

SILICON GRAPHICS INC
Form DEF 14A
October 10, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

Silicon Graphics, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

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- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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SILICON GRAPHICS, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held November 13, 2008

The Annual Meeting of Stockholders of Silicon Graphics, Inc. will be held on Thursday, November 13, 2008, at 8:00 a.m., Pacific time, at the offices of Cooley Godward Kronish LLP at 3175 Hanover Street, Palo Alto California, for the following purposes:

1. To elect Anthony Grillo and Joanne O. Isham as Class II directors of the Company to hold office until the 2011 Annual Meeting of Stockholders.
2. To conduct any other business that may properly come before the meeting.

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

The record date for notice and voting was September 25, 2008. Only stockholders of record at the close of business on that date may vote at the Annual Meeting or any adjournment thereof.

We invite all stockholders to attend the meeting in person. Since seating is limited, please request a ticket by emailing us at annualmeeting@sgi.com or by contacting the Corporate Secretary at (650) 960-1980 or 1140 East Arques Avenue, Sunnyvale, California 94085.

Even if you plan to attend, please vote your shares as soon as possible. You may vote by telephone, on the Internet, or by signing and returning the proxy card in the enclosed envelope. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank, or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

By Order of the Board of Directors,

/s/ Barry J. Weinert

Barry J. Weinert

Vice President, General Counsel

and Corporate Secretary

Sunnyvale, California

October 17, 2008

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**Silicon Graphics, Inc,
1140 East Arques Avenue
Sunnyvale, California 94085**

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

General Information Concerning the Annual Meeting

You are receiving this Notice of Annual Meeting and Proxy Statement because you are a stockholder of Silicon Graphics, Inc. (SGI, we, our, or the Company). You are invited to attend the 2008 Annual Meeting of Stockholders on November 13, 2008, at 8:00 a.m., Pacific time at the offices of Cooley Godward Kronish LLP, 3175 Hanover Street, Palo Alto, California. Since seating is limited, please request a ticket by emailing us at annualmeeting@sgi.com or by contacting the Corporate Secretary at (650) 960-1980 or 1140 East Arques Avenue, Sunnyvale, California 94085. Please see *Directions to the Annual Meeting of Stockholders* for further information.

Our Board of Directors (the Board) is sending you these proxy materials in connection with our solicitation of proxies to be voted at our Annual Meeting and at any postponement or adjournment of our Annual Meeting. We intend to mail these proxy solicitation materials on or about October 17, 2008, to all stockholders of record entitled to vote at the meeting. Any correspondence concerning the Annual Meeting may be sent to Mr. Barry Weinert, Vice President, General Counsel and Corporate Secretary at our principal address set forth above.

Appointment of Proxy Holders

Your vote is very important. For this reason, our Board is requesting that you permit your shares of common stock to be represented at our Annual Meeting by the proxies named on the enclosed proxy card. You make this appointment by submitting the enclosed proxy form or using one of the voting methods described below. If appointed by you, the proxy holders will vote your shares as you direct on the matters described in this Proxy Statement. In absence of directions from you, they will vote your shares as recommended by the Board. Unless you otherwise indicate on the proxy form or through another voting method, you also authorize the proxy holders to vote your shares on any matters that are not known by the Board at the time this Proxy Statement was printed and that, under our bylaws, may be properly presented for action at the Annual Meeting.

Who May Vote at the Annual Meeting

You may vote your shares if you were a stockholder of record at the close of business on September 25, 2008 (the Record Date). As of the Record Date, 11,606,789 shares of our common stock were outstanding and entitled to vote. Each outstanding share of common stock is entitled to one vote.

Votes Needed to Hold the Meeting

A quorum, which is a majority of the outstanding shares as of the Record Date, must be present to hold the Annual Meeting. A quorum is calculated based on the number of shares represented at the meeting by the stockholders attending in person and by the proxy holders. If you indicate an abstention as your voting preference in all matters, your shares will be counted toward a quorum but will not be voted on any matter.

Voting Methods

If you are a stockholder of record (you own shares in your own name), you can vote by telephone, on the Internet or by mail. If you are a street name stockholder (you own shares in the name of a bank,

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broker, or other holder of record), you should refer to the proxy form or the information you receive from the record holder to see the voting methods available to you. If you vote by telephone or on the Internet, you do not need to return your proxy form. Telephone and Internet voting will be available 24 hours a day and will close at the time listed on your proxy form.

Voting by Telephone. You may vote by proxy by using the toll-free number listed on the proxy form or mailed with your proxy materials. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded.

Voting on the Internet. You may vote by proxy on the Internet by following the instructions on the proxy form or included in the proxy materials. As with telephone voting, you can confirm that your instructions have been properly recorded.

Voting by Mail. You may vote by proxy by signing, dating, and returning your proxy forms in the pre-addressed, postage-paid envelope provided.

Voting at the Annual Meeting. The method by which you vote your proxy form will not limit your right to vote at the Annual Meeting if you decide to attend in person. If you are a street name stockholder, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the Annual Meeting.

Changing Your Vote

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

Issues to be Voted on at the Annual Meeting

In this Proxy Statement, you are asked to vote on the election of Anthony Grillo and Joanne O. Isham as directors. Our Board does not know of any other matter that will be presented for consideration at the Annual Meeting. If any other matter does properly come before the Annual Meeting, your proxy holders will vote on it as they think best unless you direct otherwise in your proxy instruction.

Counting the Vote

Votes will be counted by the inspector of election appointed for the meeting, who will separately count For and Withhold and, with respect to proposals other than the election of directors, Against votes, abstentions, and broker non-votes. Abstentions will be counted towards the vote total for each proposal and will have the same effect as Against votes. Broker non-votes have no effect

and will not be counted towards the vote total for any proposal.

Broker Non-Vote

Generally, if shares are held in street name, the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. Broker non-votes occur when a beneficial owner of shares held in street name does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed non-routine. If the beneficial owner does not provide voting instructions, the broker or nominee can still vote the shares with respect to matters that are considered to be routine but not with respect to non-routine matters.

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Method and Cost of Proxy Solicitation

We do not anticipate retaining the services of a proxy solicitor this year and we will pay the entire cost of soliciting proxies. Our employees may solicit your proxy voting instructions without additional compensation. We have retained Broadridge Financial Solutions, Inc. (Broadridge) and our Transfer Agent, Computershare Investor Services (Computershare), to assist in distributing these proxy materials. Computershare will serve as the proxy tabulator.

We will also reimburse brokerage firms, banks, and other holders of record for reasonable out-of-pocket expenses for forwarding these proxy materials to you, according to certain regulatory fee schedules. See *Receiving Future Proxy Materials on the Internet* for information on how you can help reduce printing and mailing costs.

Householding

Brokers with account holders who are SGI stockholders will be householding our proxy materials. Under this procedure, stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of the Proxy Statement and accompanying materials, unless we have received contrary instructions, but will continue to receive separate proxy forms. Once you have received notice from your broker that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. This procedure reduces printing and mailing costs.

If you prefer to receive separate sets of proxy materials for our Annual Meeting, we will promptly deliver them to you if you request it by writing to our Corporate Secretary at our principal offices. If you wish to receive separate proxy materials in the future, you may telephone Broadridge toll-free at 1-800-542-1061 and request a separate mailing of materials.

Stockholders who currently receive multiple copies of the proxy materials at their address and would like to request householding of their proxy and other materials should contact their broker.

2009 Deadline for Receipt of Stockholder Proposals

Proposals of stockholders intended to be presented at our 2009 Annual Meeting of Stockholders must be received by our Corporate Secretary no later than June 19, 2009, in order to be included in the proxy materials for that meeting.

If you intend to present a proposal at our 2009 Annual Meeting, but you do not intend to have it included in our 2009 Proxy Statement, notice must be received by our Corporate Secretary no earlier than the close of business on July 16, 2009, and no later than the close of business on August 15, 2009. You are also advised to review our Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations. Our Bylaws are available at www.sgi.com under the *Investors* and then *Corporate Governance* sections.

Receiving Future Proxy Materials on the Internet

The Notice of Annual Meeting and Proxy Statement and our Annual Report for the fiscal year ended June 27, 2008, are available on our Web site at www.sgi.com under the *Investors* and then *Annual Report* sections.

Instead of receiving paper copies of the Proxy Statement and accompanying materials in the mail, you can elect to receive an e-mail that will provide an electronic link to these documents. Opting to receive your proxy materials online conserves natural resources and will save us the cost of printing and mailing documents to you and also gives you an electronic link to the proxy voting site.

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If you are a stockholder of record, you may enroll in electronic delivery by following the instructions on the proxy card provided by Computershare. You may revoke your electronic delivery election at any time and request a paper copy of our Proxy Statement and Annual Report.

If you are a street name stockholder, you may also have the opportunity to receive copies of the Annual Report and Proxy Statement electronically. Please contact your broker or bank for more information on electronic delivery of your proxy materials.

Proposal 1 Election of Two Directors

We have five directors serving on our Board. The directors are divided into three classes and they serve staggered three-year terms. The Class II directors, Anthony Grillo and Joanne O. Isham, are being nominated for re-election this year for a three-year term expiring at the 2011 Annual Meeting. The Board has nominated these individuals for election to the Board at the recommendation of the Corporate Governance and Nominating Committee. Following the Annual Meeting, at which two Class II directors are to be elected, the Board will consist of two directors in Class I, two in Class II, and one in Class III. The current Class I directors' terms expire at the 2010 Annual Meeting and the current Class III director's term expires at the 2009 Annual Meeting. We encourage nominees for director to attend the Annual Meeting.

Directors and Nominees for Director

Unless otherwise instructed, the proxy holders will vote for the nominees named below. Each of the nominees has consented to serve another term as a director if re-elected. In the unexpected event that any nominee becomes unavailable or declines to serve, the proxy holders will vote the proxies in their discretion for any nominee designated by the Board to fill the vacancy or allow the vacancies to remain open until a suitable candidate or candidates are located. Directors must be elected by a plurality of the votes cast at the Annual Meeting. This means that the two nominees receiving the highest number of votes will be elected. Abstentions will have no effect on the election of directors. If you hold your shares through a broker, bank or other nominee and you do not instruct them how to vote on this proposal, your broker may vote your shares.

Name	Class	Age	Principal Occupation	Director Since
Nominees for election for a three-year term expiring at the 2011 Annual Meeting				
Anthony Grillo	II	53	Founder and Chief Executive Officer, American Securities Opportunity Fund, LP	2006
Joanne O. Isham	II	52	Senior Vice President, L-1 Identity Solutions	2007
Director continuing in office until the 2009 Annual Meeting				
Eugene I. Davis	III	53	Chairman and Chief Executive Officer, Pirinate Consulting Group, L.L.C.	2006
Directors continuing in office until the 2010 Annual Meeting				
Robert H. Ewald	I	60	Chief Executive Officer, Silicon Graphics, Inc.	2007
James A. McDivitt	I	79	Former Senior Vice President, Government Operations and International, Rockwell International Corporation	1987

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

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Class I Directors

Robert H. Ewald was named our Chief Executive Officer (CEO) and appointed as a member of our Board in April 2007. From June 2005 to April 2007, Mr. Ewald served as the Chairman and Chief Executive Officer of Linux Networx, a Linux-based networking company. Mr. Ewald served as Executive Vice President and President of Human Resource Solutions of Ceridian Corporation from July 2003 to January 2005. He also served as a director of Ceridian Corporation from March 2001 to January 2005. From October 2002 to 2003, Mr. Ewald was the Chairman and Chief Executive Officer of Scale Eight, Inc., a high-performance network clustered storage company. From March 1999 to October 2002, he served as President and Chief Executive Officer of E-Stamp Corporation, an internet postage company, and as the Executive Chairman of its successor company, Learn2 Corporation. From October 1997 to July 1998, Mr. Ewald was the Executive Vice President and Chief Operating Officer of Silicon Graphics, Inc.

James A. McDivitt became a director of the Company in 1987, and continued as a director through and after the Company's reorganization. Prior to his retirement in March 1995, he was the Senior Vice President, Government Operations and International, of Rockwell International Corporation. He has also held executive positions with Consumers Power Company and Pullman, Inc. Mr. McDivitt was selected as an astronaut by NASA in September of 1962. He was the command pilot for the Gemini 4 mission in 1965 and the Commander of the Apollo 9 mission in 1969. He then served as a Program Manager for many Apollo missions until 1972, when he retired from the U.S. Air Force, with the rank of Brigadier General, and from NASA. Mr. McDivitt also serves as a director of Applied Energetics, Inc.

Class II Directors

Anthony Grillo became a director of the Company in October 2006 and our Chairman in August 2008. Since 2005, Mr. Grillo has served as the Chief Executive Officer of American Securities Opportunity Fund, LP, which he founded and which focuses on providing advisory services to and making investments in companies in transition. From January 2005 through September 2005, Mr. Grillo served as Chief Executive Officer of CricketHill Associates, LLC, a boutique advisory firm providing financial advisory services to distressed companies. From March 2001 through December 2004, Mr. Grillo served as the Senior Managing Director of Evercore Partners, an investment banking boutique providing advisory services to multinational corporations on significant mergers, acquisitions, divestitures, restructurings and other strategic corporate transactions. From 1999 through March 2001, Mr. Grillo was a Senior Managing Director of JLL Partners, a private equity investment firm. Mr. Grillo is also a director and the Chairman of the Audit Committee of Littelfuse, Inc.

Joanne O. Isham became a director of the Company in January 2007. Since April 2008, Ms. Isham has been the Senior Vice President for Washington Operations for L-1 Identity Solutions. From July 2007 to April 2008, she was the Chief Operating Officer of High Performance Technologies, Inc. Prior to assuming this role, Ms. Isham was the Vice President/Deputy General Manager of Network Systems at BAE Systems (BAE). In that capacity, she was directly responsible for identifying strategic opportunities for new mission focus within the intelligence community, Department of Defense and the Department of Homeland Security. Before joining BAE, Ms. Isham was a member of the Senior Intelligence Service and a career officer at the Central Intelligence Agency (CIA). From September 2001 until her retirement, she served as Deputy Director of the National Geospatial-Intelligence Agency. Immediately prior to that assignment, she served as the Deputy Director of Science and Technology at the CIA. In that position, she was the principal executive overseeing the CIA's scientific and technical program with particular responsibility for clandestine technical activities and CIA-wide research and development. Ms. Isham held several other senior management positions in the CIA and other organizations in the intelligence community. Ms. Isham is also a member of the Board of Directors of Advanced Analytics, Inc. and The Sanborn Map Company.

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Class III Director

Eugene I. Davis became a director of the Company in October 2006. He is the founder and Chairman of Pirinate Consulting Group, L.L.C., a privately-held consulting firm specializing in crisis and turn-around management, liquidation and sales management, merger and acquisition consulting, hostile and friendly takeovers, proxy contests, and strategic planning advisory services for public and private business entities, and has held this position since 1989. Mr. Davis serves on the Board of Directors of Atari, Inc.; Knology, Inc.; Hights Cross Communications, Inc.; Solutia Inc.; Foamex International, Inc.; Viskase Companies, Inc.; Pilant Corporation; Atlas Air Worldwide; Medicor Ltd.; American Commercial Lines, Inc.; and Delta Air Lines, Inc.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN
FAVOR OF EACH NAMED NOMINEE.**

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Information Regarding Operations of the Board of Directors and Corporate Governance

Board Membership

During the fiscal year ended June 27, 2008, the members of our Board were Eugene I. Davis, Robert H. Ewald, Anthony Grillo, Kevin D. Katari, James A. McDivitt, Joanne O. Isham and Chun Won Yi. Mr. Katari served as Chairman of the Board. Mr. Katari resigned from the Board and Corporate Governance and Nominating Committee effective August 27, 2008. Mr. Yi resigned from the Board effective August 26, 2008. Mr. Yi also served on the Corporate Governance and Nominating Committee. Mr. Grillo became our Chairman on August 28, 2008.

Independence of the Board of Directors

As required under the NASDAQ Stock Market (NASDAQ) listing standards, a majority of the members of a listed company's board of directors must qualify as independent, as affirmatively determined by the board of directors. Our Board consults with the Company's counsel to ensure that the Board's determinations are consistent with relevant securities and other laws and regulations regarding the definition of independent, including those set forth in pertinent listing standards of NASDAQ as in effect from time to time. Consistent with these considerations, after review of all relevant transactions or relationships between each director or any of his or her family members and the Company, its senior management and its independent auditors, the Board has affirmatively determined that, other than Robert Ewald, all members of our Board are independent directors within the meaning of the applicable NASDAQ listing standards. In making this determination, the Board found that none of these directors, other than Mr. Ewald, had a material or other disqualifying relationship with the Company. Mr. Ewald, our CEO, is not an independent director by virtue of his employment with the Company.

Meetings of the Board of Directors

The Board and its committees meet throughout the year on a regular schedule and hold special meetings or act by written consent as needed. During fiscal year 2008, the Board held 16 meetings either in person or by telephone. Many regularly scheduled meetings of the Board include a separate executive session for the non-management members of the Board. All directors attended at least 75% of the aggregate of the meetings of the Board, and of the committees on which they served, held during the period for which they were directors and committee members, respectively. Last year, six of the seven directors attended the 2007 Annual Meeting.

Information Regarding Committees of the Board of Directors

The Board has an Audit Committee, a Compensation and Human Resources Committee (the Compensation Committee) and a Corporate Governance and Nominating Committee (the Governance Committee). The following table provides membership information for fiscal year 2008 for each of the Board committees:

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Name	Audit	Compensation and Human Resources	Corporate Governance and Nominating
Eugene I. Davis	x*	x	
Robert H. Ewald			
Anthony Grillo	x	x*	
Joanne O. Isham		x	x
Kevin D. Katari			x
James A. McDivitt	x	x	
Chun Won Yi			x*

* Committee Chairperson

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With the resignation of Mr. Katari in August 2008, Mr. Grillo became our Chairman and Ms. Isham became the Chairperson of the Compensation Committee on August 28, 2008. Messrs. Katari and Yi both served on the Governance Committee. On September 3, 2008, Mr. McDivitt joined and Ms. Isham became the Chairperson of the Governance Committee. On October 6, 2008 each of the independent directors was appointed or reappointed to the Audit Committee, Compensation Committee and Governance Committee with Mr. Davis remaining the Chairperson of the Audit Committee, Ms. Isham remaining the Chairperson of the Compensation Committee and Mr. McDivitt becoming the Chairperson of the Governance Committee. The Board periodically reviews its standing committees, the committee charters, and the appointment of directors to serve on standing committees. The Board has determined that all members of these committees are independent directors within the meaning of the rules and regulations of NASDAQ. Each of our standing committees operates under a written charter adopted by the Board, and each committee's charter is available on our Web site at www.sgi.com under the *Investors* and then *Corporate Governance* sections. Below is a description of each standing committee of the Board.

Audit Committee

The Audit Committee of the Board was established by the Board to oversee our corporate accounting and financial reporting processes and audits of its financial statements. For this purpose, the Audit Committee performs several functions. The Audit Committee evaluates the performance of and assesses the qualifications of the independent auditors; determines and approves the engagement of the independent auditors; determines whether to retain or terminate the existing independent auditors or to appoint and engage new independent auditors; reviews and approves the retention of the independent auditors to perform any proposed permissible non-audit services; monitors the rotation of partners of the independent auditors on the Company's audit engagement team as required by law; reviews and approves or rejects transactions between us and any related persons; confers with management and the independent auditors regarding the effectiveness of internal controls over financial reporting; establishes procedures, as required under applicable law, for the receipt, retention, and treatment of complaints we receive regarding accounting, internal accounting controls or auditing matters, and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and meets to review the Company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing related disclosures set forth in our periodic reports filed with the Securities and Exchange Commission (SEC). In fiscal year 2008, the Audit Committee was composed of three directors: Messrs. Davis (Chair), Grillo and McDivitt. On October 6, 2008, Ms. Isham joined Messrs. Davis, Grillo and McDivitt on the Audit Committee and Mr. Davis remained the Chairperson. The Audit Committee met eight times during fiscal year 2008.

The Board has also determined that Mr. Davis qualifies as an audit committee financial expert as defined in applicable SEC rules. The Board made an assessment of Mr. Davis' qualifications based on a number of factors including his level of knowledge and extensive financial experience.

Independent Public Accountants

KPMG LLP (KPMG) served as the Company's independent registered public accounting firm for fiscal year 2008. On September 25, 2008, the Company dismissed KPMG as the Company's independent registered public accounting firm and engaged McGladrey & Pullen LLP (McGladrey) as its new independent registered public accounting firm, for fiscal year 2009, subject to final completion of McGladrey's client acceptance procedures. As described below, the change in independent registered public accounting firms is not the result of any disagreement with KPMG.

Previous Independent Accountants

On September 25, 2008, the Company dismissed KPMG as its independent registered public accounting firm. The audit reports of KPMG on the consolidated financial statements as of and for the

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fiscal year ended June 27, 2008 and for the nine months ended June 29, 2007 (Successor Company) and the three months ended September 29, 2006 (Predecessor Company) did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles, except for the reference to the adoption of fresh-start reporting as detailed below:

KPMG's report on the consolidated financial statements as of and for the fiscal year ended June 27, 2008 and for the nine months ended June 29, 2007 (Successor Company) and the three months ended September 29, 2006 (Predecessor Company), contained a separate paragraph stating that "As discussed in Note 24 to the consolidated financial statements, on September 19, 2006, the United States Bankruptcy Court for the Southern District of New York confirmed the Company's Plan of Reorganization (the Plan). The Confirmation Order became a final order on September 29, 2006 and the Company emerged from Chapter 11 on October 17, 2006. In connection with its emergence from Chapter 11, the Company adopted fresh-start reporting pursuant to Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* as of September 29, 2006 as further described in Note 3 to the consolidated financial statements. As a result, the consolidated financial statements of the Successor Company are presented on a different basis than those of the Predecessor Company and, therefore, are not comparable in all respects.

The audit reports of KPMG on the effectiveness of internal control over financial reporting as of June 27, 2008 and June 29, 2007 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles, except that KPMG's report indicates that the Company did not maintain effective internal control over financial reporting as of June 29, 2007 because of the effect of a material weakness on the achievement of the objectives of the control criteria. Such material weakness was related to the accounting for income taxes.

In connection with their audits for the fiscal year ended June 27, 2008 and for the nine months ended June 29, 2007 and the three months ended September 29, 2006 and in the subsequent interim periods, there have been no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG would have caused them to make reference thereto in their reports on financial statements for such years.

During the fiscal year ended June 27, 2008, the nine months ended June 29, 2007 and the three months ended September 29, 2006 and in the subsequent interim periods, there have been no reportable events, except that KPMG advised the Company of a material weakness related to the accounting for income taxes that existed at June 29, 2007 as detailed above.

On September 24, 2008, the Company's Audit Committee approved the change of independent accountants. A confirming letter from KPMG was attached to our Current Report on Form 8-K filed with the SEC on October 1, 2008.

New Independent Accountants

On September 25, 2008, the Company engaged McGladrey as the Company's independent registered public accounting firm, subject to final completion of McGladrey's client acceptance procedures, for the fiscal year ending June 26, 2009, and to perform procedures related to the financial statements included in the Company's quarterly reports on Form 10-Q, beginning with, and including, the quarter ended September 26, 2008. The Audit Committee made the decision to engage McGladrey. The Company has not consulted with McGladrey during its two most recent fiscal years or

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during any subsequent interim period prior to its appointment as auditor regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or (ii) any matter that was either the subject of disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (within the meaning of Item 304(a)(1)(v) of Regulation S-K).

In deciding to select McGladrey, the Audit Committee considered McGladrey's experience and expertise in auditing the financial statements of public companies. The Audit Committee concluded that McGladrey has no commercial relationship that would impair its independence and had the appropriate expertise that the Company required regarding its current operations.

Auditor Attendance at the Annual Meeting

Representatives from McGladrey will attend the Annual Meeting, where they will have an opportunity to make a statement if they desire to do so and will be available to answer appropriate questions. KPMG will not be attending the Annual Meeting.

Fees Paid to Independent Registered Public Accountants

The aggregate fees billed by KPMG for professional services provided for fiscal years 2008 and 2007 were as follows:

	Fiscal Year Ended	
	June 27, 2008	June 29, 2007
Audit Fees: (1)	\$ 3,510,104	\$ 5,109,000
Audit-Related Fees: (2)	2,487	2,000
Tax Fees: (3)	86,827	
All Other Fees: (4)	60,000	
Total	\$ 3,659,418	\$ 5,111,000

- (1) Represents fees for professional services rendered in connection with the audit of the annual financial statements, the review of the quarterly financial statements, advice on accounting matters that arose during the audit, services associated with SEC registration statements, and audit services provided in connection with other statutory or regulatory filings.
- (2) Represents assurance and related services that are reasonably related to the performance of the audit or review of our financial statements. Fiscal year 2008 fees of \$2,487 cover a special audit of a government-funded research product produced by the Spanish subsidiary. Fiscal year 2007 fees of \$2,000 relate to the same project in Spain the previous year.
- (3) Represents fees for international and U.S. tax planning and compliance services as well as consultation and assistance surrounding matters with various income and sales tax authorities. Fiscal year 2008 fees of \$80,000 cover a transfer pricing planning study for the U.S., and \$6,827 represent tax advisory services performed for the Canadian subsidiary.

- (4) Represents fees for services provided in connection with other miscellaneous items not otherwise included in the categories above. Fiscal year 2008 fees of \$60,000 reflect work on a voluntary disclosure for the Canadian subsidiary.

Audit Committee Pre-Approval Policies and Procedures

In accordance with its charter, the Audit Committee approves in advance all audit and non-audit services to be provided by our independent registered public accounting firm. In certain cases, the Audit Committee may delegate authority to pre-approve non-audit services on a preliminary basis to

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one or more members of the Audit Committee, provided that such pre-approvals are communicated to the full Audit Committee at its next meeting. During fiscal year 2008, all services were pre-approved by the Audit Committee in accordance with this policy.

Report of the Audit Committee of the Board of Directors

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended June 27, 2008, with our management. The Audit Committee has discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T. The Audit Committee has also received the written disclosures and the letter from the independent accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountants' communications with the audit committee concerning independence and has discussed with the independent accountants the independent accountants' independence. Based on the foregoing, the Audit Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended June 27, 2008.

Mr. Anthony Grillo

Mr. Eugene I. Davis

Mr. James A. McDivitt

Compensation and Human Resources Committee

In fiscal year 2008, the Compensation Committee was composed of four directors: Messrs. Grillo (Chair), Davis, and McDivitt and Ms. Isham. On August 28, Ms. Isham was appointed the Chairperson of the Compensation Committee. On October 6, 2008, Ms. Isham and Messrs. Davis, Grillo and McDivitt were reappointed to the Compensation Committee and Ms. Isham remained the Chairperson. The Compensation Committee met thirteen times during fiscal year 2008. The Compensation Committee has adopted a written charter that is available to stockholders on the Company's Web site at www.sgi.com under the *Investors* and then *Corporate Governance* sections.

The Compensation Committee of the Board acts on behalf of the Board to review, approve, and oversee the Company's compensation strategy, policies, plans and programs, including the following:

establishment of corporate and individual performance objectives relevant to the compensation of our executive officers, directors, and other senior management and evaluation of performance in light of these stated objectives;

review and approval of the compensation and other terms of employment or service, including severance and change-in-control arrangements, of our CEO and the other executive officers and directors;

administration of our equity compensation plans and other similar plans and programs; and

review of the Compensation Discussion and Analysis with management and consideration of whether to recommend that it be included in the Proxy Statements and other filings.

Compensation and Human Resources Committee Processes and Procedures

Typically, the Compensation Committee meets at least quarterly and with greater frequency if necessary. The agenda for each meeting is usually developed by the most senior Human Resources officer with approval of the CEO and the Chair of the Compensation Committee. Agenda items may also be added directly by the Chair of the Compensation Committee. The Compensation Committee meets regularly in executive session. However, from time to time, members of the Board, various

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members of management and other employees, and outside advisors or consultants may be invited by the Compensation Committee to make presentations, provide financial or other background information and advice, or otherwise participate in Compensation Committee meetings. The CEO may not participate in or be present during any deliberations or determinations of the Compensation Committee regarding his compensation or individual performance objectives. The charter of the Compensation Committee grants it full access to our books, records, facilities, and personnel as well as the authority to obtain, at our expense, advice and assistance from internal and external compensation, legal, accounting, or other advisors and consultants and other external resources that the Compensation Committee considers necessary or appropriate in the performance of its duties. In particular, the Compensation Committee has the sole authority to retain compensation consultants to assist in its evaluation of executive and director compensation, including the authority to approve the consultant's reasonable fees and other retention terms.

In fiscal year 2008, the Compensation Committee continued to retain the services of Frederic W. Cook & Co., Inc. as a compensation consultant (the Compensation Consultant). During this time, the Compensation Consultant:

monitored the efficacy of our existing compensation strategy and practices in supporting and reinforcing our long-term strategic goals,

assisted in developing and implementing a director and executive officer compensation program that supports our strategies, completed an annual review of director and executive pay competitiveness, advised on establishing an appropriate pay program and reviewed all compensation packages for new executives;

assisted with the design of our Annual Variable Incentive Plan, ensuring a bonus program that aligns the pay of executives and key employees with achievement of financial objectives;

provided research, including market practice data, and advice on matters related to severance and change-in-control provisions for certain officers and the CEO;

advised on the utilization of equity as a component of compensation for the directors, certain officers and other key employees;

completed an analysis of our equity programs, as well as their effectiveness in meeting Company objectives, and presented conclusions to the Compensation Committee; and

provided consultation to internal Human Resources staff and the Compensation Committee, as requested from time to time.

Some of these services continued into fiscal year 2009.

Historically, the Compensation Committee has reviewed and approved adjustments to annual compensation, determined bonus and equity awards, and established new performance objectives at one or more meetings held during the first quarter of the year. Generally, the Compensation Committee's process comprises two related elements: the determination of compensation levels and the establishment of performance objectives for the current year. For executives other than the CEO, the Compensation Committee considers evaluations and recommendations submitted to the Compensation Committee by the CEO. In the case of the CEO, the evaluation of his performance is conducted by the Compensation Committee, which determines any adjustments to his compensation as well as awards to be granted. As part of its deliberations, the Compensation Committee may review and consider,

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for all executives and directors as appropriate, materials such as financial reports and projections, operational data, tax and accounting information, executive and director stock ownership information, company stock performance data, analyses of historical executive compensation levels and current Company-wide compensation levels and recommendations of the Compensation Consultant. These recommendations may include analyses of executive and director compensation

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paid at other companies identified by the Compensation Consultant. The Compensation Committee considers matters related to individual compensation, such as compensation for new executive hires, as well as high-level strategic issues, such as the efficacy of the Company's compensation strategy, potential modifications to that strategy and new trends, and plans or approaches to compensation. At various meetings throughout the year, the Compensation Committee approves new-hire and other equity grants. The specific determinations of the Compensation Committee with respect to executive compensation for fiscal year 2008 are described in detail in the *Compensation Discussion and Analysis* section of this Proxy Statement.

Compensation and Human Resources Committee Interlocks and Insider Participation

The members of the Compensation Committee during fiscal year 2008 were Messrs. Grillo, Davis and McDivitt and Ms. Isham. Each committee member was a non-employee director. During fiscal 2008, no interlocking relationships existed between the Board and the Compensation Committee and the board of directors or compensation committee of another company.

Compensation and Human Resources Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis (CD&A) contained in this Proxy Statement. Based on this review and discussion, the Compensation Committee recommended to the Board that the CD&A be included in this Proxy Statement and incorporated by reference into our Annual Report on Form 10-K for the fiscal year ended June 27, 2008.

Mr. Anthony Grillo

Mr. Eugene I. Davis

Mr. James A. McDivitt

Ms. Joanne O. Isham

Corporate Governance and Nominating Committee

The Governance Committee of the Board is responsible for identifying, reviewing, and evaluating candidates to serve as directors (consistent with criteria approved by the Board), reviewing and evaluating incumbent directors, recommending to the Board candidates for election to the Board, making recommendations to the Board regarding the membership of the committees of the Board, assessing the performance of the Board, and developing a set of corporate governance principles for the Company. In fiscal year 2008, the Governance Committee was composed of three directors: Messrs. Yi (Chair) and Katari and Ms. Isham. The Governance Committee met four times during the fiscal year 2008. With the resignations of Messrs. Katari and Yi in August 2008, Mr. McDivitt joined the Governance Committee and Ms. Isham became the Chairperson of the Governance Committee on September 3, 2008. On October 6, 2008, Messrs. Davis and Grillo joined Ms. Isham and Mr. McDivitt on the Governance Committee and Mr. McDivitt became the Chairperson.

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The Governance Committee believes that candidates for director should have, at a minimum, certain qualifications, including being able to read and understand basic financial statements, being over 21 years of age, and having the highest personal integrity and ethics. The Governance Committee also considers such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of the Company, demonstrating excellence in his or her field, having the ability to exercise sound business judgment, and having the commitment to rigorously represent the long-term interests of the our stockholders. However, the Governance Committee retains the right to modify these qualifications from time to time. Candidates for director nominees are reviewed in the context of the current composition of the Board, our operating

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requirements, and the long-term interests of stockholders. In conducting this assessment, the Governance Committee considers diversity, skills, and such other factors as it deems appropriate given the current needs of the Board and the Company to maintain a balance of knowledge, experience, and capability.

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