Linux as their operating system.

The **Cray T3E™** highly scalable supercomputing systems employ a highly parallel architecture ranging from 16 to as many as 2,048 processors for a broad range of scientific and industrial applications as diverse as petroleum exploration, aerospace engineering and defense applications.

**Vector Systems** The Cray T90™ series of supercomputers delivers maximum performance for vectorized supercomputing applications. The large memory bandwidth of T90 systems make them ideal for problems involving huge amounts of data, such as weather and climate modeling and large-scale auto engineering. The Cray SV1™ series introduced in August 1998 uses CMOS technology to deliver scalable supercomputing for vector applications, suitable for use by customers in manufacturing, government, and science and research for new product design, research, weather forecasting, national security and other critical applications. In August 1999, the Company announced its intention to establish arrangements to transition its Cray-branded line of

supercomputers to a strategic partner that will assume the further development and distribution of this product line.

### **MIPS RISC Microprocessors**

Many of the Company's system products are based on the MIPS RISC microprocessor architecture designed by the Company and its subsidiary MIPS Technologies, Inc. ("MTI"). The MIPS RISC microprocessor designs incorporate a general purpose architecture and instruction set designed for high performance over a wide range of applications. The MIPS RISC microprocessor designs make efficient use of instruction "pipelining" techniques and proprietary compilers, allowing significant performance gains to be realized by optimizing the tradeoff between compiler and microprocessor functions. The versatility of the MIPS RISC architecture makes it suitable for computer applications from entry-level desktop systems up to supercomputers. However, the Company's computers represent only a small percentage of the worldwide consumption of MIPS RISC microprocessors.

MIPS RISC microprocessors are also used in a wide variety of noncomputer applications, including disk drives, printers and copiers and, increasingly, in consumer electronics products such as video game systems, set-top boxes, digital cameras, and handheld computing devices running the Microsoft Windows CE operating system. In 1998, the Company organized MTI as an independent company focused on technology development and licensing for the digital consumer and embedded markets. As a result of the initial public offering of MTI shares in July 1998, and a secondary offering in May 1999, the Company now owns about 65% of MTI. The Company continues to develop MIPS RISC microprocessors for its own computer systems as part of its computer systems organization.

### **Applications Software**

Because the Company has historically developed only a very limited set of applications software, its customers must either develop or license from a third party the software necessary to address their needs. The Company maintains active programs to encourage independent software development for its systems, including training, technology support and cooperative marketing. The Company believes that there are currently over 2,600 registered application software programs offered for use on its systems.

### **Marketing, Sales and Distribution**

The Company sells its system products through its own direct sales force and through several indirect channels. In fiscal 1999 direct sales accounted for approximately half of the Company's product revenues. The direct sales and support organization operates throughout the United States and in all significant international markets. The Company serves smaller international markets through distributors.

The principal indirect channels through which the Company operates are the following:

- **VARs**, or value added resellers, are software companies that develop or customize their proprietary software specifically for use with the special graphics hardware of the Company's workstations. VARs purchase workstations from the Company or its North American distributor, incorporate their applications software and resell the systems to end-users.
- **VADS**, or value added dealers, are typically direct sales organizations that sell primarily into a single vertical market and incorporate appropriate specialized third-party software with the Company's hardware for sale to their customers.
- **Systems Integrators** include Silicon Graphics systems in much larger systems

customized for use by the federal government and large commercial clients.

Many of the Company's resellers are served through Access Graphics, an independent company that functions as a master reseller of the Company's system products.

Information with respect to international operations and export sales may be found in Note 16 to the Consolidated Financial Statements incorporated by reference in Part II below. See also "Risks That Affect Our Business" below. Although no customer accounted for 10% or more of the Company's total revenues for fiscal 1999, 1998 or 1997, a significant reduction or delay in sales to major customers could adversely affect the Company's operating results.

### **Customer Service and Support**

The Company believes that the quality and reliability of its system products and the ongoing support of such products are important elements of its competitive strategy. The Company's customer service organization includes field service engineers, field product and applications specialists, product support engineers, training specialists and administrative support personnel. In addition, the Company provides customer education through regularly scheduled courses in system software administration, applications programming and hardware maintenance. The Company provides local customer support from its regional sales and service offices located in North America, Western Europe and the Pacific Rim, with spare parts inventory stored at each location. International distributors provide training and support for products sold by them.

The Company typically provides a standard "return to factory" hardware warranty against defects in materials and workmanship for periods of up to one year.

### **Professional Services**

The Company believes that its future success, particularly in the server sector, will depend in part on its ability to offer a wider variety of solutions-oriented services, including consulting, custom engineering and systems integration services. The Company's efforts to date in this area have been small in scale and have not materially contributed to revenues. However, the Company expects over time to increase its investment in professional services.

### **Research and Development**

The Company's research and development program is directed principally toward maintaining and enhancing the Company's competitive position through incorporating the latest advances in microprocessor, hardware, software and networking technologies. This effort is focused specifically on developing and enhancing its computing architectures, graphics subsystems, compiler software, operating system, applications software and development tools. Simultaneously, the Company seeks to develop new ways in which to increase product reliability, reduce manufacturing costs and improve product development lead times.

As the evolution to industry-standard instead of proprietary components continues, the Company's ability to focus its research and development investments in areas where it has specific competencies for innovation will become increasingly important. There are no assurances that the Company will be able to sufficiently focus its development efforts or that its investments will yield sufficient differentiation to achieve and sustain a competitive advantage.

During fiscal 1999, 1998 and 1997, the Company spent approximately \$380 million, \$459 million, and \$479 million, respectively, on research and development. Those amounts represented 13.8%, 14.8%, and 13.1%, respectively, of revenues. The Company is committed to continuing innovation and differentiation and as a result will most likely continue to make research and development investments that are above average for the computer industry as a percentage of revenues.

## **Manufacturing**

The Company's manufacturing operations primarily involve assembling high level subassemblies and systems and testing major purchased subassemblies. Products are subjected to substantial environmental stress and electronic testing prior to shipment to customers.

The Company primarily manufactures and ships its products from its facilities in Chippewa Falls, Wisconsin and near Neuchâtel, Switzerland. Both of these facilities focus on servers, advanced graphics systems and supercomputers; the Company plans to transition the manufacture of its desktop systems to contract manufacturing partners during calendar 1999.

The Company continually evaluates the allocation of manufacturing activities among the Company's own operations and those of suppliers and subcontractors. This allocation may be affected by fluctuations in the volume of business, geopolitical, economic and technological developments and other factors. The Company is actively outsourcing significant manufacturing activities to companies that are able to manufacture at a lower cost.

Most of the Company's products incorporate components that are available from only one or limited sources. Key components include application specific integrated circuits ("ASICs"), storage products, especially RAID-based products, and certain memory products. The Company's present strategy is to move toward components that are readily available from a greater number of sources; however, such a transition may take a period of time to complete.

Reliance on single or limited source vendors involves several risks, including the possibility of a shortage of certain key components that meet the Company's product specifications. Risks also include long lead times, reduced control over delivery schedules, and the possibility of charges for excess and obsolete inventory.

The Company also has single sources for certain peripherals, communications controllers and power supplies, and the monitors and plastic cabinets used across the Company's system products. The Company believes that, in most of these cases, alternative sources of supply could be developed over a period of time. However, a reduction or interruption in supply or a significant increase in the price of one or more single or limited source components would, at least in the short term, adversely affect the Company's operating results.

Many of the Company's suppliers are located outside the United States, especially in Japan. The prices of parts from these suppliers have been and may be affected significantly by such factors as protectionist measures and changes in currency exchange rates between the United States and other countries. In addition, changes in the availability of certain memory chips (DRAMs, SRAMs and VRAMs) have caused, and in the future may cause, significant changes in their prices.

## **Competition**

The computer industry is highly competitive and is characterized by rapid technological advances in both hardware and software development. These advances result in frequent new product introductions, short product life cycles and increased new product capabilities, typically representing significant price/performance improvements. The principal competitive factors in the Company's market are product features, price/performance, networking capabilities, product quality and reliability, ease of use, capabilities of the system software, availability of applications software,

customer support, product availability, corporate reputation and price. The strong competition faced throughout the Company's product line can result in significant discounting from list price.

The Company's principal competition has historically come from other workstation and computer system manufacturers and, to a lesser extent, from graphics subsystem and terminal vendors and graphics integrated circuit manufacturers. The principal workstation and computer manufacturers that compete in the Company's markets are Compaq, Dell Computer, Hewlett Packard, IBM and Sun Microsystems. The Company is facing increasing competition at the lowest end of the workstation market from systems based on personal computer technologies such as the Windows NT operating system, Intel microprocessors and graphics acceleration cards.

In the high end of the supercomputer market, the Company faces competition from IBM as well as from NEC, Hitachi and Fujitsu.

### **Proprietary Rights and Licenses**

The Company has been granted or has applications pending for a significant number of U.S. patents, and will continue to seek patent coverage for its inventions in both the United States and foreign countries. The Company also has applied for and holds various trademark registrations in the United States and in selected foreign countries. The Company will continue to seek protection for its inventions, trademarks, maskworks and copyrights where appropriate.

As is customary in its industry, the Company licenses from third parties a wide range of software for its internal use and for the use of its customers. The Company licenses the UNIX operating system on a non-exclusive basis from Novell, Inc., and sublicenses it to its customers.

The Company's ability to compete may be affected by its ability to protect proprietary information and to obtain necessary licenses on commercially reasonable terms. The extent to which U.S. and international intellectual property laws protect the Company's products, and the enforceability of end-user license agreements, have not been fully determined, and the computer industry has seen a substantial increase in litigation with respect to intellectual property matters. Such litigation or changes in the interpretation of intellectual property laws could expand or reduce the extent to which the Company or its competitors are able to protect their intellectual property or require changes in the design of products which could have an adverse impact on the Company. The Company has several intellectual property lawsuits pending against it today. There can be no assurance that the Company will not be made a party to significant litigation regarding intellectual property matters in the future. See "Legal Proceedings."

### **Risks That Affect Our Business**

Silicon Graphics operates in a rapidly changing environment that involves a number of risks, some of which are beyond the Company's control. The following discussion highlights some of these risks.

***Business Transition.*** One of the principal market sectors in which the Company competes -- supercomputers -- has declined over the past few years, and the Company believes that this decline represents a long-term trend. The Company's goal is to generate an increasing proportion of its revenue from growing markets, including Intel-based servers and UNIX-based scalable servers such as its Origin server product family. The Company has announced a product roadmap that will, over the next five years, shift its products to the Intel microprocessor architecture. To further accelerate this transition, the Company announced in August 1999 its intention to establish arrangements to transition its Visual Workstation line of Windows NT-based workstations and its Cray-branded line of supercomputers to strategic partners who will assume the further development and distribution of these product lines. The result of these alliances and planned restructured operations will be a smaller revenue base and workforce in fiscal 2000, with the goal of returning to sustainable profitability. This is a long-term transition, and although some benefits are currently

being realized, it could take until well into fiscal 2000 or beyond before the Company has achieved its desired business model. The Company's ability to achieve its revenue objectives in fiscal 2000 will largely depend on the successful implementation of these alliances and related restructuring activities in early fiscal 2000 with minimal disruption, and on growth in the server business. There is no assurance that the Company will successfully complete the strategic alliances and related restructuring activities required to achieve its fiscal 2000 objectives.

**Server Strategy.** Sustaining growth in the Company's scalable server business is an important element of its strategic plans for the next several years. Sustained growth will require, among other things, adapting to a longer sales cycle and the need to deliver more complete solutions, establishing a presence in emerging enterprise markets in which the Company has not traditionally participated, working effectively with independent software providers to ensure that important applications for the market segments targeted by the Company are available on the Company's platform, and ultimately, managing a successful and timely transition to the Intel architecture.

**Expense Reduction Program.** During fiscal 1999, the Company reduced its operating expenses by about \$240 million from the level of fiscal 1998 operating expenses. In August 1999, the Company announced and began to implement a restructuring program aimed at bringing its expenses more in line with expected revenue levels resulting from its refocused business operations and restoring long-term profitability. As part of this effort, the Company expects, through the anticipated transfer of businesses to partners, the elimination of positions and managed hiring, to end fiscal 2000 with about 1/3 fewer employees than was the case at the end of fiscal 1999. These steps, and generally tighter operating expense controls, are part of an overall program to reduce the Company's expense structure by approximately \$300 million in fiscal 2000. While the objective is to reduce the Company's 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.** The Company's business has always involved close collaboration with partners and suppliers. However, many elements of the Company's current business strategy, including the longer-term transition to the Intel architecture and additional outsourcing of manufacturing, will increase the Company's dependence on Intel and other partners, and on its manufacturing partners and other component suppliers. The Company's business could be adversely affected, for example, if Intel fails to meet product release schedules, or if unanticipated quality issues arise with products from suppliers.

**Period to Period Fluctuations.** The Company's operating results may fluctuate for a number of reasons. Delivery cycles are typically short, other than for supercomputer and certain large-scale server products. Well over half of each quarter's 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 the Company plans its 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 or natural disasters. Demand can also be adversely affected by product and technology transition announcements by the Company or its 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.

The Company's results have followed a seasonal pattern, with stronger sequential growth in the second and fourth fiscal quarters, reflecting the buying patterns of the Company's customers.

The Company's 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 the Company's stock price. The stock price may also be affected by broader market trends unrelated to the Company's performance.

**Process Re-Engineering.** The Company has undertaken a series of programs aimed at redesigning some of its core business processes, including forecasting, supply chain management, order fulfillment and collection of accounts receivable. The goals of these programs include more predictable operational performance, lower operating expenses, greater quality and customer satisfaction, and improved asset management. The Company believes that the success of these programs is critical to its long-term competitive position. In the past year the Company has seen the number of turns of inventory increase significantly and obtained improved efficiencies which have decreased the costs of goods sold. Continued implementation of these changes will require, among other things, enhanced information systems, substantial training and disciplined execution. There can be no assurance that these programs will be implemented successfully, or that disruptions to the Company's operations will not occur in the process.

**Product Development and Introduction.** The Company's continued success depends on its ability to develop and rapidly bring to market highly differentiated, technologically complex and innovative products. Product transitions are a recurring part of the Company's 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 a new computer system 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 the Company's new products to fail to meet specifications or to miss the aggressive timetables that the Company establishes. There is no assurance that acceptance of the Company's new systems will not be affected by delays in this process.

Short product life cycles place a premium on the Company's ability to manage the transition to new products. The Company often announces new products in the early part of a quarter, while the product is in the final stages of development, and seeks to manufacture and ship the product in volume during the same quarter. The Company's 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 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.

**Year 2000 Compliance** Many computer systems and applications experience problems handling dates beyond the year 1999 and will need to be modified before the year 2000 in order to remain functional. As for many other companies, the year 2000 computer issue poses a potential risk for the Company both as a user of information systems in the operation of its business and as a supplier of computer systems and related software, including operating system software, to customers.

The Company has completed an assessment of its core business information systems, many of which are provided by outside suppliers, for year 2000 readiness and is extending that review to include a wide variety of other information systems and related business processes used in its operations. The Company plans to have changes to critical systems implemented by the third quarter of calendar 1999 to allow time for testing. Most of the Company's mission critical applications are believed to be year 2000 compliant, including the Company's Oracle information system which was recently upgraded to the most recent version. Although its assessment is ongoing, the Company currently believes that resolving these matters will not have a material adverse effect on its financial condition or results of operations.

The Company is implementing a program to support customer efforts to achieve year 2000 compliance. This program includes encouraging customers and independent software vendors to adopt the Company's recently released IRIX 6.5 operating system, which the Company believes is year 2000 compliant, and additional customer support procedures. The Company also has made available software upgrades for some earlier releases of its IRIX operating system. The Company believes that the hardware systems it expects to support beyond 1999, when running on compliant operating systems, will be year 2000 compliant. The Company's older products may require upgrade or replacement to become year 2000 compliant. The Company believes that it generally is not legally responsible for costs incurred by customers to achieve their year 2000 compliance. However, the Company may experience increasing customer satisfaction costs relating to these issues over the next few years.

The Company is also assessing the possible effect on its operations of the year 2000 readiness of critical suppliers of products and services. The Company's reliance on its key suppliers, and therefore on the proper functioning of their information systems and software, is increasing, and there can be no assurance that another company's failure to address year 2000 issues could not have an adverse effect on the Company.

Certain of the costs associated with our internal Year 2000 compliance effort (exclusive of any potential costs related to any customer or other claim) cannot effectively be isolated from other operating expenses, since investing in new systems is both an ordinary cost of doing business and a means to ensure year 2000 compliance. The Company's current estimates indicate the total costs to insure year 2000 compliance will not be material. The Company believes that it is unlikely to experience a material adverse impact on its financial condition or results of operations due to year 2000 compliance issues. However, since the assessment process is ongoing, year 2000 complications are not fully known, and potential liability issues are not clear, the full potential impact of the year 2000 on the Company is not known at this time. The information regarding year 2000 issues provided herein is based on the Company's current assessment of ongoing activities and is subject to change as the Company monitors these activities. The Company is currently developing appropriate contingency plans for potential year 2000 problems.

The Year 2000 disclosure set forth above is "year 2000 readiness disclosure" as defined in the Year 2000 Information and Readiness Disclosure Act of 1998.

**Competition.** The computer industry is highly competitive, with rapid technological advances and constantly improving price/performance. Most of the Company's 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 the Company's revenue is derived from sales to the U.S. government, either directly by the Company 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 the Company's business requires security clearances from the United States government. The Company is presently discussing appropriate measures to maintain its clearances in light of the fact that Mr. Robert Bishop, who was appointed as Chief Executive Officer in the fall of 1999, is not a United States citizen. Any disruption or limitations in the Company's ability to do business with the United States government could have an adverse impact on the Company.

**Export Regulation.** The Company's sales to foreign customers are subject to export regulations. Sales of many of the Company's high-end products require clearance and export licenses from the U.S. Department of Commerce under these regulations. The Department of Commerce is currently investigating the Company's compliance with the export regulations in

connection with the sale of several computer systems to a customer in Russia during fiscal 1997. The Company believes that this matter will be resolved without a significant adverse effect on the Company's business. However, there is no assurance that this matter will not have an unforeseen outcome that could impair the conduct of the Company's business outside the United States.

The Company's 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 the Company's products.

**Intellectual Property.** The Company routinely receives communications from third parties asserting patent or other rights covering the Company's products and technologies. Based upon the Company's evaluation, it may take no action or it may seek to obtain a license. In any given case there is a risk that a license will not be available on terms that the Company considers reasonable, or that litigation will ensue. The Company expects that, as the number of hardware and software patents issued continues to increase, and as competition in the markets addressed by the Company intensifies, the volume of these intellectual property claims will also increase.

**Employees.** The Company's success depends on its ability to continue to attract, retain and motivate highly qualified technical, marketing and management personnel, who are in great demand. The current uncertainties surrounding the Company have increased the challenges of retaining world-class talent.

**Business Disruption.** The Company's corporate headquarters, including most of its research and development operations and manufacturing facilities, are located in the Silicon Valley area of Northern California, a region known for seismic activity. A significant earthquake could materially affect operating results. The Company is not insured for most losses and business interruptions of this kind.

**Market Risk.** In the normal course of business, the financial position of the Company 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. The Company regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, the Company does not anticipate material losses in these areas.

For purposes of specific risk analysis, the Company uses sensitivity analysis to determine the impacts that market risk exposures may have on the fair values of the Company's debt and financial instruments. The financial instruments included in the sensitivity analysis consist of all of the Company's cash and cash equivalents, marketable investments, short-term and long-term debt and all derivative financial instruments. Currency forward contracts and currency options constitute the Company's portfolio of derivative financial instruments.

To perform sensitivity analysis, the Company assesses the risk of loss in fair values from the impact of hypothetical changes in interest rates and foreign currency exchange rates on market sensitive instruments. The market values for interest risk are computed based on the present value of future cash flows as impacted by the changes in rates attributable to the market risk being measured. The discount rates used for the present value computations were selected based on market interest rates in effect at June 30, 1999 and 1998. The market values for foreign exchange risk are computed based on spot rates in effect at June 30, 1999 and 1998. The market values that result from these computations are compared to the market values of these financial instruments at June 30, 1999 and 1998. The differences in this comparison are the hypothetical gains or losses associated with each type of risk.

The results of the sensitivity analysis at June 30, 1999 and 1998 are as follows:

Interest Rate Risk: A percentage point decrease in the level of interest rates with all other variables held constant would result in a decrease in the aggregate fair value of our financial instruments by \$14 million at both June 30, 1999 and 1998. A percentage point increase in the level of interest rates with all other variables held constant would result in an increase in the aggregate fair value of our financial instruments by \$13 million and \$12 million, respectively.

Foreign Currency Exchange Rate Risk: A 10% decrease in levels of foreign currency exchange rates, 20% for Asian currencies, against the U.S. dollar with all other variables held constant would result in an increase in the fair values of our financial instruments by \$8 million at June 30, 1999, and a decrease in the fair values of our financial instruments by \$14 million at June 30, 1998. A 10% increase in levels of foreign currency exchange rates, 20% for Asian currencies, would result in a decrease in the fair values of our financial instruments by \$3 million at June 30, 1999, and an increase in the fair values of our financial instruments by \$12 million at June 30, 1998. The change in the relative sensitivity of the fair market value of foreign currency exchange rates in fiscal 1999 compared with fiscal 1998 is primarily driven by the volume of systems shipped and billed in U.S. dollars by our Swiss manufacturing subsidiary which operates in local functional currency.

### **Employees**

As of June 30, 1999, the Company had approximately 9,191 full-time employees, as compared to approximately 10,286 at June 30, 1998. During fiscal 2000, the Company expects the number of employees to be reduced by about 1/3 in order to bring the Company down to the appropriate size for the forecasted revenue and income. The Company's future success will depend, in part, on its ability to continue to attract, retain and motivate highly qualified technical, marketing and management personnel, who are in great demand. The Company has never had a work stoppage, and no employees are represented by a labor union. The Company has workers' councils where required by European Union or other applicable laws. The Company believes that its employee relations are good.

### **Corporate Data**

The Company was originally incorporated as a California corporation in November 1981, and reincorporated as a Delaware corporation in January 1990.

## **ITEM 2. PROPERTIES**

The Company believes that, while it currently has or is developing sufficient facilities to conduct its operations during fiscal 1999, it will continue to acquire both leased and owned facilities throughout the world as its business requires. The Company leases sales, service and administrative offices worldwide and has its principal corporate and manufacturing facilities in the following locations:

**California** The Company's corporate offices and its primary research and development operations are located in Mountain View, California, where the Company leases or owns a total of about 1,668,000 square feet. These facilities include a ten-building campus facility of about 727,000 square feet, leased by the Company through the years 2000 to 2005; a four-building, 518,000 square foot campus located on 22 acres of leased land in the same area; and a sales headquarters building comprising approximately 126,000 square feet and located on 7.5 acres owned by the Company near its Mountain View headquarters. The Company also leases six other buildings near its Mountain View headquarters, comprising approximately 306,000 square feet. The Company is currently developing a general purpose office facility of about 400,000 square feet on leased land in the same area; this new facility will replace the ten-building campus facility as those buildings go off lease.

**Minnesota and Wisconsin** The Company also owns manufacturing, research and

development and service facilities of about 595,000 square feet in Chippewa Falls, Wisconsin. In March of 1999, the Company sold its research and development, sales and administrative facilities of about 495,000 square feet in Eagan, Minnesota, to Wam!Net. The sale to Wam!Net included a lease-back of 325,796 square feet of the facility for a period of five years. The sale also included an investment by the Company in Wam!Net and a preferred provider agreement whereby Wam!Net and the Company agreed to purchase hardware, software and service from each other over a four-year period beginning January 1, 1999.

**Switzerland** The Company's European manufacturing and support center near Neuchâtel, Switzerland is located in a facility owned by the Company, consisting of about 170,000 square feet.

### **ITEM 3. LEGAL PROCEEDINGS**

The Company is defending the lawsuits described below. The Company believes that it has good defenses to the claims in each of these lawsuits and is defending each of them vigorously.

The Company is defending putative securities class action lawsuits filed in the U.S. District Court for the Northern District of California (the "Northern District") and in California Superior Court for the County of Santa Clara in December 1997 and January 1998 alleging that the Company and certain of its officers made material misrepresentations and omissions during the period from July to October 1997.

The Company is also defending a securities class action lawsuit filed in January 1996 in the Northern District of California alleging that the Company and certain of its officers and directors made material misrepresentations and omissions during the period from September to December 1995. The lawsuit was dismissed with prejudice by the District Court in May 1996. On July 2, 1999, the U.S. Court of Appeals for the Ninth Circuit upheld the dismissal.

The Company also is defending a securities class action lawsuit involving Alias Research Inc., which the Company 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 certain of its former officers and directors made material misrepresentations and omissions during the period from May 1991 to April 1992. In October 1997, the defendants' motion to dismiss the amended complaint was granted. In April of 1999, the U.S. Court of Appeals for the Second Circuit reversed the dismissal and remanded the case to the U.S. District Court for the District of Connecticut. The U.S. Court of Appeals denied defendants' petition for rehearing en banc.

The Company has settled a securities class action lawsuit involving MIPS Computer Systems, Inc. ("MCSI"), which the Company acquired in June 1992. The MCSI case, which was filed in 1992 in the Northern District of California, alleged that MCSI and certain of its officers and directors made material misrepresentations and omissions during the period from January to October of 1991. The parties to this case reached an agreement to settle the case in December 1998, the terms of which were reflected in a Stipulation of Settlement filed with the Court in January 1999. Under the settlement agreement, the defendants have agreed to establish a \$15 million escrow fund that shall be administered to pay the representative plaintiffs' costs and attorneys' fees, to notify and certify members of the class and to pay the claims of the class members. The settlement amount was largely covered by insurance. The settlement agreement provides for release of all parties' claims in connection with the class action and is subject to final approval of the Court.

The Company routinely receives communications from third parties asserting patent or other rights covering the Company's products and technologies. Based upon the Company's evaluation, it may take no action or it may seek to obtain a license. There can be no assurance in any given case that a license will be available on terms the Company considers reasonable, or that litigation will not ensue.

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

### **Executive Officers of the Registrant**

The executive officers of the Company and their ages as of September 1999 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position and Principal Occupation</u>	<u>Executive Officer Since</u>
Robert R. Bishop	56	Chairman, Chief Executive Officer and Director	1991
Kurt Akeley	41	Senior Vice President and Chief Technology Officer	1999
Kenneth L. Coleman	56	Senior Vice President, Global Sales, Service & Marketing	1987
Steven J. Gomo	47	Senior Vice President, Chief Financial Officer	1998
William M. Kelly	45	Senior Vice President, Corporate Operations and Secretary	1994
John R. Vrolyk	47	Senior Vice President, Computer Systems Business Unit	1998
Sandra M. Escher	39	Vice President and General Counsel	1999
Betsy Rafael	38	Vice President, Corporate Controller	1998

Executive officers of the Company are elected annually by the Board of Directors and serve at the Board's discretion. There are no family relationships among any directors, nominees for director or executive officers of the Company.

Except as set forth below, all of the officers have been associated with the Company in their present positions for more than five years.

Mr. Bishop was appointed Chairman and Chief Executive Officer of the Company in the fall of 1999. From July 1995 to February 1999, he was the Chairman of the Board of Silicon Graphics World Trade Corporation. Prior to July 1995, Mr. Bishop served as President of Silicon Graphics World Trade Corporation, a position he had held since July 1986.

Mr. Akeley was appointed Senior Vice President, Chief Technology Officer in September 1999. Mr. Akeley co-founded the Company in 1982 and has been Vice President and Chief Engineer since 1990.

Mr. Coleman was appointed Senior Vice President, Global Sales, Service and Marketing in June of 1999. Between 1997 and 1999, he was Senior Vice President, Customer and Professional Services. From 1987 to 1997 he served as Senior Vice President, Administration of the Company.

Mr. Gomo joined the Company in February 1998 as Senior Vice President and Chief Financial Officer. Prior to that, he was employed by the Hewlett-Packard Company serving most recently as the General Manager of its InkJet Manufacturing Operations.

Mr. Kelly assumed his current responsibilities in 1997 and served as acting Chief Financial Officer from May 1997 to February 1998. He joined the Company in 1994 as Vice President, Business Development, General Counsel and Secretary. During 1996, Mr. Kelly also served as Senior Vice President, Silicon Interactive Group. Prior to joining the Company, Mr. Kelly had practiced law since 1978 with the firm of Shearman & Sterling, most recently as co-managing partner of that firm's San Francisco office.

Mr. Vrolyk was appointed Senior Vice President, Computer Systems Business Unit in October 1998. He joined the Company in April 1997 as Vice President/General Manager of the Light Client Division and in January 1998 became the Vice President/General Manager of the Server and Supercomputer Business. Prior to joining the Company, he was Vice President/General Manager of the DDS Workgroup and Impact Group at Xerox Corporation.

Ms. Escher was appointed Vice President and General Counsel in April 1999. She joined the Company in July 1993 as Securities Counsel and served as the Director of Corporate Legal Services between September 1996 and April 1999.

Ms. Rafael became Vice President, Corporate Controller in May 1998. She joined the Company in November 1994 and served in a variety of capacities in the North American field organization. Prior to joining the Company, Ms. Rafael was employed by Sun Microsystems in the SunService Division.

## PART II

With the exception of the information specifically incorporated by reference from the Company's 1999 Annual Report to Stockholders (the "1999 Annual Report") in Parts I, II and IV of this Form 10-K, the 1999 Annual Report is not to be deemed filed as part of this Report.

### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated by reference to the section entitled "Price Range of Common Stock" on page 12 of the Company's 1999 Annual Report.

### **ITEM 6. SELECTED FINANCIAL DATA**

The information required by this Item is incorporated by reference to the section entitled "Selected Consolidated Financial Data" on page 10 of the Company's 1999 Annual Report.

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information required by this Item is incorporated by reference to the section entitled "Management's Discussion and Analysis" on pages 13 through 22 of the Company's 1999 Annual Report.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required by this Item is incorporated by reference to the section entitled "Management's Discussion and Analysis - Risks That Affect Our Business - Market Risk" on pages 21 and 22 of the Company's 1999 Annual Report.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this Item is incorporated by reference to the consolidated financial statements and notes thereto and to the section entitled "Quarterly Data" on pages 23 through 44 and 11 of the Company's 1999 Annual Report.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

### **PART III**

Certain information required by Part III is omitted from this Report in that the Company has filed its definitive proxy statement pursuant to Regulation 14A (the "1999 Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report, and certain information included therein is incorporated herein by reference.

#### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information concerning the Company's directors required by this Item is incorporated by reference to the information set forth in the 1999 Proxy Statement on pages 3 and 4 under the heading "Proposal No. 1 - Election of Directors - Directors and Nominee for Director."

The information concerning executive officers and family relationships required by this Item is incorporated by reference to the section in Part I hereof entitled "Executive Officers of the Registrant."

The information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, required by this Item is incorporated by reference to information set forth on pages 12 and 13 of the 1999 Proxy Statement under the heading "Executive Officer Compensation - Compliance with Section 16(a) of the Exchange Act."

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to information set forth in the 1999 Proxy Statement on pages 5 and 6 under the headings "Proposal No. 1 - Election of Directors - Compensation Committee Interlocks and Insider Participation" and "- Director Compensation"; on pages 11 and 12 under the headings "Executive Officer Compensation - Summary Compensation Table", "- Option Grants in Fiscal 1999" and "- Option Exercises in Fiscal Year 1999 and Fiscal Year-End Option Values"; on pages 9 and 10 under the heading "Report of the Compensation and Human Resources Committee of the Board of Directors"; and on page 14 under the heading "Company Stock Price Performance Graph".

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information required by this Item is incorporated by reference to the information set forth in the 1999 Proxy Statement on pages 1 and 2 under the headings "Information Concerning Solicitation and Voting - Record Date and Principal Share Ownership" and "- Voting and Solicitation" and on page 8 under the heading "Other Information - Security Ownership of Management."

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this Item is incorporated by reference to the information set forth in the 1999 Proxy Statement on page 13 under the heading "Certain Transactions."

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this Report:

1. *Financial Statements.* The following consolidated financial statements and supplementary information of Silicon Graphics, Inc., and Report of Ernst & Young LLP, Independent Auditors are incorporated by reference to pages 11 and 23 through 45 of the Registrant's 1999 Annual Report:

Consolidated Statements of Operations – Years Ended June 30, 1998, 1997 and 1996

Consolidated Balance Sheets – June 30, 1999 and 1998

Consolidated Statements of Cash Flows – Years Ended June 30, 1999, 1998 and 1997

Consolidated Statements of Stockholders' Equity – Years Ended June 30, 1999, 1998 and 1997

Notes to Consolidated Financial Statements

Report of Independent Auditors

*Supplementary Information*

Quarterly Data (Unaudited)

2. *Financial Statement Schedules.* The following financial statement schedule of Silicon Graphics, Inc. is filed as part of this Report and should be read in conjunction with the Consolidated Financial Statements of Silicon Graphics, Inc.

<u>Schedule</u>	<u>Description</u>	<u>Page</u>
II	Valuation and Qualifying Accounts	S-1

Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

3. *Exhibits.* The following Exhibits are filed as part of, or incorporated by reference into, this Report:

- 3.1.1(9) Restated Certificate of Incorporation of the Company.
- 3.1.2(13) Certificate of Designation of the Series E Preferred Stock filed June 13, 1995.
- 3.2(16) Bylaws of the Company, as amended.
- 4.1(5) Amended and Restated Preferred Shares Rights Agreement, dated as of May 6, 1992 between the Company and The First National Bank of Boston, including the Certificate of Designation of Rights, Preferences and Privileges of Series B Participating Preferred Stock, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B, and C respectively.

- 4.2(10) First Amendment to Rights Agreement dated as of May 2, 1995 between the Company and The First National Bank of Boston.
- 4.3(16) Indenture dated February 1, 1986 between Cray Research, Inc. and Manufacturers Hanover Trust Company, as Trustee.
- 4.4(16) First Supplemental Indenture dated June 30, 1996 between the Company, Cray Research, Inc., and Chemical Bank (formerly Manufacturers Hanover Trust Company).
- 4.5(20) Indenture dated as of September 1, 1997 between the Company and State Street Bank and Trust Company of California, N.A., as Trustee.
- 9.1(13) Voting and Exchange Trust Agreement between the Company and Montreal Trust Company of Canada dated June 15, 1995.
- 10.1(1) Software Agreement dated as of January 4, 1986, as supplemented June 6, 1986, and Sublicensing Agreement dated as of June 9, 1986 between the Company and AT&T Information Systems Inc.
- 10.2(2) Software License Agreement dated January 24, 1986, between the Company and AT&T Information Systems Inc.
- 10.3(3) Stock Purchase Agreement dated March 2, 1990 among the Company, NKK Corporation and NKK U.S.A. Corporation.
- 10.4(6) Exchange Agreement dated August 14, 1992 among the Company, NKK Corporation and NKK U.S.A. Corporation.
- 10.5(6) Form of Indemnification Agreement entered into between the Company and its directors, executive officers and certain other agents.
- 10.6(6) Form of Indemnification Agreement entered into between the Company and its directors, executive officers and certain other agents. (Revised)
- 10.7(22)\* Form of Employment Continuation Agreement entered into between the Company and its executive officers, as amended and restated as of November 14, 1997.
- 10.8(22) Form of Agreement entered into by the Company with its executive officers, dated as of November 14, 1997.
- 10.9(21)\* Promissory Note dated June 18, 1997 issued to the Company by William M. Kelly.
- 10.10(19)\* 1984 Incentive Stock Option Plan, as amended, and amended form of Incentive Stock Option Agreement.
- 10.11(9)\* Directors' Stock Option Plan and form of Stock Option Agreement as amended as of October 31, 1994.
- 10.12(6)\* 1985 Stock Incentive Program.
- 10.13(6)\* 1986 Incentive Stock Option Plan, as amended, and amended forms of Incentive Stock Option Agreement and Nonstatutory Stock Option Agreement.
- 10.14(4)\* 1987 Stock Option Plan and form of Stock Option Agreement.
- 10.15(15)\* Amended and Restated 1989 Employee Benefit Stock Plan and form of stock option agreement.
- 10.16(7)\* 1993 Long-Term Incentive Stock Plan and form of stock option agreement.
- 10.17(14)\* 1996 Supplemental Non-Executive Equity Incentive Plan and form of stock option agreement, as amended

10.18(17)*	Employee Stock Purchase Plan, as amended as of October 30, 1996.
10.19(23)*	1998 Employee Stock Purchase Plan
10.20(8)*	Non-Qualified Deferred Compensation Plan dated as of September 9, 1994.
10.21(19)*	Addendum to the Non-Qualified Deferred Compensation Plan.
10.22(11)*	Alias Research Inc.'s 1988 Employee Share Ownership Plan Option Agreement.
10.23(11)*	Alias Research Inc.'s 1989 Employee Share Ownership Plan Option Agreement.
10.24(11)*	Alias Research Inc.'s 1990 Employee Share Ownership Plan and standard forms of Option Agreements.
10.25(11)*	Alias Research Inc.'s 1994 Stock Plan and standard forms of Option Agreements.
10.26(12)*	Wavefront Technologies, Inc. 1990 Stock Option Plan with standard form of Option Agreement.
10.27(15)*	Cray Research, Inc. 1989 Non-Employee Directors' Stock Option Plan and form of stock option agreement.
13.1	Excerpts from Annual Report for the year ended June 30, 1999.
21.1	List of Subsidiaries.
23.1	Consent of Ernst & Young LLP, Independent Auditors.
27.1	Financial Data Schedule.

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\* This exhibit is a management contract or compensatory plan required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c).

- (1) Incorporated by reference to exhibits to the Company's Registration Statement on Form S-1 (No. 33-8892), which became effective October 29, 1986.
- (2) Incorporated by reference to exhibits to the Company's Registration Statement on Form S-1 (No. 33-12863), which became effective March 31, 1987.
- (3) Incorporated by reference to exhibits to the Company's Current Report on Form 8-K dated March 16, 1990.
- (4) Incorporated by reference to exhibits to the Company's Post-Effective Amendment to Registration Statement on Form S-8 (No. 33-16529), which became effective June 18, 1990.
- (5) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1992.
- (6) Incorporated by reference to exhibits to the Company's Annual Report on Form 10-K for the year ended June 30, 1992.

- (7) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1993.
- (8) Incorporated by reference to exhibits to the Company's Annual Report on Form 10-K for the year ended June 30, 1994.
- (9) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1994.
- (10) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1995.
- (11) Incorporated by reference to exhibits to the Company's Registration Statement on Form S-8 (No. 33-60215), which became effective June 14, 1995.
- (12) Incorporated by reference to exhibits to the Company's Registration Statement on Form S-8 (No. 33-60213), which became effective June 14, 1995.
- (13) Incorporated by reference to exhibits to the Company's Annual Report on Form 10-K for the year ended June 30, 1995.
- (14) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1996.
- (15) Incorporated by reference to exhibits to the Company's Registration Statement on Form S-8 (No. 333-06403), which became effective June 20, 1996.
- (16) Incorporated by reference to exhibits to the Company's Annual Report on Form 10-K for the period ended June 30, 1996, as amended.
- (17) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1996.
- (18) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1997.
- (19) Incorporated by reference to exhibits to the Company's Annual Report on Form 10-K for the year ended June 30, 1991.
- (20) Incorporated by reference to exhibits to the Company's Registration Statement on Form S-4 (No. 333-32379), which became effective August 7, 1997.
- (21) Incorporated by reference to exhibits to the Company's Annual Report on Form 10-K for the year ended June 30, 1997.
- (22) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1997.
- (23) Incorporated by reference to exhibits to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1999.
- (b) *Reports on Form 8-K.*

No Current Reports on Form 8-K were filed during the quarter ended June 30, 1999.

*Trademarks used in the Form 10-K*

Silicon Graphics, InfiniteReality, IRIX, O2, Octane and Onyx are registered trademarks, and Onyx2, Onyx2Reality, Origin, and SGI are trademarks, of Silicon Graphics, Inc. MIPS is a registered trademark of MIPS Technologies, Inc. used under license by Silicon Graphics, Inc. Cray is a registered trademark and Cray T3E, Cray T90 and Cray SV1 are trademarks of Cray Research, L.L.C. Alias is a registered trademark, and Alias|Wavefront, Alias Studio, Alias StudioPaint 3D and Alias AutoStudio are trademarks, of Alias|Wavefront, a division of Silicon Graphics Limited. Maya is a registered trademark of Silicon Graphics, Inc., and exclusively used by Alias|Wavefront, a division of Silicon Graphics Limited.

UNIX is a registered trademark licensed exclusively through X/Open Company Limited. Microsoft, Windows and Windows NT are registered trademarks of Microsoft Corporation. Intel is a registered trademark of Intel Corp. Linux is a trademark of Linus Torvalds in the U.S. and other countries.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: September 27, 1999

SILICON GRAPHICS, INC.

By: /s/ Robert R. Bishop  
Robert R. Bishop  
*Chairman and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Robert R. Bishop</u> Robert R. Bishop	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	September 27, 1999
<u>/s/ Steven J. Gomo</u> Steven J. Gomo	Senior Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	September 27, 1999
<u>/s/ C. Richard Kramlich</u> C. Richard Kramlich	Director	September 27, 1999
<u>/s/ Robert A. Lutz</u> Robert A. Lutz	Director	September 27, 1999
<u>/s/ James A. McDivitt</u> James A. McDivitt	Director	September 27, 1999
<u>/s/ Lucille Shapiro, Ph.D.</u> Lucille Shapiro, Ph.D.	Director	September 27 1999
<u>/s/ Robert B. Shapiro</u> Robert B. Shapiro	Director	September 27, 1999

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Silicon Graphics, Inc. of our report dated July 20, 1999 included in the 1999 Annual Report to Stockholders of Silicon Graphics, Inc.

Our audits also included the consolidated financial statement schedule of Silicon Graphics, Inc. listed in item 14(a)2. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 File Nos. 33-11703, 33-16529, 33-18717, 33-26003, 33-34919, 33-38536, 33-40879, 33-44305, 33-44333, 33-48890, 33-59098, 33-65190, 33-50999, 33-51275, 33-56017, 33-60213, 33-60215, 333-01211, 333-06403, 333-08651, 333-15977, 333-40849 and 333-76445) pertaining to the Employee Stock Purchase Plan, 1982 Stock Option Plan; 1984 Incentive Stock Option Plan, 1985 Stock Incentive Program; 1986 Incentive Stock Option Plan; 1987 Stock Option Plan, 1998 Employee Stock Purchase Plan; 1993 Long-Term Incentive Stock Plan; WaveFront Technologies, Inc. 1990 Stock Option Plan; Alias Research, Inc. 1998 Employee Share Ownership Plan, 1989 Employee Share Ownership Plan, 1990 Employee Share Ownership Plan, 1994 Stock Plan; Amended and Restated 1996 Supplemental Non-Executive Equity Incentive Plan; 1989 Non-Employee Directors' Stock Option Plan; Cray Research, Inc. Amended and Restated 1989 Employee Benefit Stock Plan; Directors' Stock Option Plan of our report dated July 20, 1999 with respect to the consolidated financial statements of Silicon Graphics, Inc. incorporated herein by reference and of our report included in the preceding paragraph with respect to the financial statement schedule included in the Annual Report (Form 10-K) for the year ended June 30, 1999.

/s/ Ernst & Young LLP

Palo Alto, California  
September 27, 1999

## SILICON GRAPHICS, INC.

Valuation and Qualifying Accounts  
(in thousands)

<u>Description</u>	Balance at Beginning of Period	Additions		Deduction s Write-offs/ Other	Balance at End of Period
		Charged to Costs and Expenses	Other		
Year ended June 30, 1997					
Accounts receivable allowance	\$ 23,767	\$ 8,427	\$ 0	\$ (8,138)	\$ 24,056
Warranty reserve	\$ 18,946	\$ 26,361	\$ 0	\$ (27,358)	\$ 17,949
Deferred tax asset allowance	\$ 60,819	\$ 8,228	\$ 0	\$ 0	\$ 69,047
Year ended June 30, 1998					
Accounts receivable allowance	\$ 24,056	\$ 622	\$ 0	\$ (7,215)	\$17,463
Warranty reserve	\$ 17,949	\$ 42,110	\$ 0	\$ (27,327)	\$32,732
Deferred tax asset allowance	\$ 69,047	\$ 62,528	\$10,600	(1) \$(51,470)	(2) \$90,705
Year ended June 30, 1999					
Accounts receivable allowance	\$ 17,463	\$ 351	\$ 0	\$ (2,407)	\$ 15,407
Warranty Reserve	\$ 32,732	\$ 36,111	\$ 9,945	(3) \$(40,168)	\$ 38,620
Deferred tax asset allowance	\$ 90,705	\$ 13,511	\$11,439	(1) \$(10,291)	\$105,364

(1) Reserve of paid-in capital benefits related to stock option activity

(2) Reduction in valuation allowance resulting in an adjustment to purchased intangibles from the Cray acquisition

(3) Reclassification from other accrual accounts