

Fallen star SGI to sell most assets for \$25M

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(AP) -- Silicon Graphics Inc. will sell the remaining shreds of its fraying franchise to Rackable Systems Inc. for \$25 million, punctuating the downfall of a former high-tech star that once dazzled investors and customers with the prowess of its fancy computers.

The proposed dismantling was announced after Silicon Graphics - also known as SGI - filed for Chapter 11 bankruptcy protection for the second time in less than three years. The deal with Rackable Systems, covering most of Silicon Graphics' assets, is supposed to be completed within the next two months.

The acquisition won't include \$562 million in debt that Silicon Graphics listed in a bankruptcy petition filed in New York federal court. The Sunnyvale-based company valued its assets at \$390 million.

Silicon Graphics shares plunged 23 cents, or 56 percent, to close Wednesday at 18 cents while Rackable Systems shares shed 18 cents, or 4.4 percent, to finish at \$3.88.

In bankruptcy court documents, Silicon Graphics said it had been scrambling to find a buyer for months, but couldn't locate a mate even after contacting about 150 potential suitors.

Backed into a corner, Silicon Graphics fell into the arms of Fremont-based Rackable Systems.

It's a harsh comedown for a company whose sales peaked at \$3.7 billion

in 1997 when it boasted a stock price above \$30 and employed nearly 11,000 people.

Emboldened by its success, Silicon Graphics paid \$125 million for a sprawling campus in Mountain View - a complex that it would vacate a just few years later. It's now the home of Internet search leader Google Inc.

Silicon Graphics' sales shriveled to just \$354 million in its last fiscal year ending in June 2008. And there's just 1,166 employees left on its payroll after many waves of layoffs.

Besides its California headquarters, Silicon Graphics also has U.S. offices in Maryland, Minnesota and Wisconsin. Rackable Systems may retain some Silicon Graphics workers, according to bankruptcy court documents.

Silicon Graphics was founded in 1981 by a group including renowned entrepreneur Jim Clark, who went on to even greater fame and fortune in the 1990s when he helped launch Web browser pioneer Netscape Communications.

Silicon Graphics emerged as an investment darling in the 1990s with a line of high-powered computers that wowed investors and movie lovers alike with their ability to produce special effects in films like "Jurassic Park" and "Terminator 2."

While the work in Hollywood attracted headlines, the company's computers also won over government agencies and corporate customers that needed more sophisticated computers to meet their needs. The U.S. government still accounts for about 10 percent of Silicon Graphics' sales, according to Wednesday's bankruptcy filing.

But Silicon Graphics' fancy computers fell out of favor as rivals like IBM Corp., Hewlett-Packard Co., Dell Inc. and Sun Microsystems Inc. rolled out competing products that cost less. As its customers defected, Silicon Graphics was wrestling with higher expenses than its competitors - a situation that led to its first Chapter 11 bankruptcy filing in May 2006.

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