



HOULIHAN LOKEY
HOWARD & ZUKIN
INVESTMENT BANKING SERVICES

GOODWIN | PROCTER

THE AD HOC COMMITTEE OF 6.50% SENIOR SECURED CONVERTIBLE
NOTEHOLDERS OF SILICON GRAPHICS, INC., *ET AL.*

July 27, 2006

TO: ALL HOLDERS OF 6.50% SENIOR SECURED CONVERTIBLE NOTES ISSUED BY
SILICON GRAPHICS, INC. (certain holders of Claims in Plan Class 5)

FROM: THE AD HOC COMMITTEE OF 6.50% SENIOR SECURED CONVERTIBLE
NOTEHOLDERS OF SILICON GRAPHICS, INC., *ET AL.*

We are writing to you on behalf of the Ad Hoc Committee (the "Ad Hoc Committee") of certain holders, or investment managers or advisors for the beneficial owners, of 6.50% Senior Secured Convertible Notes (the "6.50% Senior Secured Convertible Notes") issued under that certain Indenture, dated December 24, 2003, by and between Silicon Graphics, Inc. and U.S. Bank National Association in connection with the solicitation of your vote by Silicon Graphics, Inc., *et al.* (collectively, the "Debtors") as the holder of a Secured Note Claim under Class 5 with respect to the enclosed Debtors' First Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code, dated July 27, 2006 (the "Plan"). All capitalized terms not defined herein are defined in the Plan. In response to a request by the Debtors' financial advisor, the Ad Hoc Committee began to be organized on or about March 20, 2006. The Ad Hoc Committee retained Goodwin Procter LLP ("Goodwin Procter") as its legal counsel and Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey") as its financial advisor to represent its interests during the pendency of the Debtors' chapter 11 cases.

**FOR THE REASONS SET FORTH BELOW, THE AD HOC COMMITTEE
RECOMMENDS THAT YOU ACCEPT THE PLAN AND RETURN YOUR BALLOT
INDICATING YOUR ACCEPTANCE IN ACCORDANCE WITH THE VOTING
INSTRUCTIONS SET FORTH ON THE BALLOT.**

Certain members of the Ad Hoc Committee, with the advice and assistance of Goodwin Procter and Houlihan Lokey, negotiated with the Debtors prior to the Commencement Date a term sheet that contained the outline of an initial plan which was filed by the Debtors on June 15, 2006. The Plan, as amended, is the product of the Global Settlement among the Debtors, the Creditors' Committee, the DIP Lenders, the Backstop Purchasers, and Lampe Conway, with the support of the Ad Hoc Committee.

The Plan provides for the exchange of Secured Note Claims, including Secured Claims on account of the 6.50% Senior Secured Convertible Notes and the Secured Claims on account of the 11.75% Indenture, for:

- (i) 2,500,000 shares of New Common Stock;
- (ii) the right to participate in the Rights Offering to exercise 6,800,000 Subscription Rights at the Rights Offering Price of \$6.67 per share; and
- (iii) 100% of the beneficial interests in the Liquidating Trust that will liquidate the Liquidating Trust Assets comprised of any and all claims and causes of action, including price fixing claims ("the DRAM Litigation Claims"), arising out of the Debtors' purchase of dynamic random access memory between April 1999 and June 2002 and \$250,000 in Cash.

Each Subscription Right is the right to subscribe for one share of New Common Stock at the price of \$6.67 per share. The proceeds of the Rights Offering, in conjunction with the proceeds of the Exit Facility, will be used to satisfy the Postpetition Financing Obligations and provide adequate liquidity to the Reorganized Debtors. Pursuant to the terms and subject to the conditions of the Backstop Commitment Agreement, the Backstop Purchasers, which are certain holders of Secured Note Claims and members of the Ad Hoc Committee, have agreed to purchase any amount of New Common Stock not purchased pursuant to the Subscription Rights issued to holders of allowed Secured Note Claims and allowed Cray Unsecured Debenture Claims pursuant to the terms and subject to the conditions set forth in the Backstop Commitment Agreement. The New Common Stock issued to holders of Secured Note Claims is subject to dilution by the shares ultimately issued under the Management Incentive Plan, the Oververallotment Shares and 700,000 Subscription Rights issued to holders of allowed Cray Unsecured Debenture Claims. In addition to the foregoing dilution, to the extent holders of Secured Note Claims decline to exercise the Subscription Rights in accordance with the procedures set forth in the enclosed solicitation materials, their portion of the 2,500,000 shares of New Common Stock will be diluted by the 6,800,000 shares of New Common Stock issued pursuant to the Subscription Rights.

The Plan provides for the assignment and transfer of \$250,000 cash and the DRAM Litigation Claims to the Liquidating Trust to prosecute such claims for the benefit of the Secured Note Claims. Holders of allowed Class 5 Secured Note Claims will receive from the SGI Liquidation Trust their *pro rata* share of the proceeds of the Liquidating Trust. Although the litigation is ongoing and the recovery is still speculative, the Debtors estimate that their share of a potential recovery could exceed \$5 million.*

As set forth in the Disclosure Statement, the Debtors estimate the recovery to range from 26%¹ to 67%² of the value of allowed Secured Note Claims, based on the assumptions set forth in the Disclosure Statement.*

* Based solely on the Debtors' analysis.

¹ Assumes no exercise of Subscription Rights by holders of Secured Note Claims.

² Assumes 100% exercise of Subscription Rights by holders of Secured Note Claims.

For the purpose of voting on the Plan, the Debtors have provided you with a Ballot for either accepting or rejecting the Plan and a Subscription Form for exercising the Subscription Rights both of which should be completed and timely returned by you. These documents should be completed and mailed in accordance with the procedures set forth in the applicable instruction sheet, the Disclosure Statement and the Disclosure Statement Order. In order to participate in the Rights Offering holders of Secured Note Claims must timely exercise the Subscription Rights and pay the Subscription Purchase Price, each of which must be received by the Rights Offering Agent on or prior to September 6, 2006.

THE AD HOC COMMITTEE ENDORSES THE PLAN AND RECOMMENDS THAT ALL HOLDERS OF SECURED NOTE CLAIMS VOTE TO ACCEPT THE PLAN.
NOTWITHSTANDING OUR RECOMMENDATION, EACH CREDITOR (INCLUDING INDIVIDUAL COMMITTEE MEMBERS) MUST MAKE THEIR OWN INDEPENDENT DETERMINATION AS TO WHETHER OR NOT THE PLAN IS ACCEPTABLE TO THAT CREDITOR AND SHOULD CONSULT THEIR OWN LEGAL AND/OR FINANCIAL ADVISOR(S).

All holders of Secured Note Claims are encouraged to review the Plan, the Disclosure Statement, and the related documents in their entirety in connection with voting on the Plan and exercising the Subscription Rights.

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SECURED CONVERTIBLE NOTEHOLDERS OF
SILICON GRAPHICS, INC., *ET AL.*

