

CRAY

2003  
ANNUAL REPORT

**Cray** designs, develops, markets and services high-performance computer systems, commonly known as supercomputers. These systems provide capability and capacity far beyond typical server computer systems and address the world's most challenging scientific problems for government, industry and academia.

CRAY'S PROMISE  
BECAME REALITY IN 2003

# X1

IN 2003, WE BEGAN SHIPPING  
CRAY X1™ SYSTEMS TO CUSTOMERS  
AROUND THE WORLD, IN EVERY  
MAJOR GEOGRAPHIC REGION





2X

RED STORM  
OPENS NEW OPPORTUNITIES  
AND WILL MORE THAN  
DOUBLE OUR ADDRESSABLE  
MARKET BY 2005

To Our Shareholders,

The year 2003 was one of many successes. We brought to market our first new product since we started Cray Inc. in April 2000, called the Cray X1™ supercomputer; grew our talented workforce by over 60 people; and achieved the aggressive corporate goals we set for ourselves in 2003. With solid financial results, we are building the infrastructure for industry leadership.

#### Product Performance

In 2003 we began full production of the Cray X1 supercomputer, making shipments to customers around the world and in a variety of market sectors. Our customers exploited the unrivaled capabilities of the Cray X1 system by making unprecedented technological advances, expanding the boundaries of science and engineering:

- + Weather forecast improvements through the ability to run higher-resolution models (rather than the standard 10-kilometer) in practical timeframes. Using a Cray X1 supercomputer, a 5-kilometer resolution model can now be run for the entire continental United States in about one and one-half hours and a 2.5-kilometer resolution model in about three and one-half hours.
- + A popular fluid dynamics application used in government research as well as in the aerospace and automotive industries achieved sustained performance exceeding a teraflops (one trillion calculations per second). This represents a new capability milestone for scientific research and engineering design.

#### Strategic Workforce Enhancement

To exploit our rapid progress and growth potential, we also enhanced our workforce through strategic hires. In August, we announced the appointment of former IBM sales executive Peter J. Ungaro as Cray's vice president heading our worldwide sales and marketing. We also expanded our applications and benchmarking organization in anticipation of further growth in our customer base.

#### Financial Performance

Through the dedicated efforts of everyone in our organization and with strong support from our customers, we achieved consistently strong financial results in 2003. Fourth-quarter 2003 marked our eighth successive profitable reporting period. Our year-over-year product revenue doubled, and total revenue grew to \$237 million. We ended the year with over \$24.1 million in net income (excluding non-recurring items that increased our reported net income) and significantly improved our working capital position. We also strengthened and simplified our balance sheet with a \$49 million public offering, the conversion of all of our preferred shares and repayment of all of our bank debt. While our strong 2003 financial results position us well for the challenges of 2004, we remind everyone that our quarterly financial results are highly variable, and profitability in any quarter can hinge on one customer acceptance or a timely sales contract.



The U.S. government historically has provided partial funding support for our research and development program, and 2003 was no exception. In July, we were selected by the Defense Advanced Research Projects Agency (DARPA) to participate in the second phase of its High Productivity Computing Systems program. Through this program, we and our university partners will receive a total of nearly \$50 million over the next three years to support our "Cascade" advanced research program. This program aims to deliver by 2010 a supercomputer able to perform at a sustained rate of a petaflops, or a thousand trillion calculations per second. Separately, the U.S. government also augmented an existing development contract by agreeing to contribute \$17.5 million over the next two years toward the continued development of the Cray X1E™ system and its successor, our "Black Widow" program.

#### **Growth Opportunities**

In 2002 we were awarded a \$93 million contract to provide a new supercomputer for delivery in 2004 to the U.S. Department of Energy's Sandia National Laboratories, what we call our "Red Storm" system. With encouragement from this customer and strong interest from the marketplace, in October 2003 we announced that we would offer an additional product line based on the Red Storm system design, starting in the second half of 2004. When this product is ready, we will have doubled the size of our addressable market.

In February 2004 we announced the signing of a definitive agreement to acquire OctigaBay Systems Corporation, a development-stage privately held company located in Vancouver, B.C. OctigaBay is developing a balanced high-bandwidth computing system targeted at the midrange market. OctigaBay's current development schedule plans early production units in late 2004 with full production ramp

in 2005. We plan on completing this acquisition by the end of April 2004. With this system in place we again will have doubled our addressable market.

The year 2003 was one of tremendous accomplishments by our employees. While we face numerous challenges in 2004 with three major product introductions, we look forward to further accomplishments as we continue pursuing our mission to deliver high-performance computing systems that enable our customers to solve their most challenging technical problems.

On behalf of our Board of Directors and management, I would like to thank our employees, customers, partners and shareholders for your continued confidence and support.

Sincerely,



James E. Rottsolk

CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER



## Investor Information

### Board of Directors

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Daniel J. Evans  
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Chief Executive Officer  
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Burton J. Smith  
Chief Scientist  
Cray Inc.

### Executive Officers

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President

Burton J. Smith  
Chief Scientist

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Vice President  
Government Programs

Kenneth W. Johnson  
Vice President, General Counsel  
and Corporate Secretary  
Legal Affairs

Lori C. Kaiser  
Vice President  
Marketing and Strategic Planning

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Engineering

Gerald E. Loe  
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Manufacturing and  
Information Services

Scott J. Poteracki  
Vice President and  
Chief Financial Officer  
Finance

Peter J. Ungaro  
Vice President  
Worldwide Sales and Marketing

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Roger L. Dagitz  
Director  
Central Services

Andreas Kerl  
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Worldwide High Performance  
Computing Services

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Chief Technology Officer

Wayne J. Kugel  
Vice President  
Project Management

Joel E. Newsom  
Director  
Americas Field Services

Steven S. Perry  
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Americas Sales

Ly-huong T. Pham  
Vice President  
Software

Richard M. Russell  
Vice President  
Asia Pacific Sales

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Employee Support

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Vice President  
Engineering Planning

Ulla Thiel  
Director  
EMEA Sales

Robert J. Tillma  
Director  
Manufacturing

Marlene Wedge  
Director  
Information Services

Charles A. Weidenfeller, Jr.  
President, Cray Federal Inc.

### Corporate Scientists

David Callahan  
Susan L. Coatney  
William T. Moore, Jr.  
Steven L. Scott

### Cray Annual Meeting

May 12, 2004  
2:00 pm

411 First Avenue South  
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### Transfer Agent & Registrar

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### Legal Counsel

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### Independent Public Accountants

Deloitte & Touche LLP  
Seattle, WA

### Stock Market Information

Cray Inc. Common Stock is  
traded on NASDAQ National  
Market System under the  
symbol CRAY.

### SEC Website Link

[www.sec.gov/cgi-bin/srch-  
edgar?CRAY+INC](http://www.sec.gov/cgi-bin/srch-edgar?CRAY+INC).

### Available Information

Our Annual Report on Form  
10-K, our other SEC reports and  
filings, our Code of Business  
Conduct, Corporate Governance  
Principles, the charters of our  
Board committees and other  
governance documents and  
information are available on our  
web site, [www.cray.com](http://www.cray.com), under  
"Investors."

You may also obtain a copy  
of our Form 10-K filed with  
the Securities & Exchange  
Commission and other company  
information, without charge,  
by writing or calling:

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### Equal Opportunity

Cray Inc. is an equal opportunity  
and affirmative action employer.



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