

CRAY INC  
Form DEF 14A  
April 21, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
(Rule 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
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

Cray Inc.

(Name of  
Registrant  
as  
Specified  
In Its  
Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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.. Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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NOTICE OF 2017 ANNUAL MEETING OF SHAREHOLDERS

Dear Cray Inc. Shareholder:

You are cordially invited to attend our Annual Meeting of Shareholders, which will be held in the Fifth Avenue Conference Room at our principal executive offices located at 901 Fifth Avenue, Seattle, Washington 98164 on Tuesday, June 13, 2017, at 3:00 p.m. Pacific Time for the following purposes:

1. To vote on the election of eight directors, each to serve a one-year term;
2. To vote, on an advisory and non-binding basis, to approve the compensation of our Named Executive Officers;
3. To vote, on an advisory and non-binding basis, on the frequency of holding future advisory votes on the compensation of our Named Executive Officers; and
4. To ratify the appointment of Peterson Sullivan LLP as our independent registered public accounting firm for the year ending December 31, 2017.

The shareholders will also act on any other business that may properly come before the Annual Meeting, including any adjournments or postponements of the Annual Meeting.

Any action on the items of business described above may be considered at the Annual Meeting at the scheduled time and date specified above or at any time and date to which the Annual Meeting may be properly adjourned or postponed. Only shareholders of record on April 6, 2017, the record date for the Annual Meeting, are entitled to the notice of, and to vote on, these matters.

We look forward to seeing you. Thank you for your ongoing support of and interest in Cray.

Sincerely,  
Peter J. Ungaro  
President and Chief Executive Officer  
Seattle, Washington  
April 21, 2017

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IMPORTANT

Whether or not you expect to attend the Annual Meeting in person, we urge you to vote at your earliest convenience. You may vote via the Internet or by telephone or, if this Proxy Statement was mailed to you, sign, date and return the enclosed proxy card. If you wish to return the proxy card by mail, an addressed envelope, for which no postage is required if mailed in the United States, is enclosed for that purpose. Voting via the Internet or by

telephone or by sending in your proxy card will not prevent you from voting your shares at the Annual Meeting, if you desire to do so, as you may revoke your earlier vote.

Important Notice Regarding the Availability of Proxy Materials for Cray's Annual Meeting of Shareholders on June 13, 2017

The Cray Inc. Notice and Proxy Statement for the 2017 Annual Meeting of Shareholders and the 2016 Annual Report to Shareholders are available online at <https://materials.proxyvote.com/225223> and <http://investors.cray.com>

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CRAY INC.  
901 Fifth Avenue, Suite 1000  
Seattle, WA 98164

PROXY STATEMENT FOR ANNUAL  
MEETING OF SHAREHOLDERS

to be Held at:  
901 Fifth Avenue, Fifth Avenue Conference Room  
Seattle, WA 98164  
June 13, 2017  
3:00 p.m. Pacific Time

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Q: Why am I receiving these materials?

A: The Board of Directors of Cray Inc. (“Cray” or the “Company”) has made these materials available to you via the Internet, or has delivered printed versions of these materials to you by mail, on or about April 21, 2017 in connection with its solicitation of proxies for use at our 2017 annual meeting of shareholders (the “2017 Annual Meeting” or the “Annual Meeting”), which will take place on Tuesday, June 13, 2017, at 3:00 p.m. Pacific Time, in the Fifth Avenue Conference Room at our corporate headquarters located at 901 Fifth Avenue, Seattle, Washington 98164. For a map and directions to our corporate headquarters, see our website, [www.cray.com](http://www.cray.com), under “Contact.” The contents of our website are not incorporated by reference into this Proxy Statement or our other SEC reports and filings.

Q: What is included in these materials?

A: These materials  
include:

- Our Notice of the 2017 Annual Meeting and our Proxy Statement, which summarize the information regarding the matters to be voted on at the Annual Meeting;
- Our 2016 Annual Report to Shareholders, which includes our Annual Report on Form 10-K and audited consolidated financial statements for the year ended December 31, 2016; and
- The proxy card, if you requested printed versions of these materials by mail, or an electronic voting form, if you are viewing these materials via the Internet.

Q: What items will be voted on at the 2017 Annual Meeting?

A: There are four known matters that will come before the shareholders at the 2017 Annual Meeting:

- The election of eight directors to the Board of Directors, each to serve a one-year term;
- The advisory and non-binding vote on the compensation of our Named Executive Officers;
- The advisory and non-binding vote on the frequency of holding future advisory votes on the compensation of our Named Executive Officers; and
- The ratification of the appointment of Peterson Sullivan LLP as our independent registered public accounting firm for the year ending December 31, 2017.

It is possible that other business may come before the Annual Meeting, although we currently are not aware of any such matters.

Q: What are the voting recommendations of our Board?

A: Our Board of Directors recommends that you vote your shares “FOR” each of the named nominees to the Board; “FOR” the approval of the compensation of our Named Executive Officers; “1 YEAR” as the frequency

with which our shareholders are provided an advisory and non-binding vote on the compensation of our Named Executive Officers; and “FOR” the ratification of the appointment of Peterson Sullivan LLP as our independent registered public accounting firm for the year ending December 31, 2017. In this Proxy Statement, the terms “the Board of Directors,” “the Board,” or “our Board” refer to the Board of Directors of Cray. None of the directors have any substantial interest in any matter to be acted upon, other than elections to office with respect to the directors so nominated. None of the executive officers has any substantial interest in any matter to be acted upon, other than to the extent that the Board will consider the results of the non-binding advisory vote with respect to making determinations about the compensation of our Named Executive Officers.

Q: Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?

A: As permitted by the U.S. Securities and Exchange Commission (the “SEC”), we are making this Proxy Statement and the Annual Report available via the Internet. On or about April 21, 2017, we mailed a Notice of Internet Availability of Proxy Materials, also referred to as the “Notice,” to our shareholders as of the record date and certain beneficial owners. We then posted this Proxy Statement and the Annual Report on the Internet at <https://materials.proxyvote.com/225223> and <http://investors.cray.com>. The Notice contains instructions on how to access this Proxy Statement and the Annual Report and to vote online.

Q: Why did I receive a full set of proxy materials rather than the Notice?

A: We are providing shareholders who have previously requested to receive paper copies of the proxy materials and our shareholders who are participants in the Cray 401(k) Savings Plan (the “Cray 401(k) Plan”) paper copies of the proxy materials instead of the Notice.

Q: Who may vote at the Annual Meeting?

A: If you owned shares of our common stock at the close of business on April 6, 2017, the record date for the Annual Meeting, you are entitled to vote those shares. On the record date, there were 40,287,899 shares of our common stock outstanding, our only class of stock having general voting rights. You have one vote for each share of common stock owned by you on the record date.

Q: What is the difference between holding shares as a shareholder of record and holding shares as a beneficial owner of shares held in street name?

A: Shareholder of Record. If you have shares registered directly in your name with our stock transfer agent, Computershare Inc. (“Computershare”), then you are considered the shareholder of record with respect to those shares and we sent the Notice or proxy materials directly to you.

Beneficial Owner of Shares Held in Street Name. If you have shares held in an account at a brokerage firm, bank, broker-dealer or other similar organization, then you are the beneficial owner of shares held in “street name” and the Notice was forwarded to you by that organization. The organization holding the shares in your account is considered the shareholder of record with respect to those shares for the purpose of voting at the Annual Meeting. As a beneficial owner, you have the right to direct that organization on how to vote the shares it holds in your account.

Q: How can I vote?

A: You may vote via the Internet, by telephone, by returning an enclosed proxy card if one was sent to you, or by voting in person at the Annual Meeting.

Q: How do I vote via the Internet or by telephone?

A: If You Are a Shareholder of Record:

If your shares are registered directly in your name, you may vote via the Internet or by telephone through services offered by Broadridge Financial Solutions, Inc. (“Broadridge”). If you received the Notice, then go

to the website referred to on the Notice. If you received a full set of proxy materials in the mail, then go to the website or call the telephone number referred to on the proxy card. Please have the Notice or proxy card in hand when going online or calling, and follow the instructions on the form you are using.

You may vote via the Internet or by telephone 24 hours a day, 7 days a week until 11:59 p.m. Eastern Time/8:59 p.m. Pacific Time, on Monday, June 12, 2017, the day before the Annual Meeting.

If you requested printed copies of the proxy materials, you may also vote by completing and signing the enclosed proxy card and mailing it to us in the enclosed self-addressed envelope (postage-free in the United States). We need to receive the signed proxy card by the time of the Annual Meeting.

**If You Are a Beneficial Owner of Shares Held in Street Name:**

A number of brokerage firms, banks, broker-dealers or other similar organizations participate in a program for shares held in "street name" that offers Internet and telephone voting options. This program is different from the program for shares registered directly in the name of the shareholder. If your shares are held in an account at an organization participating in this program, then you may vote those shares by using the website or calling the telephone number referenced on the instructions provided by that organization. Similarly, if you received printed copies of the proxy materials through your broker, bank or other similar organization, then you may vote by completing and signing the voting form and mailing it to that organization in the self-addressed envelope it provided.

**Q: May I change my vote or revoke my proxy?**

**A:** Yes. If you change your mind after you have voted by Internet or by telephone or you sent in your proxy card and wish to revoke, you may do so by following one of these procedures:

• Vote again via the Internet or by telephone;

• Send in another signed proxy card with a later date;

• Send a letter revoking your vote or proxy to our Corporate Secretary at our offices in Seattle, Washington; or

• Attend the Annual Meeting and vote in person.

We will tabulate the latest valid vote or instruction that we receive from you.

**Q: How do I vote if I hold shares in my Cray 401(k) Plan account?**

Shares of our common stock held in the Cray 401(k) Plan are registered in the name of the Trustee of the Cray A: 401(k) Plan, Fidelity Management Trust Company. Under the Cray 401(k) Plan, participants may instruct the Trustee how to vote the shares of Cray common stock allocated to their accounts.

The shares allocated under the Cray 401(k) Plan can be voted by submitting voting instructions via the Internet, by telephone or by mailing your proxy card. Voting of shares held in the Cray 401(k) Plan must be completed by 11:59 p.m. Eastern Time/8:59 p.m. Pacific Time on Thursday, June 8, 2017. These shares cannot be voted at the Annual Meeting and prior voting instructions cannot be revoked at the Annual Meeting. Otherwise, participants can vote these shares in the same manner as described above for shares held directly in the name of the shareholder.

The Trustee will cast votes for shares in the Cray 401(k) Plan according to each participant's instructions. If the Trustee does not receive instructions from a participant in time for the Annual Meeting, the Trustee will vote the participant's allocated shares in the same manner and proportion as the shares with respect to which voting instructions were received.

**Q: How do I vote in person?**

If you plan to attend the Annual Meeting and vote in person, we will give you a ballot when you arrive. If your A: shares are held in "street name," you must obtain a "legal proxy" from the organization that holds your shares. You should contact your account executive about obtaining a legal proxy.



Q: What happens if I do not give specific voting instructions?

A: Shareholders of Record. If you are a shareholder of record and you:

Indicate when voting via the Internet or by telephone that you wish to vote as recommended by our Board; or  
Sign and return a proxy card without giving specific voting instructions, then the proxy holders will vote your shares in the manner recommended by our Board on all matters presented in this Proxy Statement and as the proxy holders may determine in their discretion with respect to all other matters properly presented for a vote at the Annual Meeting, including without limitation whether to postpone or adjourn the Annual Meeting.

Beneficial Owners of Shares Held in Street Name. If you are a beneficial owner of shares held in “street name” and do not provide the organization that holds your shares with specific voting instructions, then under the rules of various national and regional securities exchanges, the organization that holds your shares may generally vote on “discretionary” matters but cannot vote on “non-discretionary” matters.

If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-discretionary matter, then the organization will inform our Inspector of Elections that it does not have the authority to vote on this matter with respect to your shares. This is generally referred to as a “broker non-vote.” Please provide voting instructions to the organizations that hold your shares by carefully following their instructions.

Q: Which ballot measures are considered “discretionary” or “non-discretionary?”

Proposal 1 (election of eight directors), Proposal 2 (advisory and non-binding vote on the compensation of our Named Executive Officers), and Proposal 3 (advisory and non-binding vote on the frequency of holding future advisory votes on the compensation of our Named Executive Officers) are each “non-discretionary” items. If you do not instruct your broker how to vote with respect to these items, then your broker may not vote with respect to these proposals and those votes will be counted as “broker non-votes.” Broker non-votes will have no effect on the outcome of Proposal 1, Proposal 2 or Proposal 3 since broker non-votes are not considered entitled to vote on such proposals. Proposal 4 (ratification of the appointment of our independent registered public accounting firm) is considered a “discretionary” item and your broker may vote on this proposal.

Q: How are abstentions treated?

Abstentions are counted for purposes of determining whether a quorum is present. For Proposal 1 (election of eight directors), a director nominee will be elected if the number of votes cast in favor of that director exceeds the number of votes cast against. For Proposal 2 (advisory and non-binding vote on the compensation of our Named Executive Officers) and Proposal 4 (ratification of independent registered public accounting firm), each proposal will be adopted if the number of votes cast in favor of the proposal exceeds the number of votes cast against the proposal. Abstentions are not treated as votes cast affirmatively or negatively and therefore will have no effect on the outcome of Proposal 1, Proposal 2 or Proposal 4. For Proposal 3 (advisory and non-binding vote on the frequency of holding future advisory votes on the compensation of our Named Executive Officers), you may vote “1 YEAR,” “2 YEARS,” “3 YEARS” or “ABSTAIN.” If you abstain from voting on Proposal 3, the abstention will not have an effect on the outcome of the vote since the option that receives the highest number of votes cast will be the frequency that has been approved by shareholders.

Q: What is the quorum requirement for the Annual Meeting?

The quorum requirement for holding the Annual Meeting and transacting business is a majority of the outstanding shares entitled to be voted. The shares may be present in person or represented by proxy at the Annual Meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

Q: What vote is required to approve each proposal?

A. Proposal 1: To Elect Eight Directors Each to Serve a One-Year Term.

We have adopted a majority voting standard for the election of directors in non-contested elections. A director nominee will be elected if the number of shares cast in favor of that director's election exceeds the number of votes cast against, assuming the presence of a quorum. If a director nominee who is an incumbent does not receive the requisite vote, that director's term will end on the earliest of (i) the date on which the Board appoints an individual to fill the office held by that director, (ii) the date of the director's resignation, or (iii) 90 days after the date on which the voting results of the election are certified.

Proposal 2: Advisory and Non-Binding Vote on the Compensation of Our Named Executive Officers.

To be approved, the number of votes cast in favor must exceed the number of votes cast against. If you do not vote, do not instruct your broker how to vote or you abstain from voting, your vote will not have any effect on the outcome of the advisory vote, assuming the presence of a quorum.

Proposal 3: To Vote, on an Advisory and Non-Binding Basis, on the Frequency of Holding Future Advisory Votes on the Compensation of our Named Executive Officers.

The option of one year, two years or three years that receives the highest number of votes cast will be the frequency of the vote on the compensation of our Named Executive Officers that has been approved by shareholders on an advisory and non-binding basis. Accordingly, if you do not vote for any option, do not instruct your broker how to vote or you abstain from voting, your vote will not have any effect on the outcome of the advisory vote, assuming the presence of a quorum.

Proposal 4: To Ratify the Appointment of Peterson Sullivan LLP as Our Independent Registered Public Accounting Firm for the Year Ending December 31, 2017.

To be approved, the number of votes cast in favor must exceed the number of votes cast against. If you do not vote or if you abstain from voting, it will have no effect on this proposal, assuming the presence of a quorum.

Q: Who will count the votes?

A: Representatives of Broadridge will serve as the Inspector of Elections and count the votes.

Q: Is voting confidential?

We keep all the proxies, ballots and voting tabulations private as a matter of practice. We let only our Inspector of Elections examine these documents. Our Inspector of Elections will not disclose your vote to our management unless it is necessary to meet legal requirements. Our Inspector of Elections will forward to our management, however, any written comments that you make on the proxy card or elsewhere.

Q: Who pays the costs of soliciting proxies for the Annual Meeting?

We will pay all the costs of soliciting these proxies. In addition to soliciting proxies by distributing these proxy materials, our officers and employees may also solicit proxies by telephone, by fax, by mail, via the Internet or other electronic means of communication, or in person. No additional compensation will be paid to officers or employees for their assistance in soliciting proxies. We will reimburse banks, brokers and other similar organizations for the expenses they incur in forwarding the proxy materials to you.

Q: Can I view future proxy statements, annual reports and other documents via the Internet, and not receive any paper copies through the mail?

A: Yes. If you wish to view future proxy statements, annual reports and other documents only via the Internet, and you are a:

Shareholder of Record: Please visit the Broadridge Investor E-Connect proxy delivery preferences webpage, [www.proxyvote.com](http://www.proxyvote.com), enter your voter control number found on your Notice or proxy card, and follow the

instructions for obtaining your documents electronically, or telephone Broadridge at 1-800-579-1639, or send an email to: [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com).

Beneficial Owner of Shares Held in Street Name: Please visit the Broadridge Investor E-Connect webpage, [www.proxyvote.com](http://www.proxyvote.com), and follow the instructions at that site, or telephone Broadridge at 1-800-579-1639, or send an email to: [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com).

Please have the Notice or proxy card in hand when accessing these sites or telephoning. Your election to view these documents via the Internet will remain in effect until you revoke it. If you so elect, then next year you would receive an email with instructions containing links to those materials and to the proxy voting site. Please be aware that if you choose to access these materials via the Internet, then you may incur costs such as telephone and Internet access charges for which you will be responsible.

Q: How do I receive paper copies of the proxy materials, if I so wish?

A: The Notice contains instructions about how to elect to obtain paper copies of the proxy materials. Your election will remain in effect until you revoke it. All shareholders who do not receive the Notice will receive a paper copy of the proxy materials by mail.

Q: I received multiple copies of the Notice and/or proxy materials. What does that mean and can I reduce the number of copies that I receive?

A: This generally means your shares are registered differently or are held in more than one account. Please provide voting instructions for all proxy cards and Notices that you receive.

If your shares are registered directly in your name, you may be receiving more than one copy of the proxy materials because our transfer agent has more than one account for you with slightly different versions of your name, such as different first names (“James” and “Jim,” for example) or with and without middle initials. If this is the case, you can contact our transfer agent and consolidate your accounts under one name. The contact information for our transfer agent is set out below in the next Q and A.

If you own shares through a brokerage firm, bank or other organization holding your shares in “street name,” we have implemented “householding,” a process that reduces the number of copies of the Annual Meeting materials and other correspondence you receive from us. Householding is available for shareholders who share the same last name and address and hold shares in “street name,” where the shares are held through the same brokerage firm, bank or other similar organization. As a result of householding, only one Notice of Internet Availability of Proxy Materials or Proxy Statement and Annual Report will be delivered to multiple shareholders sharing an address unless you notify your broker or bank to the contrary. If you hold your shares in “street name” and would like to start householding, or if you participate in householding and would like to receive a separate Notice of Internet Availability of Proxy Materials or Proxy Statement and Annual Report, please call 1-866-540-7095 and provide the name of your broker, bank or other similar organization and your account number(s), or contact Ruby H. Alexander, Assistant Corporate Secretary, at Cray Inc., 901 Fifth Avenue, Suite 1000, Seattle, WA 98164.

Unfortunately, householding is only possible for shares held through the same brokerage firm, bank or other similar organization. Thus you cannot apply householding to reduce the number of sets of proxy materials you receive in the mail if you have accounts at different brokers, for example. In those circumstances, one way to reduce the number of sets of proxy materials you receive in the mail is to sign up to review the materials via the Internet. See “Can I view future proxy statements, annual reports and other documents via the Internet, and not receive any paper copies through the mail?” above.

We will deliver, promptly upon written or oral request, a separate copy of the Annual Meeting materials to a shareholder at a shared address to which a single copy of such materials has been delivered.

Q: What if I have lost or cannot find my stock certificates, need to change my account name, have moved and need to change my mailing address, or have other questions about my Cray stock?

A: You may contact our transfer agent, Computershare, by calling: 877-522-7762 (for foreign investors, 201-680-6578), 800-490-1493 (TDD for hearing-impaired in the United States) or 781-575-2394 (TDD for



foreign investors), visiting its website at [www.computershare.com/investor](http://www.computershare.com/investor) or writing to Computershare Inc. Shareholder Relations, P.O. Box 30170, College Station, TX 77842-3170.

Q: How can I find the voting results of the Annual Meeting?

A: The voting results will be announced at the Annual Meeting. We will report the voting results in a Current Report on Form 8-K filed with the SEC within four business days after the end of the Annual Meeting.

Q: Whom should I call if I have any questions?

A: If you have any questions about the Annual Meeting or voting, or about your ownership of our common stock, please contact Ruby H. Alexander, our Assistant Corporate Secretary, at (206) 701-2000.

## OUR COMMON STOCK OWNERSHIP

The following table shows, as of April 6, 2017, the number of shares of our common stock beneficially owned by the following persons:

▲ All persons we know to be beneficial owners of at least 5% of our common stock;

○ Our directors;

○ Our Named Executive Officers for 2016; and

▲ All current directors and executive officers as a group.

As of April 6, 2017, there were 40,287,899 shares of our common stock outstanding.

Name and Address (1)	Common Shares Owned	Restricted Stock Units Vesting and Options Exercisable (2) Within 60 Days	Total Beneficial Ownership (2)	Percentage
5% Shareholders				
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	4,761,454	—	4,761,454 (3)	11.8%
Capital Research Global Investors 333 South Hope Street Los Angeles, CA 90071	4,272,068	—	4,272,068 (4)	10.6%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	3,221,996	—	3,221,996 (5)	8.0%
Mairs and Power, Inc. 332 Minnesota Street, W-1520 First National Bank Building St. Paul, MN 55101	3,149,271	—	3,149,271 (6)	7.8%
Independent Directors				
Prithviraj Banerjee	4,344	20,000	24,344 (7)	*
Martin J. Homlish	1,065	20,000	21,065 (8)	*
Stephen C. Kiely	22,675	—	22,675	*
Sally G. Narodick	39,455	—	39,455	*
Daniel C. Regis	45,080	—	45,080 (9)	*
Max L. Schireson	2,226	20,000	22,226 (10)	*
Brian V. Turner	—	20,000	20,000 (11)	*
Named Executive Officers				
Peter J. Ungaro	265,992	610,393	876,385 (12)	2.1%
Brian C. Henry	60,743	116,060	176,803 (13)	*
Charles A. Morreale	84,624	53,190	137,814 (14)	*
Michael C. Piraino	42,512	168,838	211,350 (15)	*
Margaret A. Williams	110,211	59,626	169,837 (16)	*

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Steven L. Scott	67,657	13,249	80,906	(17)*
Ryan W. J. Waite	4,923	3,666	8,589	(18)*
All current directors and executive officers as a group (13 persons)	588,722	1,080,749	1,669,471	4.0%

\* Less than 1% of the outstanding common stock.

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- (1) Unless otherwise indicated, all addresses are c/o Cray Inc., 901 Fifth Avenue, Suite 1000, Seattle, WA 98164. Unless otherwise indicated in these footnotes and subject to community property laws where applicable, each of the listed shareholders has sole voting and investment power with respect to the shares shown as beneficially
- (2) owned by such shareholder. The number of shares and percentage of beneficial ownership includes shares of common stock issuable pursuant to stock options held by the person or group that may be exercised on April 6, 2017, or within 60 days thereafter.
- The information under the column “Common Shares Owned” with respect to BlackRock, Inc. is based on a Schedule 13G/A filed with the SEC on January 12, 2017, regarding beneficial ownership as of December 31, 2016.
- (3) In that Schedule 13G/A, BlackRock, Inc. reported beneficial ownership of 4,761,454 shares, with sole voting power of 4,667,135 shares, without shared voting power, sole dispositive power of 4,761,454 shares and without shared dispositive power.
- The information under the column “Common Shares Owned” with respect to Capital Research Global Investors is based on a Schedule 13G/A filed with the SEC on February 13, 2017, regarding beneficial ownership as of
- (4) December 31, 2016. In that Schedule 13G/A, Capital Research Global Investors reported beneficial ownership of 4,272,068 shares, with sole voting power of 4,272,068 shares, without shared voting power, sole dispositive power of 4,272,068 shares and without shared dispositive power.
- The information under the column “Common Shares Owned” with respect to The Vanguard Group, Inc. is based on a Schedule 13G filed with the SEC on February 10, 2017, regarding beneficial ownership as of December 31, 2016.
- (5) In that Schedule 13G, The Vanguard Group, Inc. reported beneficial ownership of 3,221,996 shares, with sole voting power of 79,557 shares, with shared voting power of 5,200 shares, sole dispositive power of 3,139,239 shares and with shared dispositive power of 82,757 shares.
- The information under the column “Common Shares Owned” with respect to Mairs and Power, Inc. is based on a Schedule 13G/A filed with the SEC on February 14, 2017, regarding beneficial ownership as of December 31,
- (6) 2016. In that Schedule 13G/A, Mairs and Power, Inc. reported beneficial ownership of 3,149,271 shares, with sole voting power of 2,505,378 shares, without shared voting power, sole dispositive power of 3,149,271 shares and without shared dispositive power.
- (7) Represents (i) 4,344 shares held by Mr. Banerjee and (ii) 20,000 options exercisable within 60 days of April 6, 2017.
- (8) Represents (i) 1,065 shares held by Mr. Homlish and (ii) 20,000 options exercisable within 60 days of April 6, 2017.
- Represents (i) 2,227 shares held by Mr. Regis, and (ii) 42,853 shares held by Regis Investments, L.P. Mr. Regis is
- (9) the general partner of Regis Investment L.P. and has voting and dispositive power over the shares held by Regis Investment, L.P.
- (10) Represents (i) 2,226 shares held by Mr. Schireson and (ii) 20,000 options exercisable within 60 days of April 6, 2017.
- (11) Represents 20,000 options exercisable by Mr. Turner within 60 days of April 6, 2017.
- Represents (i) 262,549 shares held by Mr. Ungaro, (ii) 3,443 shares held in the Cray 401(k) Plan, (iii) 595,893 options exercisable within 60 days of April 6, 2017, and (iv) 14,500 shares of restricted stock units
- (12) that are expected to vest within 60 days of April 6, 2017. Does not include 20,000 shares of performance vesting restricted stock awards granted in 2013 (“Performance Vesting RSAs”), which expired and were forfeited without vesting on the calendar day immediately following that date on which we filed our Annual Report on Form 10 K with the SEC for the fiscal year ended December 31, 2016.
- Represents (i) 60,743 shares held by Mr. Henry, (ii) 108,810 options exercisable within 60 days of April 6, 2017, and (iii) 7,250 shares of restricted stock units that are expected to vest within 60 days of April 6, 2017. Does not
- (13) include 10,000 shares of Performance Vesting RSAs, which expired and were forfeited without vesting on the calendar day immediately following that date on which we filed our Annual Report on Form 10-K with the SEC for the fiscal year ended December 31, 2016.
- (14) Represents (i) 82,565 shares held by Mr. Morreale, (ii) 2,059 shares held in the Cray 401(k) Plan, (iii) 48,690 options exercisable within 60 days of April 6, 2017, and (iv) 4,500 shares of restricted stock units that



are expected to vest within 60 days of April 6, 2017. Does not include 7,000 shares of Performance Vesting

RSAs, which expired and were forfeited without vesting on the calendar day immediately following that date on which we filed our Annual Report on Form 10-K with the SEC for the fiscal year ended December 31, 2016.

- Represents (i) 41,937 shares held by Mr. Piraino, (ii) 575 shares held in the Cray 401(k) Plan, (iii) 164,338 options exercisable within 60 days of April 6, 2017, and (iv) 4,500 shares of restricted stock units that are expected to vest within 60 days of April 6, 2017. Does not include 7,000 shares of Performance Vesting RSAs granted on July 1, 2013, which expired and were forfeited without vesting on the calendar day immediately following that date on which we filed our Annual Report on Form 10-K with the SEC for the fiscal year ended December 31, 2016.
- (15) Represents (i) 106,120 shares held by Dr. Williams, (ii) 4,091 shares held in the Cray 401(k) Plan, and (iii) 55,626 options exercisable within 60 days of April 6, 2017.
- (16) Represents (i) 67,657 shares held by Dr. Scott, (ii) 7,999 options exercisable within 60 days of April 6, 2017, and (iii) 5,250 shares of restricted stock units that are expected to vest within 60 days of April 6, 2017.
- (17) Mr. Waite resigned from Cray effective March 24, 2017. Represents (i) 4,923 shares held by Mr. Waite and (ii) 3,666 options exercisable within 60 days of April 6, 2017.
- (18)

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") requires that our directors, executive and other specified officers and greater-than-10% shareholders file reports with the SEC on their initial beneficial ownership of our common stock and any subsequent changes. They must also provide us with copies of the reports.

We are required to tell you in this Proxy Statement if we know about any failure to report as required. We reviewed copies of all reports furnished to us and obtained written representations that no other reports were required. Based solely on this review, we believe that all of the reporting persons complied with their filing requirements for 2016.

## THE BOARD OF DIRECTORS

The Board of Directors oversees our business and affairs and monitors the performance of our management. In accordance with corporate governance principles, the Board does not involve itself in day-to-day operations. The directors keep themselves informed through discussions with the Chief Executive Officer, other key executives and our principal external advisers (legal counsel, outside auditors and compensation consultants), by reading the reports and other materials that we send them regularly and by participating in Board and Committee meetings.

### Corporate Governance Principles

The goals of our Board are to build long-term value for our shareholders and to ensure our vitality for our customers, employees and others who depend on us. Our Board has adopted and follows corporate governance practices that our Board and our senior management believe promote these purposes, are sound and represent best practices. To this end, we have established the following:

- A Code of Business Conduct that sets forth our ethical principles and applies to all of our directors, officers and employees;
- Corporate Governance Guidelines that set forth our corporate governance principles;
- A Related Person Transaction Policy that applies to all of our directors, officers and employees;
- Charters for our Audit, Compensation, Corporate Governance and Strategic Technology Assessment Committees; and
- A confidential, anonymous system for employees and others to report concerns about fraud, accounting matters, violations of our policies and other matters.

Under our Corporate Governance Guidelines and the applicable Committee charters, each director has complete access to our management, and the Board and each Committee have the right to consult and retain independent legal counsel, accountants and other advisers at our expense. All of the foregoing documents are available via the Internet at our website at [www.cray.com](http://www.cray.com) under “Company - Company Information - Investors - Corporate Governance.” To satisfy the disclosure requirements of item 5.05 of Form 8-K, we will post on this website any amendments to the Code of Business Conduct or waivers of the Code of Business Conduct for directors and executive officers.

We periodically review our governance practices against requirements of the SEC, the listing standards of the NASDAQ Global Market (“NASDAQ”), the laws of the state of Washington and practices suggested by recognized corporate governance authorities. For 2017, we have engaged an independent third-party to help conduct a self-evaluation process for each of our directors and the Board, a practice which we generally undertake approximately every other year.

### Independence

As of April 21, 2017, our Board has eight members. The Board has determined that all of our directors serving on our Board as of April 21, 2017, except for Mr. Ungaro, our President and Chief Executive Officer, meet the NASDAQ and SEC standards for independence and that all members of the Audit Committee meet the heightened independence standards required for Audit Committee members under NASDAQ and SEC standards. Only independent directors may serve on our Audit, Compensation and Corporate Governance Committees.

As set forth in our Corporate Governance Guidelines, the Board believes that at least two-thirds of the Board should consist of independent directors and that, absent compelling circumstances, the Board should not contain more than two members from our management. As of April 21, 2017, seven of our eight directors were considered independent, and one member of our management, Mr. Ungaro, our President and Chief Executive Officer, was on the Board.

In determining the independence of our directors, the Board affirmatively decides whether a non-management director has a relationship that would interfere with that director’s exercise of independent judgment in carrying out the responsibilities of being a director. In making that decision, the Board is informed of the NASDAQ and SEC rules that disqualify a person from being considered as independent, considers the responses from each director in an annual questionnaire and reviews the applicable standards with each Board member.

### Meetings and Attendance

During 2016, the Board met seven times and the Board’s standing committees held a total of 27 meetings. The rate of attendance in 2016 for all directors at Board and Committee meetings was 98%.



The non-management directors meet in executive sessions of the Board on a regular basis, generally at the beginning and at the end of each scheduled quarterly Board meeting and at other times as needed. In addition, the Board committees meet periodically without members of our management present.

#### The Committees of the Board

The Board has established an Audit Committee, a Compensation Committee, a Corporate Governance Committee and a Strategic Technology Assessment Committee as standing committees of the Board. None of the directors who serve as members of these Committees is, or has ever been, one of our employees.

#### Audit Committee.

The current members of the Audit Committee are Mr. Regis (Chair), Ms. Narodick and Mr. Turner. Mr. Turner was appointed as a member to the Audit Committee on April 18, 2016. Mr. Kiely's term as a member of the Audit Committee ended on August 4, 2016. The Audit Committee and the Board have determined that each individual who currently is and who in 2016 was a member of the Audit Committee is "independent," as that term is defined in SEC and NASDAQ rules and regulations, and that Messrs. Regis and Turner are each an "audit committee financial expert," as that term is defined in SEC regulations. The Audit Committee met seven times during 2016. As noted above, the Audit Committee's charter is available at [www.cray.com](http://www.cray.com) under "Company - Company Information - Investors - Corporate Governance." The Audit Committee assists the Board in fulfilling its responsibility for oversight of:

- The quality and integrity of our accounting and financial reporting processes and the audits of our consolidated financial statements;
- The qualifications and independence of the independent registered public accounting firm engaged to issue an audit report on our consolidated financial statements;
- The performance of our systems of internal controls and disclosure controls;
- The review and approval or ratification of "related person transactions" under our Related Person Transaction Policy; and
- Our procedures for legal and regulatory compliance, risk assessment and business conduct standards.

The Audit Committee reviews all reports submitted on our anonymous, confidential reporting system and is directly and solely responsible for appointing, determining the compensation payable to, overseeing, terminating and replacing any independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for us. See "Discussion of Proposals Recommended by the Board - Proposal 4: To Ratify the Appointment of Peterson Sullivan LLP as Our Independent Registered Public Accounting Firm for the Year Ending December 31, 2017 - Audit Committee Pre-Approval Policy" below.

The report of the Audit Committee regarding its review of the consolidated financial statements and other matters is set forth below.

#### Compensation Committee.

The current members of the Compensation Committee are Mr. Schireson (Chair), Mr. Kiely and Mr. Turner. Mr. Turner was appointed as a member to the Compensation Committee on April 18, 2016. Ms. Narodick's term as a member of the Compensation Committee ended on August 4, 2016. The Compensation Committee and the Board have determined that each individual who currently is and who in 2016 was a member of the Compensation Committee is "independent," as that term is defined in NASDAQ rules and regulations, an "outside director" within the meaning of Section 162(m) of the IRC and a "non-employee director" as defined in Rule 16b-3 under the Exchange Act. The Compensation Committee met seven times during 2016. As noted above, the Compensation Committee's charter is available at [www.cray.com](http://www.cray.com) under "Company - Company Information - Investors - Corporate Governance." The Compensation Committee assists the Board in fulfilling its responsibilities for the oversight of:

- Our compensation policies, plans and benefit programs;
- The compensation of the Chief Executive Officer and other executive officers;
- The administration of our cash- and equity-based compensation plans; and
- Evaluation and mitigation of potential risks related to our compensation policies.



See “Compensation of the Executive Officers - Compensation Discussion and Analysis” for further information regarding the Compensation Committee and its actions with respect to senior officer compensation. The Compensation Committee’s Report on the Compensation Discussion and Analysis and related matters is set forth below.

#### Corporate Governance Committee.

The current members of the Corporate Governance Committee are Mr. Kiely (Chair), Ms. Narodick and Mr. Regis. The Corporate Governance Committee and the Board have determined that each individual who currently is and who in 2016 was a member of the Corporate Governance Committee is “independent,” as that term is defined in NASDAQ rules and regulations. The Corporate Governance Committee met eight times during 2016. As noted above, the Corporate Governance Committee’s charter is available at [www.cray.com](http://www.cray.com) under “Company - Company Information - Investors - Corporate Governance.” The Corporate Governance Committee has the responsibility to:

- Develop and recommend to the Board a set of corporate governance guidelines;
- Recommend qualified individuals to the Board for nomination as directors;
- Review the compensation of Board members and recommend to the full Board changes to Board compensation as appropriate to attract and retain qualified directors;
- Lead the Board in its annual review of the Board’s performance; and
- Recommend directors to the Board for appointment to Board Committees.

See “Shareholder Communications, Director Candidate Recommendations and Nominations and Other Shareholder Proposals” regarding the Corporate Governance Committee’s processes for evaluating potential Board members and how shareholders can nominate director candidates, propose matters to come before the shareholders and communicate with the Board.

#### Strategic Technology Assessment Committee.

The current members of the Strategic Technology Assessment Committee are Dr. Banerjee (Chair), Mr. Homlish and Mr. Schireson. The Strategic Technology Assessment Committee and the Board have determined that each individual who currently is and who in 2016 was a member of the Strategic Technology Assessment Committee is “independent,” as that term is defined in NASDAQ rules and regulations, although such independence is not a requirement for membership on this Committee. The Strategic Technology Assessment Committee met five times during 2016. As noted above, the Strategic Technology Assessment Committee’s charter is available at [www.cray.com](http://www.cray.com) under “Company - Company Information - Investors - Corporate Governance.” The Strategic Technology Assessment Committee has the responsibility to:

- Assist the Board in its oversight of our technology strategy and product plans; and
- Assess whether our research and development investments are sufficient and appropriate to support the competitiveness of our offerings in the marketplace.

From time to time, the Board establishes other committees on an ad-hoc basis to assist in its oversight responsibilities.

#### Board Leadership Structure

We separate the roles of Chairman of the Board and Chief Executive Officer in recognition of the differences between the two roles. Mr. Kiely has served as Chairman of the Board, a non-executive position, since August 2005. As Chairman, Mr. Kiely consults with Mr. Ungaro, our Chief Executive Officer, regarding agenda items for Board meetings; chairs executive sessions of the Board’s independent directors; on behalf of the independent directors, provides feedback and mentoring to the Chief Executive Officer; and performs such other duties as the Board deems appropriate. We believe that this structure is currently appropriate given the experience of Mr. Kiely, both outside of his service with us and as a member of our Board, and the operational efficiencies that currently result from separating the roles. However, we believe that it is in the best interests of our shareholders for the Board to make a determination regarding the separation or combination of these roles each time it elects a new Chairman of the Board or Chief Executive Officer or at other times, based in each case on the relevant facts and circumstances applicable at that time.

#### Board’s Role in Risk Oversight

The Board’s role in our risk oversight process includes receiving regular reports from members of our senior management on areas of material risk to us, including competitive, economic, operational, financial, legal and regulatory, and strategic and reputational risks. We also utilize a formal Enterprise Risk Management system

(the “ERM

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System”) to assist us in tracking and mitigating risks. In addition to periodic review, evaluation and modification of risks maintained in the ERM System by management, we provide periodic reports of risks tracked in the ERM System to the Audit Committee. The Audit Committee receives these reports from the management personnel principally responsible for identifying, managing and mitigating a particular area of risk within the organization to enable it to understand our risk identification, risk management and risk mitigation strategies. When the Audit Committee receives the report, the chairman of the Audit Committee reports on the discussion to the full Board during the committee reports portion of the next Board meeting, which enables the Board and the Audit Committee to coordinate the risk oversight role, particularly with respect to risk interrelationships. As part of its charter, the Audit Committee discusses our policies with respect to risk assessment and risk management.

#### Risk Considerations in Our Compensation Program

Our Compensation Committee discussed the concept of risk as it related to our 2016 compensation program. The Compensation Committee engaged an independent compensation consultant, Mercer (US) Inc., a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. (“Mercer”), to assess the risks of our 2016 compensation program. The Compensation Committee does not believe our 2016 compensation program encouraged excessive or inappropriate risk-taking for the following reasons:

- Base salaries are consistent with our employees’ responsibilities so that they are not motivated to take excessive risks to achieve a reasonable level of financial security;

- The determination of cash incentive awards is based on a review of a variety of performance indicators, including individual performance, thus diversifying the risk associated with any single performance indicator; likewise, our cash incentive plans for 2016 includes specific caps on the target awards and utilizes a “balanced scorecard” approach to appropriately weight goals and performance. We believe this cap limits the incentive for excessive risk-taking by our employees;

- Long-term equity compensation programs are designed to reward executives and other participants for driving sustainable and profitable growth for shareholders;

- Equity incentive awards for our executive officers have included different types of equity instruments (with both time-based vesting and performance vesting), which helps to diversify the executive officers’ interests and limit the potential value of excessive risk taking;

- The vesting periods for our time-based vesting equity awards are designed to encourage executives and other participants to focus on sustained stock price appreciation;

- Our performance vesting restricted stock units that were granted in 2015 (the “Performance Vesting RSUs”) vest upon the achievement of certain operational and financial milestones, and those milestones and the terms of the grants are designed to encourage sustained, measurable performance;

- The mix between fixed and variable, annual and long-term, and cash and equity compensation is designed to encourage strategies and actions that are in our shareholders’ long-term best interests;

- Our system of internal controls over financial reporting, standards of business conduct and compliance programs, among other things, reduce the likelihood of manipulation of our financial performance to enhance payments under our bonus and sales compensation plans;

- Our Chief Executive Officer is subject to, and is in compliance with, our stock ownership guidelines, described under “Compensation Discussion and Analysis - Compensation Program Components and Purposes,” which encourage a level of stock ownership that we believe appropriately aligns his long-term interests with those of our shareholders;

- We have a clawback or recoupment policy for certain y -based incentive compensation of our executive officers; and

- Our Insider Trading Policy prohibits all employees from pledging shares, engaging in short sales or hedging transactions involving our securities.

#### Director Attendance at Annual Meetings

We encourage, but do not require, our directors to attend the Annual Meeting either in person or telephonically. In 2016, all of our directors who were directors at the time of our annual meeting of shareholders attended the 2016 annual meeting.



## Shareholder Communications, Director Candidate Recommendations and Nominations and Other Shareholder Proposals

### Communications.

The Corporate Governance Committee has established a procedure for our shareholders to communicate with the Board. Communications should be in writing to Corporate Secretary, Cray Inc., 901 Fifth Avenue, Suite 1000, Seattle, WA 98164, and addressed to the attention of the Board or any of its individual committees or to the Chairman of the Board. Copies of all communications so addressed will be promptly forwarded to the chairman of the committee involved, in the case of communications addressed to the Board as a whole or to individual directors, to the Corporate Governance Committee or, if addressed to the Chairman, to the Chairman of the Board.

### Director Candidates.

The criteria for Board membership as adopted by the Board include a person's integrity, knowledge, judgment, skills, expertise, collegiality, diversity of experience and other time commitments (including positions on other company boards) in the context of the then-current composition of the Board. The Board has not adopted a specific set of minimum qualifications that are necessary for a nominee to possess. While our Corporate Governance Guidelines do not prescribe diversity standards, as a matter of practice, the Corporate Governance Committee considers diversity in the context of the Board as a whole and takes into account the personal characteristics (gender, ethnicity, age) and experience (industry, professional, public service) of current and prospective directors to facilitate Board deliberations that reflect a broad range of perspectives. The Corporate Governance Committee is responsible for assessing the appropriate balance of skills brought to the Board by its members, and ensuring that an appropriate mix of specialized knowledge (e.g., financial, industry or technology) is represented on the Board. Since 2012, the Corporate Governance Committee has engaged a third-party consulting firm, Heidrick & Struggles, International, Inc., to assist the Corporate Governance Committee in identifying candidates for Board membership.

Once the Corporate Governance Committee has identified a potential director nominee, the Corporate Governance Committee, in consultation with the Chief Executive Officer, evaluates the prospective nominee against the specific criteria that the Board has established and as set forth in our Corporate Governance Guidelines. If the Corporate Governance Committee determines to proceed with further consideration, then members of the Corporate Governance Committee, the Chief Executive Officer and other members of the Board, as appropriate, interview the prospective nominee. After completing this evaluation and interview, the Corporate Governance Committee makes a recommendation to the full Board, which makes the final determination whether to appoint the new director.

The Corporate Governance Committee will consider candidates for director recommended by shareholders and will evaluate those candidates using the criteria set forth above. Shareholders should accompany their recommendations with a sufficiently detailed description of the candidate's background and qualifications to allow the Corporate Governance Committee to evaluate the candidate in light of the criteria described above, a document signed by the candidate indicating his or her willingness to serve if elected and evidence of the nominating shareholder's ownership of our common stock. Such recommendation and documents should be submitted in writing to Corporate Secretary, Cray Inc., 901 Fifth Avenue, Suite 1000, Seattle, WA 98164, and addressed to the attention of the Corporate Governance Committee.

### Director Nominations by Shareholders.

Our Bylaws permit shareholders to nominate directors at a shareholders' meeting. In order to nominate a director at a shareholders' meeting, a shareholder making a nomination must notify us not fewer than 60 nor more than 90 days in advance of the meeting or, if less than 60 days' notice or prior public disclosure of the date of the meeting is given or made to the shareholders, by the 10th business day following the first public announcement of the meeting. In addition, the proposal must contain the information required in our Bylaws for director nominations, including:

- ¶ The nominating shareholder's name and address;
- ▲ A representation that the nominating shareholder is entitled to vote at such meeting;
  - The number of shares of our common stock that the nominating shareholder owns and when the nominating shareholder acquired such shares;
- ▲ A representation that the nominating shareholder intends to appear at the meeting, in person or by proxy;
- ¶ The nominee's name, age, address and principal occupation or employment;



All information concerning the nominee that must be disclosed about nominees in proxy solicitations under the SEC proxy rules; and

The nominee's executed consent to serve as a director if so elected.

The Chairman of the Board, in his discretion, may determine that a proposed nomination was not made in accordance with the required procedures and, if so, disregard the nomination.

Shareholder Proposals.

2017 Annual Meeting. In order for a shareholder proposal to be raised from the floor during the Annual Meeting, written notice of the proposal must be received by us not less than 60 days nor more than 90 days prior to the Annual Meeting or, if less than 60 days' notice or prior public disclosure of the date of the Annual Meeting is given or made to the shareholders, by the 10th business day following the first public announcement of the Annual Meeting. The proposal must also contain the information required in our Bylaws for shareholder proposals, including:

A brief description of the business the shareholder wishes to bring before the Annual Meeting, the reasons for conducting such business and the language of the proposal;

The shareholder's name and address;

The number of shares of our common stock that the shareholder owns and when the shareholder acquired them;

A representation that the shareholder is entitled to vote at such meeting;

A representation that the shareholder intends to appear at the Annual Meeting, in person or by proxy; and

A brief description of any material interest the shareholder has in the business to be brought before the Annual Meeting.

The Chairman of the Board, if the facts so warrant, may determine that any business was not properly brought before the Annual Meeting in accordance with our Bylaws.

2018 Proxy Statement. In order for a shareholder proposal to be considered for inclusion in our proxy statement and form of proxy for the 2018 annual meeting, we must receive the written proposal no later than December 22, 2017. Shareholder proposals also must comply with SEC regulations regarding the inclusion of shareholder proposals in company-sponsored proxy materials.

If you wish to obtain a free copy of our Articles of Incorporation, Bylaws or any of our corporate governance documents, please contact Ruby H. Alexander, Assistant Corporate Secretary, Cray Inc., 901 Fifth Avenue, Suite 1000, Seattle, WA 98164. These documents also are available on our website, [www.cray.com](http://www.cray.com) under "Company - Company Information - Investors - Corporate Governance."

Compensation of Directors

In setting director compensation to attract and retain highly qualified individuals to serve on our Board, the Corporate Governance Committee considers the significant amount of time that directors expend in fulfilling their duties, the skill level required of members of the Board and a general understanding of director compensation at companies of similar size and complexity. Directors who are also our employees receive no additional compensation for their service on the Board. As described more fully below, director compensation is in the form of cash and, to align further the longer-term interests of the individual directors with those of our shareholders, equity, with the grant of a fully vested stock option with a ten-year term upon first joining the Board and annual grants of restricted stock vesting in one year.

The Corporate Governance Committee reviews director compensation annually. In 2016, the Corporate Governance Committee increased certain cash retainers as set forth in the table below. In reaching decisions about director compensation, the Corporate Governance Committee has used publicly available professional compensation surveys, proxy data and the individual experience of the Committee members. The Corporate Governance Committee has recently engaged Mercer with respect to director compensation.

### Cash Compensation

On August 4, 2016, the Board adopted a revised Non-Employee Director Compensation Policy, pursuant to which the annual retainer fee for service on the Board was increased from \$40,000 to \$50,000 and the annual retainer for the Chairman of the Board was increased from \$25,000 to \$40,000. The following table sets forth the cash compensation policy in 2016 for our non-employee directors:

Annual retainer for service on the:

Board (effective August 4, 2016)	\$50,000
Board (through August 3, 2016)	\$40,000
Audit Committee	\$10,000
Compensation Committee	\$5,000
Corporate Governance Committee	\$5,000
Strategic Technology Assessment Committee	\$5,000

Annual retainer for service as the Chair of the:

Board (effective August 4, 2016)	\$40,000
Board (through August 3, 2016)	\$25,000
Audit Committee	\$15,000
Compensation Committee	\$10,000
Corporate Governance Committee	\$5,000
Strategic Technology Assessment Committee	\$5,000

When the Board creates committees other than the standing committees identified above, the Board determines whether to extend the same committee fee structure to the members of such committees. Members of the Board do not receive any per meeting fees, but we do reimburse all expenses related to participation in meetings of the shareholders, Board and committees.

### Equity Compensation

**Stock Options.** Each non-employee director, upon his or her first appointment or election to the Board, is granted a fully vested stock option, with a ten-year term, for 20,000 shares with an exercise price equal to the fair market value of our common stock as reported by NASDAQ on the trading date immediately prior to the first appointment or election.

**Restricted Stock Awards.** Each continuing director first elected or reelected by our shareholders at the 2016 annual meeting of our shareholders was granted restricted shares of common stock with a value equal to that director's cash fees earned in 2015 with such award granted on or immediately following the 2016 annual meeting of our shareholders. Effective August 4, 2016, each continuing director first elected or reelected by our shareholders is granted restricted shares of common stock with a value equal to \$110,000 with such award granted on or immediately following each annual meeting of our shareholders. The number of shares subject to the restricted stock award is determined based on the closing price of our common stock as reported by NASDAQ on the trading day immediately prior to the date of our annual meeting of shareholders. Restricted stock awards granted in June 2016 to our continuing non-employee directors will vest 100% on the earlier of June 8, 2017 or the date that is immediately prior to the date of our 2017 Annual Meeting. The restricted shares vest in full if a non-employee director can no longer serve due to death or Disability (as defined in our 2013 Equity Incentive Plan, as amended and restated (the "Amended and Restated 2013 Equity Incentive Plan")) or upon a Corporate Transaction (as defined in our Amended and Restated 2013 Equity Incentive Plan). The restricted shares are forfeited if, while unvested, a non-employee director resigns or retires from the Board (other than with the express approval of the Corporate Governance Committee) or is asked to leave the Board by the Corporate Governance Committee. In addition, under our Amended and Restated 2013 Equity Incentive Plan, a non-employee director may receive awards for no more than 150,000 shares per calendar year.

### Stock Ownership Guidelines.

Our Board instituted the following stock ownership guidelines for non-employee directors:

Prior to August 4, 2016, directors were expected maintain a holding of at least 15,000 shares of our common stock (excluding unexercised stock options and unvested restricted shares). The value of this number of shares of our common stock was equal to at least five times the then-current annual retainer payable to our directors



(excluding any additional fees paid for chair positions or committee participation) as calculated at the time of adoption of this guideline and based upon the closing price per share of our common stock on December 31, 2010 (this amount is greater than five times the current annual retainer payable to our directors based on the closing price per share for our common stock as reported by NASDAQ on December 31, 2016). As of August 4, 2016, directors are expected to own shares of our common stock, the value of which equals at least \$250,000.

Each director has five years following the later of commencement of his or her service on our Board or the adoption or amendment of our stock ownership guidelines to satisfy the minimum share holdings of our stock ownership guidelines.

Directors may sell enough shares to cover the income tax liability when restricted shares vest.

#### Director Compensation for 2016

The following table sets forth information regarding compensation earned by our non-employee directors for the year ended December 31, 2016. Mr. Ungaro is not included in this table as he is an employee and he receives no compensation for his service as a director. His compensation as an employee is shown in the "Summary Compensation Table" set forth under "Compensation of Executive Officers - Compensation Tables." Mr. Turner was appointed to our Board on April 18, 2016.

Name	Annual Retainer (\$)	Board and Committee Chair Fees (\$)	Committee Fees (\$)	Total			Total (\$)
				Cash Fees Earned (\$)	Stock Awards (\$)(1)(2)	Option Awards (\$)(2)(3)	
Prithviraj Banerjee	\$ 44,076	\$ 5,000	\$ 5,000	\$ 54,076	\$ 49,850	—	\$ 103,926
Martin J. Homlish	\$ 44,076	—	\$ 5,000	\$ 49,076	\$ 37,126	—	\$ 86,202
Stephen C. Kiely	\$ 44,076	\$ 36,114	\$ 15,951	\$ 96,141	\$ 81,747	—	\$ 177,888
Sally G. Narodick	\$ 44,076	—	\$ 17,976	\$ 62,052	\$ 55,393	—	\$ 117,445
Daniel C. Regis	\$ 44,076	\$ 15,000	\$ 15,000	\$ 74,076	\$ 69,790	—	\$ 143,866
Max L. Schireson	\$ 44,076	\$ 10,000	\$ 10,000	\$ 64,076	\$ 50,965	—	\$ 115,041
Brian V. Turner	\$ 32,208	—	\$ 10,549	\$ 42,757	—	\$ 322,400	\$ 365,157

Amounts in this column represent the fair value of the restricted stock awards granted on June 8, 2016, calculated in accordance with ASC 718 by multiplying the closing price of our common stock as reported by NASDAQ on the date of the grant (\$34.86) by the number of shares awarded disregarding any adjustments for estimated forfeitures. The amount any director realizes from these restricted stock awards, if any, will depend on the future market value of our common stock when these shares are sold, and there is no assurance that any director will realize amounts at or near the values shown. A more detailed discussion of the assumptions used in the valuation of stock awards made in the year 2016 may be found in Note 2 of the Notes to the Financial Statements in our Annual Report on Form 10 K for the year ended December 31, 2016.



The following table provides additional information about non-employee director equity awards, including the (2) stock awards made to non-employee directors during 2016 and the number of stock options and shares of restricted stock held by each non-employee director on December 31, 2016:

Name	Restricted Shares Granted in 2016 (a)	Stock Options Granted in 2016 (b)	Restricted Shares Outstanding December 31, 2016	Stock Options Outstanding December 31, 2016
Prithviraj Banerjee	1,430	—	1,430	20,000
Martin J. Homlish	1,065	—	1,065	20,000
Stephen C. Kiely	2,345	—	2,345	—
Sally G. Narodick	1,589	—	1,589	—
Daniel C. Regis	2,002	—	2,002	—
Max L. Schireson	1,462	—	1,462	20,000
Brian V. Turner	—	20,000	—	20,000

Pursuant to the policy described under “Equity Compensation - Restricted Stock Awards” above, on June 8, 2016, we (a) granted to each non-employee director shares of restricted stock, all of which vest on the earlier of June 8, 2017 and the date that is immediately prior to the date of our 2017 Annual Meeting.

Pursuant to the policy described under “Equity Compensation - Stock Options” above, on April 18, 2016, we granted (b) an option for 20,000 shares to Mr. Turner upon his appointment to the Board. The option was fully vested on the date of grant.

This amount represents the aggregate grant date fair value of the stock option award, without reflecting forfeiture, (3) computed in accordance with ASC 718 for 2016. This amount does not represent the actual amount paid to or realized by the director for this award during 2016.

## EXECUTIVE OFFICERS

The following table lists, as of April 6, 2017, our executive officers, who will serve in the capacities noted until their successors are duly appointed, and their respective ages:

Name	Age	Position
Peter J. Ungaro	48	President and Chief Executive Officer
Brian C. Henry	60	Executive Vice President and Chief Financial Officer
Charles D. Fairchild	48	Vice President, Corporate Controller and Chief Accounting Officer
Charles A. Morreale	55	Senior Vice President, Field Operations
Michael C. Piraino	49	Senior Vice President Administration, General Counsel and Corporate Secretary
Efstathios Papaefstathiou	49	Senior Vice President, Research and Development

Peter J. Ungaro has served our as Chief Executive Officer and as a member of our Board of Directors since August 2005 and as our President since March 2005. From September 2004 until March 2005, Mr. Ungaro served as our Senior Vice President responsible for sales, marketing and services and from August 2003 until September 2004, he served as our Vice President responsible for sales and marketing. He served as Vice President, Worldwide Deep Computing Sales for IBM Corporation from April 2003 to August 2003 and as Vice President, Worldwide HPC Sales, from February 1999 to April 2003. Mr. Ungaro also held a variety of other sales leadership positions at IBM beginning in 1991. Mr. Ungaro received a B.A. from Washington State University.

Brian C. Henry has served as our Executive Vice President and Chief Financial Officer since May 2005. Mr. Henry is responsible for finance and accounting, manufacturing and supply chain. Mr. Henry previously served as Executive Vice President and Chief Financial Officer of Onyx Software Corporation, a full suite customer relationship management company, from 2001 to 2005. From 1999 to 2001, he was Executive Vice President and Chief Financial Officer of Lante Corporation, a public Internet consulting company focused on e-markets and collaborative business models. From 1998 to 1999, Mr. Henry was Chief Operating Officer, Information Management Group, of Convergys Corporation, which was spun off from Cincinnati Bell Inc., a diversified service company, where Mr. Henry served as Executive Vice President and Chief Financial Officer from 1993 to 1998. From 1983 to 1993, he was with Mentor Graphics Corporation in key financial management roles, serving as Chief Financial Officer from 1986 to 1993. Prior to that, Mr. Henry worked at Deloitte & Touche LLP, an accounting and audit firm, as a Certified Public Accountant. Mr. Henry received a B.S. from Portland State University and an M.B.A. from Harvard University where he was a Baker Scholar.

Charles D. Fairchild has served as our Vice President, Corporate Controller and Chief Accounting Officer since May 2010. Mr. Fairchild previously served as Chief Financial Officer of Radiant Research, Inc., a clinical research and development company, and spent 14 years at Deloitte & Touche LLP. Mr. Fairchild received a B.A. in business administration and an M.B.A. from the University of Washington.

Charles A. Morreale has served as our Senior Vice President, Field Operations since September 2011. Mr. Morreale is responsible for customer facing organizations around the world including sales and presales, service, benchmarking and special purpose systems. Prior to such appointment, Mr. Morreale served as our Vice President Custom Engineering responsible for custom engineering. Prior to that, he served as our Vice President responsible for central and field service and benchmarking organizations from April 2005 through January 2009, and, from March 2004 until April 2005, as Director of Worldwide Sales Support. From 2001 to 2004, he was an HPC Sales Executive at IBM and was responsible for worldwide HPC sales activities in the life sciences segment. From 1984 to 2001, he held a variety of positions at Cray Research, Inc. and Silicon Graphics, Inc., starting as a programmer analyst and ending as the Northeast Territory Sales Account Manager. He received a B.S. from The College of New Jersey.

Michael C. Piraino has served as our Senior Vice President Administration, General Counsel and Corporate Secretary since August 2015. Mr. Piraino is responsible for the legal, human resources, information technology and facilities teams. From September 2011 to August 2015, Mr. Piraino was our Vice President Administration, General Counsel and Corporate Secretary, responsible for the legal, human resources, information technology, facilities and government programs teams. From October 2009 to September 2011, he served as Vice President, General Counsel and Corporate Secretary and was responsible for legal and since August 2010, he was responsible for human resources

as well. From October 2007 to September 2009, he was an attorney at Fenwick & West LLP (and a predecessor firm),

where his practice focused on corporate finance and securities. From October 2006 to June 2007, Mr. Piraino served with the Exbiblio family of technology companies in various positions, including Chief Executive Officer. From May 1999 to October 2006, he was at WatchGuard Technologies, Inc., a provider of network security solutions, in various roles, including Vice President, General Counsel and Secretary. From October 1995 to May 1999, he was an attorney at Perkins Coie LLP, a law firm. Mr. Piraino began his career as a propulsion engineer at The Boeing Company. He received a B.S. in aeronautical and astronautical engineering from Purdue University and a J.D., magna cum laude, from the Seattle University School of Law.

Efstathios “Stathis” Papaefstathiou has served as our Senior Vice President of Research and Development since January 2017. Mr. Papaefstathiou is responsible for leading the software and hardware engineering efforts for all of Cray’s research and development projects. From August 2014 to December 2016, Mr. Papaefstathiou was Senior Vice President, Engineering for Aerohive Networks, Inc., a computer networking equipment company. From January 2012 through May 2014, he served as the Vice President of Product Development - Cloud Technology with F5 Networks, an application delivery controller company. Previously, Mr. Papaefstathiou held a number of technical and senior management positions at Microsoft Corporation from August 1999 through December 2011 in the areas of distributed operating systems, data center automation, and robotics, specifically as General Manager from February 2008 through December 2011 and Software Architect from March 2006 through February 2008. Mr. Papaefstathiou holds a Ph.D. in Computer Science from the University of Warwick, United Kingdom, and a B.Sc. in Computer Science from North College, Greece.

## COMPENSATION OF THE EXECUTIVE OFFICERS

## Compensation Discussion and Analysis

The following discussion describes the material elements of compensation for 2016 for (i) the individuals who served as our chief executive officer (Mr. Ungaro) and chief financial officer (Mr. Henry) during 2016, (ii) our three most highly compensated executive officers, other than our chief executive officer and chief financial officer, who served as executive officers as of December 31, 2016 (Messrs. Morreale and Piraino and Dr. Williams) and (iii) two additional individuals who were among our most highly compensated individuals in 2016 but who no longer were Section 16 officers as of December 31, 2016 (Dr. Scott ceased being a Section 16 officer on May 5, 2016 and Mr. Waite ceased being a Section 16 officer on May 5, 2016 and his employment with Cray terminated on March 24, 2017). We refer to these seven individuals as our “Named Executive Officers” for 2016:

Peter J. Ungaro	President and Chief Executive Officer
Brian C. Henry	Executive Vice President and Chief Financial Officer
Charles A. Morreale	Senior Vice President, Field Operations
Michael C. Piraino	Senior Vice President Administration, General Counsel and Corporate Secretary
Margaret A. Williams (1)	Senior Vice President, Research and Development
Steven L. Scott	Senior Vice President and Chief Technology Officer
Ryan W. J. Waite	Senior Vice President, Products

As reported on our Current Report on Form 8-K filed with the SEC on March 18, 2016, Dr. Williams informed us (1) of her plans to retire. Dr. Williams ceased serving as our Senior Vice President, Research and Development effective January 1, 2017 and is expected to continue in her reduced role until June 30, 2017.

This discussion covers 2016 corporate performance, our compensation philosophy and objectives for 2016, the components of our compensation program and the process we followed in determining executive compensation for 2016. It also presents a detailed discussion and analysis of the Compensation Committee’s specific decisions about the compensation of these Named Executive Officers for 2016.

## 2016 Corporate Performance

We believe it is critical to our short- and long-term success that our compensation policies, plans and programs be closely correlated with our corporate performance. While we were profitable in 2016, our revenue and profitability declined year over year, substantially driven by a slow-down in the segments of the high-end of the supercomputing market that we target.

The following are three areas of corporate performance we evaluated in connection with determining our Named Executive Officers’ total compensation in 2016:

**Revenue** — Revenue decreased from \$724.7 million in 2015 to \$629.8 million in 2016. As further described below, the achievement of predetermined revenue goals, including from certain of our key initiatives, was a significant factor in determining actual total compensation of our Named Executive Officers in 2016.

**Operating Income** — Operating income was \$9.1 million in 2016, down \$31.9 million from 2015. There were no adjustments to operating income in 2016 or 2015. We use the achievement of a specified level of operating income as a significant component for determining actual total compensation of our Named Executive Officers because we believe it rewards growing revenues, controlling expenses and increasing gross profit contributions, in furtherance of our long-term goal of profitable growth.

**Net Income** — We reported net income of \$10.6 million or \$0.26 per share in 2016. Net income was \$27.5 million or \$0.68 per share in 2015. Although we do not use a predetermined net income goal as an actual component for determining the actual total compensation of our Named Executive Officers, we believe sustained, profitable growth is a critical long-term corporate goal.

## Overview of 2016 Compensation Determinations

Based on our operational and financial performance in 2015 and earlier, and in light of the Mercer analyses and other factors described in this Proxy Statement, the Compensation Committee made the following compensation decisions for 2016:

**Base Salary** — Increased the base salaries for Messrs. Ungaro, Henry, Morreale, Piraino and Waite and Dr. Scott to align their base salaries with our desired position in the competitive market and because base salaries had not been increased in some cases since 2013, and maintained the base salary for Dr. Williams.

### Annual Cash Incentive Compensation Plan

**Target Bonuses** — Maintained the target bonus awards as a percentage of base salary at the same levels as in 2015 for the Named Executive Officers.

**Performance Goals and Achievement** — For 2016, the annual cash incentive plan for our Named Executive Officers and certain other senior officers (the “2016 Executive Bonus Plan”) was based on various weighted quantitative financial goals, which we refer to as the “balanced scorecard,” consistent with prior years. The 2016 Executive Bonus Plan included a 25%, 100% and 200% level percentage attainment for our quantitative financial goals. If the minimum 25% threshold attainment was not met, then the attainment for that particular goal was deemed to be 0%. In addition, our approach has been to set “stretch” goals such that even threshold attainment can reflect a significant accomplishment and therefore 0% attainment on a particular goal can result from what by external standards could be deemed successful execution. For 2016, the achievement for our Revenue goal did not meet the minimum threshold; the achievement for our Commercial Revenue goal did not meet the minimum threshold; the percentage attainment against the Analytics Customer Wins goal was 62.5%; the achievement for the Operating Income goal did not meet the minimum threshold. Each of these goals is described in greater detail below. The 2016 achievement level under the 2016 Executive Bonus Plan was 12.5% of each Named Executive Officer’s Target Bonus. The actual bonus earned by each Named Executive Officer was reduced to 6.8% of Target Bonus because the total 2016 payout pursuant to the 2016 Executive Bonus Plan exceeded a specific percentage of the PBOI. “PBOI” means operating income with aggregate bonuses otherwise payable under the 2016 Bonus Plans (as defined below) added back.

**Long Term Equity Awards** — Granted long-term equity awards in the form of stock options with ten-year terms and four-year vesting schedules, with exercise prices equal to 100% of grant date fair market value, as determined by the most recent closing price of our common stock as reported by NASDAQ prior to the date of grant. We also granted restricted stock units with vesting dependent on continued employment, generally with four-year vesting schedules. We granted long-term equity awards in the form of stock options and restricted stock units on May 19, 2016, to Messrs. Ungaro, Henry, Morreale, Piraino and Waite and Dr. Scott. As a result of her impending retirement, Dr. Williams did not receive a grant of equity awards in 2016.

As a result of these decisions, approximately 79% of the total 2016 target compensation for our Chief Executive Officer and approximately 63% to 69% of the total 2016 target compensation for all of our other Named Executive Officers (except Dr. Williams) was variable and dependent upon organizational performance.

### Philosophy and Objectives

We offer technology-differentiated products and services that require a highly educated, specialized and sought-after workforce and often involve long development cycles. In light of these challenges, our compensation philosophy is to provide and effectively implement policies, plans and programs designed to attract, retain and motivate the workforce required for us to achieve our strategic as well as tactical goals and create long-term value for our shareholders. To assist in these efforts, our compensation program has the following objectives:

- To provide effective compensation and benefit programs that are competitive both within our industry and with other relevant organizations with which we compete for employees;
- To encourage and reward behaviors that ultimately contribute to the achievement of organizational goals that increase long-term shareholder value without encouraging unbalanced short-term focus or inappropriate risk taking, thus fostering an innovative, high-performance culture;
- To align the interests of employees with the long-term interests of our shareholders;



• To provide a retention incentive; and

• To provide a work environment that promotes integrity, innovation and excellence, teamwork and respect for the individual.

#### Compensation Program Components and Purposes

We believe the components of our compensation program described below provide an appropriate mix of fixed and variable pay, balance incentives for short-term operational performance with long-term increases in shareholder value, reinforce an innovative, high-performance culture, encourage recruitment and retention of our employees and officers and create direct alignment with our shareholders by providing equity ownership in the Company. As employees assume greater levels of responsibility, an increasing proportion of their compensation is linked to performance. We review our compensation program periodically and make adjustments as needed or appropriate to meet our objectives. We describe below the principal components of our compensation program and the purpose of each component.

The Compensation Committee believes that the overall structure of the compensation for the Named Executive Officers is in furtherance of our compensation philosophy and objectives in providing, for our industry, competitive total target compensation with sufficient base salaries coupled with a significant proportion of the total target compensation based on performance and at risk, including a meaningful proportion that is equity-based, to align the officers' interests with those of our shareholders and provide a strong retention and performance incentive.

**Base Salaries** — To provide fixed compensation to attract and retain the best employees at all levels

Base pay opportunities for all positions are determined based on competitive market data, including salary surveys and other sources, internal responsibilities and each employee's experience, qualifications, performance and potential impact within our organization.

**Short-Term Incentives** — To motivate and reward achievement of and significant progress related to critical, tactical, strategic and financial goals

Consistent with competitive practices, virtually all employees have a portion of targeted total compensation at risk, contingent on performance relative to corporate objectives including, for employees (not including Named Executive Officers and certain other senior officers), individual objectives. Employees should share in rewards when mutual efforts contribute to outstanding overall results.

• **Long-Term Incentives** — To encourage recipients to focus on creating long-term shareholder value and to provide significant retention incentives in the face of retention challenges

Key decision-makers have a meaningful portion of their total compensation opportunity linked to our success in or progress towards meeting our long-term objectives and increasing shareholder value.

Significant retention incentives are necessary to retain highly educated, specialized and sought-after leaders, particularly in competition with companies with significantly greater resources.

Long-term equity awards, such as awards of restricted stock, restricted stock units and stock options, encourage recipients to focus on performance and initiatives that should lead to an increase in the market price of our common stock, which benefits our shareholders; and unvested awards of restricted stock, restricted stock units and in-the-money stock options can provide a retention incentive.

**Employee Benefits** — To meet the health and welfare needs of our employees and their dependents

We assist employees in meeting important needs such as retirement income, affordable health care, survivor income, disability income, paid vacation and other needs through company-sponsored programs that promote good health and financial security and provide employees with reasonable flexibility in meeting their individual needs.

We do not provide the Named Executive Officers or our other senior officers any deferred compensation or special retirement or pension plans or any benefits or perquisites that are not available to our employees generally.



Severance Policy and Change of Control Agreements — To attract and retain officers and to encourage them to remain focused and engaged in the event of rumored or actual fundamental corporate changes and during any corporate transition.

We provide continuation of compensation and benefits to certain officers if they are terminated without Cause or resign for Good Reason, as those terms are defined in our policies and agreements.

Other Compensation-Related Policies and Practices — To enforce our commitment to good corporate governance practices related to compensation, including:

Our insider trading policy prohibits transactions that involve pledging, hedging or short sales of our equity. Our Chief Executive Officer is subject to, and in compliance with, our stock ownership guidelines, which encourage a level of stock ownership that we believe appropriately aligns his long-term interests with those of our shareholders. We have a clawback or recoupment policy for certain performance-based incentive compensation of our executive officers.

#### Benchmarking and Other Factors

For its 2016 compensation decisions, the Compensation Committee considered Mercer's recommendations to contextualize the overall total compensation approach and general market competitiveness and compared the compensation approach to our peer group companies.

Each year, to assist the Compensation Committee in its deliberations on executive compensation, the Compensation Committee reviews and updates our list of peer companies (our "Peer Group") as points of comparison, as necessary, to ensure that the comparisons are meaningful. When considering companies for inclusion in our Peer Group, the Compensation Committee considers companies that are in our industry and similar other industries such as application software, systems software, communications equipment, electronic components, electronic equipment and instruments, technology hardware, storage and peripherals, are similar to us with respect to elements such as operating results, research and development investments and product solutions, size of revenue (approximately 0.5x to 2x our target revenue for year-end 2016), market capitalization and those companies with whom we compete in the recruitment of executive officers. Based on these factors and management's input, Mercer recommended, and the Compensation Committee approved, the following companies to comprise our Peer Group for 2016: Ansys Inc., Avid Technology, Inc., Cavium Inc., Commvault Systems, Inc., Extreme Networks, Inc., F5 Networks, Inc., Finisar Corp. Fortinet Inc., Mellanox Technologies Inc., Netgear Inc., OSI Systems, Quantum Corp., Silicon Graphics International Corp. and Super Micro Computer, Inc.

Between 2015 and 2016, our Peer Group changed with (i) the addition of Netgear Inc., Finisar Corp, and Fortinet Inc. based on industry, revenue size and business description, and (ii) the removal of FEI Company (acquired by Thermo Fisher), Qlik Technologies, Inc. (taken private), QLogic Corporation (acquired by Cavium) and Harmonic Inc. (due to its respective small revenue size compared to us). The Compensation Committee also relied on data from the 2016 Radford Global Technology Survey, which is comprised of organizations within the technology sector and includes data subsets that are comprised of organizations that are similar to us in terms of revenue. However, the Compensation Committee does not benchmark its compensation to any particular level or against any specific member of the Peer Group. Rather, it utilizes the Peer Group information and the Radford and International Pay Analysis System, or IPAS, surveys as data points in determining, with the assistance of Mercer, the appropriate overall total compensation. As in previous years, the Compensation Committee, in making specific decisions regarding each Named Executive Officer's (other than Mr. Ungaro's) compensation, considered Mr. Ungaro's recommendations described above regarding our other senior officers and factors such as the internal and external relative parity among senior management, the experience and performance of individual officers, their current compensation levels, their potential impact within Cray and the reasonableness of the officer's compensation in light of our compensation objectives and our operational and financial performance. Historically, we have had, and we continue to have, a relatively flat salary structure for our senior officers, with the significant differences in total compensation among the senior officers reflected in short-term cash and long-term equity incentive awards. This approach helps us provide a market competitive base salary and also provides the potential for higher compensation levels based on performance-dependent, short- and long-term incentives.

The Compensation Committee recognizes that competition for our Named Executive Officers, including Mr. Ungaro, generally comes from a variety of organizations in the high-performance computing industry or other technology

companies, including much larger companies.

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Each of the Named Executive Officers has significant high performance computing experience or achievements and/or a role not reflected in general survey and peer group analyses. The Compensation Committee also supplemented the specific compensation information provided by Mercer with its collective experience, judgment and trending assumptions to establish the 2016 compensation for the Named Executive Officers and other senior officers.

#### Results of the 2016 Say-on-Pay Vote

We value the input of our shareholders on our compensation programs. We hold an advisory vote on executive compensation on an annual basis. When designing our 2016 executive compensation program for our Named Executive Officers, the Compensation Committee carefully considered, among other things, the vote results from our prior annual meeting, including the results of our say-on-pay vote that have reflected support for our compensation practices, as well as the lack of any significant shareholder feedback requiring compensation changes, and decided to continue our existing compensation policies and practices. In addition, we engage in dialogue with our large shareholders on an ongoing basis. The Compensation Committee will continue to consider the results of our say-on-pay votes when making future compensation decisions for Named Executive Officers.

#### 2016 Compensation Determinations

##### Base Salary

The Compensation Committee uses a salary structure based on market data as a tool to estimate competitive base salaries. With Mr. Ungaro's assistance (except with respect to Mr. Ungaro's salary), the salary of each executive officer is evaluated relative to the market reference points, and according to experience, qualifications, performance and the particular impact the role can have within Cray. We determined that the salaries of our Named Executive Officers, which had not been increased since 2013 in some instances, had fallen below our desired positioning.

The Compensation Committee considered the base salaries of our Named Executive Officers and determined that an increase was appropriate and, effective July 2, 2016, increased the base salaries from \$500,000 to \$540,000 for Mr. Ungaro, from \$365,000 to \$400,000 for Mr. Henry, from \$280,000 to \$325,000 for Mr. Morreale, from \$290,000 to \$325,000 for Mr. Piraino, from \$350,000 to \$380,000 for Dr. Scott and from \$300,000 to \$325,000 for Mr. Waite. The salary of Dr. Williams remained unchanged from 2015. While Named Executive Officers' salaries are reviewed each year, increases are infrequent because we believe increases of just a few percent are unlikely to provide significant motivation or retention value for highly compensated senior executives. Our current approach is to increase the salaries of our Named Executive Officers typically when they fall significantly below our target position in the market, which results in somewhat less frequent but larger adjustments.

##### Annual Cash Incentive Compensation Plans

Our 2016 annual cash incentive plans, which include the 2016 Executive Bonus Plan and the annual cash incentive plan for our employees (the "2016 Employee Bonus Plan;" together with the 2016 Executive Bonus Plan, collectively the "2016 Bonus Plans"), are an important element of the compensation program for our employees and senior officers, including the Named Executive Officers. Our 2016 Bonus Plans were based on quantitative financial goals with different weightings, which we refer to as the "balanced scorecard." These awards were payable only if specified performance levels were achieved. In addition, the 2016 Employee Bonus Plan included an individual performance component.

Based on analysis of our Peer Group and the Radford and IPAS surveys described above, for 2016, the target awards as a percentage of base salary for Messrs. Ungaro and Piraino and Dr. Williams were above the 75th percentile, the target award as a percentage of base salary for Dr. Scott was at the 75th percentile and the target awards for Messrs. Henry, Morreale and Waite were between the 50th and 75th percentiles. We maintained all target bonus awards as a percentage of base salary at the same levels as in 2015. However, the Compensation Committee does not benchmark its compensation to any particular level or against any specific member of the Peer Group. Rather, it utilizes the Peer Group information as a data point in determining, with the assistance of Mercer, the appropriate compensation. The Compensation Committee believes that the Named Executive Officers should have a greater proportion of their variable compensation relative to total compensation at-risk and based on performance, thus emphasizing the incentive nature of their compensation. The Compensation Committee also believes that the incentive plan targets should contain rigorous thresholds that must be met before the target awards can be earned.



## Annual Cash Incentive Compensation Targets

The following table sets forth the 2016 target award amount for our Named Executive Officers pursuant to our 2016 Executive Bonus Plan:

Named Executive Officers	Title	Target Award As % of Base Salary
Peter J. Ungaro	President and Chief Executive Officer	150%
Brian C. Henry	Executive Vice President and Chief Financial Officer	65%
Charles A. Morreale	Senior Vice President, Field Operations	65%
Michael C. Piraino	Senior Vice President Administration, General Counsel and Corporate Secretary	65%
Margaret A. Williams	Senior Vice President, Research and Development	75%
Steven L. Scott	Senior Vice President and Chief Technology Officer	65%
Ryan W. J. Waite	Senior Vice President, Products	65%

## General Conditions

The minimum percentage achievement for each balanced scorecard goal was 25% of target (at the “Threshold” level - below the Threshold achievement was set at 0%) and the maximum was 200% of target (at the “Maximum” level). In addition, our approach has been to set “stretch” goals such that even threshold attainment can reflect a significant accomplishment and therefore 0% attainment on a particular goal can result from what by external standards could be deemed successful execution. Each of the goals is weighted, as described below, to determine the overall percentage payout.

The aggregate bonus payment to all participants (including Named Executive Officers and employees) under our 2016 Bonus Plans may not exceed 30% of PBOI. To the extent, absent this cap, the aggregate bonus payment under the 2016 Bonus Plans would exceed 30% of PBOI, all such bonus payments are reduced on a pro-rata basis such that the aggregate bonus payment under the 2016 Bonus Plans equals 30% of PBOI. For 2016, a PBOI cap adjustment was required and all bonuses were reduced to 54.65% of their otherwise calculated level.

The 2016 Executive Bonus Plan includes qualified financial goals, which are weighted the same for each Named Executive Officer.

## Qualified Financial Goals

The following are the qualified financial goals included in our 2016 Bonus Plans and the rationale for including them. These goals were established by our Compensation Committee:

**Revenue** — To emphasize the importance of improving our overall financial performance by expanding our addressable markets in areas where we can leverage our experience and technology, and to measure our ability to grow relative to market opportunities. (Revenue means GAAP reported total company revenue)

**Commercial Revenue** — To emphasize the importance of growth in this strategic market segment. (Commercial Revenue means GAAP Revenue recognized in 2016 for commercial company sales that includes product revenue, maintenance and other services. A commercial company is an entity whose goal is to make a profit for their owners and that the funds to purchase the equipment or services from Cray are not principally from government sources).

**Analytics Customer Wins** — To emphasize the importance of growth in this market. (An Analytics Customer Win means a binding contract to purchase a “Qualifying Product”).

**Operating Income** — To maintain an emphasis on profitability. (Operating income financial goals may exclude the in-year costs and benefits of acquisitions and divestitures, non-cash accounting changes, restructuring charges or impairment costs, and one-time events. In special circumstances, the Compensation Committee of the Board of Directors of Cray may, but did not in 2016, adjust the calculation of Operating Income in either direction for unusual events).

With respect to the Revenue goal, the threshold goal, or 25% attainment, was \$725 million, the target goal, or 100% attainment, was \$825 million, and the maximum goal, or 200% attainment, was \$950 million or above. With respect to the Commercial Revenue goal, the minimum goal, or 25% attainment, was \$70 million, the target goal, or



100% attainment, was \$125 million, and the maximum goal, or 200% attainment, was \$200 million or above. With respect to the Analytics Customer Wins, the minimum goal, or 25% attainment, was 5 wins, the target goal, or 100% attainment, was 12 wins, and the maximum goal, or 200% attainment, was 22 wins or above. With respect to the GAAP Operating Income goal, the threshold goal, or 25% attainment, was \$26 million, the target goal, or 100% attainment, was \$52 million, and the maximum goal, or 200% attainment, was \$90 million or above.

The weighting of each of the goals was 20% for Revenue, 20% for Commercial Revenue, 20% for Analytics Customer Wins, and 40% for GAAP Operating Income. For 2016, the achievement for the Revenue, Commercial Revenue, and GAAP Operating Income goals were below Threshold. The percentage achievement for the Analytics Customer Wins goal was 62.5%.

For 2016, the overall achievement under the 2016 Executive Bonus Plan for each of our Named Executive Officers prior to reduction of payouts as a result of the PBOI cap was 12.5%, while payouts under the 2016 Executive Bonus Plan for each Named Executive Officer was 6.8% after a 54.65% reduction due to the PBOI cap.

#### Difficulty of Performance Goals

We believe that the Compensation Committee has historically set performance targets for our annual cash incentive plans that are achievable, but that include significant challenges to be met, with annual incentive awards at target being at substantial risk and incentive awards above target being very difficult to realize. In the past five years, we paid above-target awards for 2012 and 2015, and paid below-target awards for 2013, 2014 and 2016. At the time the Compensation Committee established the 2016 qualified financial goals, which was before it was broadly understood that there was a slow-down in the segments of the high-end of the supercomputing market that we target, it determined that these goals were achievable, but required significant effort to be met. While we were profitable in 2016, our revenue and profitability declined from 2015 driven in part by the market slow-down. Performance of three of these goals was below Threshold.

#### Discretionary Bonuses

Our Compensation Committee may award discretionary cash bonuses to, among other things, incentivize new hires, encourage retention of executives and reward individuals or groups of individuals who make exceptional contributions to Cray. No discretionary bonuses were paid to our Named Executive Officers during 2016.

#### Long-Term Equity Awards

Historically, and in 2016, we granted stock options, restricted stock units and/or restricted stock awards to certain new hires, principally for senior manager and officer positions, and generally on an annual basis as part of the total target compensation plan for the Named Executive Officers and other senior managers and officers.

In accordance with our compensation philosophy and objectives described above, these grants are designed to:

- Align the interest of recipients with our shareholders;
- Motivate and reward recipients to increase shareholder value over the long-term;
- Provide a significant portion of their total target compensation at risk subject to future performance; and
- Provide a retention incentive.

In the past several years, we have recruited a number of key senior officers and through that process have learned that the available talent pool in our industry is limited and that candidates and our officers have significant other opportunities. Given these circumstances, the Compensation Committee has emphasized the retentive nature of equity awards to keep our senior management team in place.

#### Target Total Equity Awards

Mercer provided market data estimating the total long-term incentive values expressed as multiples of base salaries for each of the Named Executive Officers. The Compensation Committee has not used any one factor in its equity grant determinations. Rather, in determining the size of equity awards, the Compensation Committee considered the Named Executive Officer's (i) contributions to our overall performance, (ii) future potential performance and contributions to Cray, (iii) current ownership of our common stock, (iv) extent and frequency of prior stock option grants and restricted stock awards and/or restricted stock units and (v) unvested stock options and restricted stock awards and/or restricted stock units and the remaining duration of the outstanding stock options, restricted stock awards and/or restricted stock units.





The following table sets forth the value of the 2016 equity grants to the Named Executive Officers expressed as a multiple of their respective base salary:

Named Executive Officers	Title	Total Equity Award Value As A Multiple of Base Salary (1)
Peter J. Ungaro	President and Chief Executive Officer	2.27x
Brian C. Henry	Executive Vice President and Chief Financial Officer	1.53x
Charles A. Morreale	Senior Vice President, Field Operations	1.08x
Michael C. Piraino	Senior Vice President Administration, General Counsel and Corporate Secretary	1.08x
Margaret A. Williams	Senior Vice President, Research and Development	— (2)
Steven L. Scott	Senior Vice President and Chief Technology Officer	1.15x
Ryan W. J. Waite	Senior Vice President, Products	1.08x

These multiples are based on the closing price per share of our common stock on the date of grant for restricted (1) stock units and the value of the closing price per share of our common stock one business day prior to the date of grant for stock options based on the Black-Scholes Model.

(2) As a result of her impending retirement, Dr. Williams did not receive a grant of equity awards in 2016.

For additional information regarding equity grants in 2016 and in prior years, see the tables and associated footnotes and narratives under “Compensation Tables” below.

To provide longer-term performance and retention incentives, we generally grant stock options and restricted stock units. Our stock options typically have ten-year terms and four-year vesting schedules, with the exercise price equaling 100% of the most recent closing price for our common stock as reported by NASDAQ prior to the date of grant. Our time-based vesting restricted stock units typically have four-year vesting schedules. Equity awards are typically granted each year to certain employees. Whether grants are made and the number of shares granted varies based on many factors, including financial performance and retention concerns. As financial gain from stock options depends on increases in the market price for our common stock after the date of grant, we believe stock option grants encourage recipients to focus on performance and initiatives that should lead to an increase in the market price of our common stock, which benefits all of our shareholders. In addition, for unvested restricted stock units, and when the market price for the underlying common stock is higher than the exercise prices of stock options that are not fully vested, those grants of restricted stock units or options provide a retention incentive. Stock options, however, represent a high-risk and potential high-return component, as the realizable value, and consequently the retention incentive, of each stock option can fall to zero if the market price for the underlying common stock falls below the exercise price.

In 2016, we granted time-based vesting restricted stock units and stock options to each of our Named Executive Officers, except Dr. Williams, to whom we did not grant equity awards in 2016 as a result of her impending retirement. For Messrs. Ungaro, Henry, Morreale, Piraino and Waite and Dr. Scott, 25% of such restricted stock units vest on each of May 19, 2017, May 19, 2018, May 19, 2019 and May 19, 2020. For Messrs. Ungaro, Henry, Morreale, Piraino and Waite and Dr. Scott, 25% of such stock option awards vest on May 19, 2017, with the remaining balance vesting monthly over the next 36 months so that all options will be vested on May 19, 2020.

#### Severance Policy and Change of Control Agreements

The Company’s Executive Severance Policy, management retention agreements, stock option plans and equity award agreements provide for certain employment termination and/or change in control benefits. Each is described in more detail under “Termination of Employment and Change of Control Arrangements - Narrative to the Termination of Employment and Change of Control Payments Table” below.

#### Retirement Plans

Our only retirement plan for all U.S. employees, including the Named Executive Officers, is a qualified 401(k) plan under which employees may contribute a portion of their salary on a pre-tax basis (the “Cray 401(k) Plan”). Participants may invest in a limited number of mutual funds, and may sell, but may not direct the purchase of, shares of our

common

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stock previously purchased in such plan on their behalf. For 2016, we matched 20% of each participant's total 2016 contributions in cash.

We do not have a pension plan for any of our U.S. employees, including our Named Executive Officers. We do not have any plan for any of our Named Executive Officers or other employees that provides for the deferral of compensation on a qualified or non-qualified basis under the IRC other than the Cray 401(k) Plan.

#### Additional Benefits and Perquisites

We have health and welfare plans available on a non-discriminatory basis to all U.S. employees designed to meet the health and welfare needs of our employees and their families and to provide a total competitive compensation package. We provide these benefits to the Named Executive Officers and other senior officers on the same terms and conditions as provided to all other eligible employees:

• Group health insurance and dental and vision benefits;

• Life insurance based on salary, with additional coverage available for purchase up to a maximum of \$500,000;

• Employee Stock Purchase Plan qualified under Section 423 of the IRC;

• Long-term care insurance;

• Short-term and long-term disability insurance;

• Supplemental income protection (available for purchase);

• Flexible spending accounts for health care and dependent care; and

• An employee assistance plan and travel assistance plan.

We do not provide benefits or perquisites for the Named Executive Officers or other senior officers that are not available on the same terms to our employees generally.

#### Chief Executive Officer Stock Ownership Guidelines

We have stock ownership guidelines for our Chief Executive Officer in furtherance of our goal of aligning the interests of our Chief Executive Officer with those of our shareholders. Under the guidelines prior to August 4, 2016, our Chief Executive Officer was expected to hold 200,000 vested shares of our common stock, which amount represented, when we adopted this guideline, at least three (3) times the value of his then-current base salary based on the closing stock price of our stock as of December 31, 2010 (this amount is greater than three (3) times his current base salary based on the closing price per share of our common stock on December 31, 2016), within the later of five years from appointment as Chief Executive Officer and February 2016. Mr. Ungaro satisfied these requirements. As of August 4, 2016, our Chief Executive Officer is required to hold such number of shares that equal in value at least three times his annual base salary. Mr. Ungaro also satisfies the new requirements.

#### Compensation Recovery

We have a recoupment or "clawback" policy for cash and equity incentive awards paid to executive officers. The policy provides that if an executive officer's actual compensation was based upon the achievement of financial results that were subsequently the subject of a substantial restatement of our financial statements and the executive officer's fraud or intentional illegal conduct materially contributed to that financial restatement, then, in addition to any other remedies available to us under applicable law, to the extent permitted by law and as the Board determines appropriate, we may:

• Cancel any outstanding compensation award granted after the adoption of the policy (whether or not granted pursuant to a plan and regardless of whether it is vested or deferred); and/or

• Require recoupment of all or a portion of any after-tax portion of any bonus, incentive payment, commission, equity-based award or other compensation granted or received after the adoption of the policy.

Under the policy, it is a requirement that the individual was an executive officer when the compensation was granted or received and that the financial restatement resulted in greater compensation than would have otherwise been received.

### The Executive Compensation Process

The Compensation Committee determines base salary, the level of target awards under our annual cash incentive plan for executive officers, including the “balanced scorecard” goals and objectives described below, and the number and type of equity grants to be awarded under our long-term equity incentive plans for our senior officers during the year. In making these determinations, the Compensation Committee considers our corporate goals, business plan and objectives for the year, reviews analyses from our independent compensation consultant, Mercer, and consults with our Chief Executive Officer, when appropriate. For its 2016 compensation decisions, the Compensation Committee considered the Mercer analyses described below to contextualize our overall total compensation approach and general market competitiveness. The Compensation Committee also analyzed compensation payable by companies that we consider to be in our Peer Group and by other companies with which we generally compete for hiring executives. The Compensation Committee also considered the roles, responsibilities and specialized expertise of the Named Executive Officers, including our Chief Executive Officer, and that competition for our Named Executive Officers generally comes from much larger companies with significantly greater resources.

### Role and Authority of the Compensation Committee

The current members of the Compensation Committee are Mr. Schireson (Chair), Mr. Kiely and Mr. Turner. Mr. Turner was appointed as a member to the Compensation Committee on April 18, 2016. Ms. Narodick’s term as a member of the Compensation Committee ended on August 4, 2016. The Board has determined that each individual who served on the Compensation Committee in 2016 and each current member of the Compensation Committee is “independent,” as that term is defined in NASDAQ rules and regulations, and an “outside director” within the meaning of Section 162(m) of the IRC and a “non-employee director” as defined in Rule 16b-3 under the Exchange Act. During 2016, the Compensation Committee met in person or by telephone five times.

The Compensation Committee assists our Board in fulfilling its responsibilities for the oversight of our compensation policies, plans and benefit programs, the compensation of our Chief Executive Officer and other senior officers, and the administration of our equity compensation plans. After reviewing competitive market data, expectations for the position, our corporate goals, business plan and objectives for the year and our prior performance, the Compensation Committee determines base salary, the level of target awards under our annual cash incentive plan for executive officers, including the balanced scorecard goals and objectives, and the number and type of equity grants to be awarded under our long-term equity incentive plans for our senior officers during that year. The Compensation Committee has the authority to determine the annual compensation for our senior officers, subject to any approval by the full Board which the Compensation Committee or legal counsel determines to be desirable or that is required by applicable law or by NASDAQ rules and regulations.

The Compensation Committee also: determines the policy for awarding stock options and/or restricted stock units to new hires who are not senior officers; makes grants of stock options and/or restricted stock units to other employees; evaluates risks, if any, associated with our compensation programs; works with the Board in overseeing the Cray 401(k) Plan; periodically reviews our staffing, including open positions and turnover; receives reports on our health and safety records and any equal employment opportunity claims, investigations and reports; and considers our medical and other health benefits, including potential changes and enhancements, from both a cost and a competitive perspective.

The Compensation Committee may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Compensation Committee or to officers to perform certain of its duties on its behalf.

### Role of the Chief Executive Officer and Management

The Compensation Committee confers regularly with Mr. Ungaro, our Chief Executive Officer, and other senior officers and members of our human resources department regarding the structure and effectiveness of our compensation plans and proposals for changes to our compensation programs. As members of our Board, Compensation Committee members obtain information regarding our tactical and strategic objectives, goals, operational and financial results, our annual financial plan and the outlook regarding our future performance. The Compensation Committee meets twice each year with Mr. Ungaro to review his performance and at least once a year to review his evaluation of the performance of other senior officers, and annually to review his recommendations for

the compensation of the other senior officers, including the other Named Executive Officers. Mr. Ungaro's recommendations cover base salary, the structure of the annual cash incentive plan for executive officers, including target awards and performance goals and objectives for each senior officer, and the level and form of equity grants.

#### Role of Compensation Consultants

The Compensation Committee retained Mercer to review our compensation programs for senior officers, advise the Compensation Committee regarding total compensation philosophy, define the applicable market and conduct benchmarking analyses, and provide continuing insight into and education on executive compensation trends and practices. The Compensation Committee actively seeks an independent broad view of current compensation levels, practices and programs, particularly in the high-technology industry. Mercer reported directly to the Compensation Committee and has not performed any services for our management either prior to or since its engagement by the Compensation Committee. During 2016, the Compensation Committee reviewed the services of Mercer and the fees provided to Mercer relative to Mercer's revenues. Based on the foregoing, and other factors relating to Mercer's independence, the Compensation Committee confirmed that Mercer was an independent compensation advisor to the Compensation Committee and that its engagement did not present any conflicts of interest.

#### Securities Trading Policies

Our securities trading policy includes that, except for trades pursuant to approved Rule 10b5-1 plans, directors, officers and employees may not trade in Cray securities while possessing material nonpublic information concerning Cray or trade in Cray securities outside of the applicable trading windows. Our securities trading policy further includes that directors, officers and employees may not purchase or sell puts or calls to sell or buy our common stock, engage in short sales, put options, call options, or any other hedging transactions with respect to our common stock, or buy our common stock on margin or pledge shares of our common stock. Except for trades pursuant to approved Rule 10b5-1 plans, our policy restricts trading in Cray securities by directors, officers and employees to open window periods following the widespread public release of our quarterly and annual financial results.

#### Tax Deductibility

Section 162(m) of the IRC limits to \$1.0 million per person the amount that we may deduct for compensation paid in any one year to our Chief Executive Officer and certain of our other most highly compensated officers, unless certain requirements are met. This limitation does not apply, however, to "performance-based" compensation, as defined in the IRC. Our stock options generally qualify as "performance-based" compensation, except for incentive stock options. We anticipate that the compensation income paid by Cray realized upon the exercise of qualifying stock options may be deductible. Compensation income paid by Cray realized upon the settlement of restricted stock units granted under a shareholder-approved equity incentive plan may be deductible if certain pre-existing performance criteria and certain other requirements of Section 162(m) of the IRC are satisfied. In addition, compensation income paid by Cray as a cash bonus is generally not anticipated to be fully deductible. The deductibility of some types of compensation payments depends upon the timing of the awards and the vesting or exercise of previously granted rights.

Interpretations of and changes in applicable tax laws and regulations, as well as other factors beyond our control, also can affect deductibility of compensation. Although deductibility of compensation is preferred, tax deductibility is not a primary objective of our compensation programs, particularly given our considerable net loss carry-forward position for U.S. tax purposes. Rather, we maintain the flexibility to structure our compensation programs in ways that promote the best interests of our shareholders.

#### Risk from Compensation Policies and Practices

The Compensation Committee reviews our compensation policies and practices to determine areas of resulting risk and the actions that we have taken, or should take, to mitigate any such identified risk. Based on the Compensation Committee's review of our compensation policies and practices, we do not believe that any risks relating from our compensation policies and practices for our employees are reasonably likely to have a material adverse effect on our business. Additional information on the committee's analysis of compensation-related risk is set forth above under "The Board of Directors - Risk Considerations in Our Compensation Program."

### Compensation Committee Report

The Compensation Committee is responsible for overseeing our compensation policies, plans and benefits program, the compensation of the Chief Executive Officer and other senior officers and the administration of our equity compensation plans. As set forth in the Compensation Committee's charter, which can be found at: [www.cray.com](http://www.cray.com) under "Company - Company Information - Investors - Corporate Governance," the Compensation Committee acts only in an oversight capacity, and relies on the work and assurances of management and outside advisers that the Compensation Committee retains. The Compensation Committee believes it has satisfied its charter responsibilities for 2016.

The Compensation Committee has worked with management for the past several years to develop a systematic compensation philosophy and structure. The Compensation Committee retained Mercer to advise the Compensation Committee. The analysis and advice provided by Mercer formed the basis in many respects for the 2016 executive compensation decisions as described in the foregoing Compensation Discussion and Analysis.

A second focus area of the Compensation Committee has been the structure and strength of our senior management team. The Compensation Committee meets twice a year with Mr. Ungaro to review his performance as our Chief Executive Officer and to obtain his assessment of the strengths and weaknesses of the management team. The Compensation Committee believes that under Mr. Ungaro's leadership, we have made great strides in a very competitive market. The Compensation Committee has worked with Mr. Ungaro to develop a strong "performance culture" at Cray. One aspect of that process has been emphasis on succession plans, identification of high potential, at-risk and retiring employees and efforts to improve the officers' management and leadership skills within our management group. Another aspect, as is reflected in our compensation structure, is to add significant retention and incentive elements in long-term compensation awards to competitive base salaries, as discussed in the foregoing Compensation Discussion and Analysis.

The Compensation Committee has reviewed and discussed with management the above Compensation Discussion and Analysis. Based on that review and discussion, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

### The Compensation Committee

Max L. Schireson, Chair  
Stephen C. Kiely  
Brian V. Turner

## Compensation Tables

The tables on the following pages describe, with respect to our Named Executive Officers, the 2016, 2015 and 2014 salaries, bonuses, incentive awards and other compensation reportable under SEC rules, plan-based awards granted in 2016, values of outstanding equity awards as of year-end 2016, exercises of stock options and vesting of restricted stock awards in 2016, and potential payments upon termination of employment and following a Change of Control.

## Summary Compensation

The following table summarizes the compensation for the indicated years for our Named Executive Officers for the year ended December 31, 2016.

## Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)(2)	Option Awards (3)	Non-Equity Incentive Plan Compensation (4)	All Other Compensation (5)	Total (6)
Peter J. Ungaro President and Chief Executive Officer	2016	\$520,000(7)	—	\$869,400 (8)	\$354,045	\$55,333	\$3,600	\$1,802,378
	2015	\$500,000	—	\$4,931,928(8)	\$336,897	\$778,500	\$3,600	\$6,550,925
	2014	\$500,000	—	\$975,600 (9)	\$400,318	\$263,100	\$2,625	\$2,141,643
Brian C. Henry Executive Vice President and Chief Financial Officer	2016	\$382,500(10)	—	\$434,700 (8)	\$177,022	\$17,761	\$4,800	\$1,016,783
	2015	\$365,000	—	\$2,465,964(8)	\$168,449	\$244,368	\$4,800	\$3,248,581
	2014	\$365,000	—	\$460,700 (9)	\$189,039	\$83,200	\$3,450	\$1,101,389
Charles A. Morreale Senior Vice President, Field Operations	2016	\$302,500(11)	—	\$248,400 (8)	\$101,156	\$14,431	\$4,800	\$671,287
	2015	\$280,000	—	\$2,310,864(8)	\$112,299	\$186,550	\$4,800	\$2,894,513
	2014	\$267,808(12)	—	\$298,100 (9)	\$122,319	\$52,800	\$3,450	\$744,477
Michael C. Piraino Senior Vice President Administration, General Counsel and Corporate Secretary	2016	\$307,500(13)	—	\$248,400 (8)	\$101,156	\$14,431	\$3,600	\$675,087
	2015	\$290,000	—	\$2,310,864(8)	\$112,299	\$193,778	\$3,460	\$2,910,401
	2014	\$290,000	—	\$257,450 (9)	\$105,640	\$56,000	\$2,625	\$711,715
Margaret A. Williams Senior Vice President, Research and Development	2016	\$400,000	—	—	—	\$20,494	\$4,800	\$425,294
	2015	\$400,000	—	\$2,248,824(8)	\$89,839	\$309,900	\$4,800	\$3,053,363
	2014	\$400,000	—	\$185,850 (8)	\$76,998	\$102,900	\$3,450	\$769,198
Steven L. Scott Senior Vice President and	2016	\$365,000(14)	—	\$310,500 (8)	\$126,445	\$16,873	\$4,800	\$823,618
	2015	\$350,000	—	\$2,341,884(8)	\$123,529	\$233,415	\$3,600	\$3,052,428
	2014	\$107,698(15)	\$200,000(16)	\$2,070,400(17)	—	\$24,900	—	\$2,402,998



Chief Technology  
Officer

Ryan W. J. Waite	2016	\$312,500	(18)	—	\$248,400	(8)	\$101,156	\$14,431	—	\$676,487
Senior Vice	2015	\$300,000		—	\$2,248,824	(8)	\$89,839	\$200,265	—	\$2,838,928
President, Products	2014	\$23,077	(19)	\$160,000	(20)	\$814,750	(21)	—	—	\$997,827

These amounts represent the aggregate grant date fair value of restricted stock awards and restricted stock units, without reflecting forfeitures, computed in accordance with ASC 718 for 2016, 2015 or 2014, respectively. These amounts do not represent the actual amounts paid to or realized by the Named Executive Officer for these awards during years 2016, 2015 or 2014. The value as of the grant date for restricted stock awards and restricted stock units is recognized over the number of days of service required for the grant to become vested. See the section (1) entitled “Share-Based Compensation” in Note 2 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016, for a description of the valuation of these restricted stock awards and restricted stock units. The amount any Named Executive Officer realizes, if any, from these restricted stock awards and restricted stock units will depend on the future market value of our common stock when these shares are sold, and there is no assurance that the Named Executive Officers will realize amounts at or near the values shown.

The valuation methodology for restricted stock awards and restricted stock units as described in footnote (1) (2) assumes full vesting and maximum performance achievement and does not take into account the performance vesting criteria (and the reduced likelihood of vesting) associated with the Performance Vesting RSUs granted

in 2015 and described further in footnote (8), below. The Performance Vesting RSUs vest, if at all, only upon the achievement of certain revenue and operating income milestones or upon a change of control of Cray.

These amounts represent the aggregate grant date fair value of stock option awards, without reflecting forfeitures, computed in accordance with ASC 718 for 2016, 2015 or 2014, respectively. These amounts do not represent the actual amounts paid to or realized by the Named Executive Officer for these awards during years 2016, 2015 or 2014. The value as of the grant date for stock option awards is recognized over the number of days of service required for the grant to become vested. See the sections entitled “Share-Based Compensation” and “Shareholders’ Equity” in Notes 2 and 15 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016, for a description of the valuation of these stock options, including key assumptions under the Black-Scholes pricing model; the values determined by the Black-Scholes pricing model are highly dependent on these assumptions, particularly regarding volatility of the market price for our common stock and expected life of these options. There is no assurance that the options will ever be exercised, in which case no value will be realized by the Named Executive Officer. The amount any Named Executive Officer realizes, if any, from these options depends on the future excess, if any, of the market value of our common stock as reported by NASDAQ over the exercise price of the options when the Named Executive Officer sells the underlying shares, and there is no assurance that the Named Executive Officers will realize amounts at or near the values shown.

The information in this column reflects payments to the Named Executive Officers under our 2016 Executive Bonus Plan for the indicated year. Payments for amounts earned under our 2016 Executive Bonus Plan were paid in March 2017. See the “Grants of Plan-Based Awards” table below and “2016 Compensation Determinations - Annual Cash Incentive Compensation Plans” in the Compensation Discussion and Analysis above for a description of the 2016 Executive Bonus Plan, including the conditions to payments of awards.

“All Other Compensation” for 2016 includes matching contributions under the Cray 401(k) Plan:

Officer	Cray 401(k) Plan Match
Peter J. Ungaro	\$3,600
Brian C. Henry	\$4,800
Charles A. Morreale	\$4,800
Michael C. Piraino	\$3,600
Margaret A. Williams	\$4,800
Steven L. Scott	\$4,800
Ryan W. J. Waite	—

The amounts shown in the “Total” column are the sum of the amounts shown in the columns for salary, bonus, restricted stock awards, restricted stock units, Performance Vesting RSUs, stock option awards, non-equity incentive plan compensation and all other compensation, as required by SEC rules. Because these sums combine cash payments earned by and made to the Named Executive Officers with amounts not earned by or paid to the Named Executive Officers but rather amounts reflecting the grant date fair value of restricted stock awards, restricted stock units, options or Performance Vesting RSUs held by the Named Executive Officers, the actual total amount earned in any year by a Named Executive Officer depends on future events and, for the reasons described in footnotes (1), (2) and (3) above, there is no assurance that the Named Executive Officers will realize a total sum at or near the values shown.

Prior to and including July 1, 2016, Mr. Ungaro’s annual salary was \$500,000. Effective July 2, 2016, Mr. Ungaro’s annual salary was increased to \$540,000.

The valuation methodology for the restricted stock units as described in footnote (1) assumes full vesting and maximum performance achievement and does not take into account the performance vesting criteria (and the reduced likelihood of vesting) associated with the Performance Vesting RSUs included in the value of the restricted stock units. The Performance Vesting RSUs vest, if at all, only upon the achievement of certain revenue and operating income milestones, both of which must be met, in either fiscal year 2016, 2017, 2018 or 2019, or upon a change of control of Cray. The Performance Vesting RSUs will expire completely if the milestones are not satisfied, or a change of control has not occurred, by the calendar day immediately following that date



on which we file our Annual Report on Form 10-K with the SEC for the fiscal year ended December 31, 2019. No milestones were achieved and no shares vested in 2016.

(9) The valuation methodology for these restricted stock awards is described in footnote (1).

(10) Prior to and including July 1, 2016, Mr. Henry's annual salary was \$365,000. Effective July 2, 2016, Mr. Henry's annual salary was increased to \$400,000.

(11) Prior to and including July 1, 2016, Mr. Morreale's annual salary was \$280,000. Effective July 2, 2016, Mr. Morreale's annual salary was increased to \$325,000.

(12) Prior to and including June 27, 2014, Mr. Morreale's annual salary was \$255,000. Effective June 28, 2014, Mr. Morreale's annual salary was increased to \$280,000.

(13) Prior to and including July 1, 2016, Mr. Piraino's annual salary was \$290,000. Effective July 2, 2016, Mr. Piraino's annual salary was increased to \$325,000.

(14) Prior to and including July 1, 2016, Dr. Scott's annual salary was \$350,000. Effective July 2, 2016, Dr. Scott's annual salary was increased to \$380,000.

Dr. Scott was appointed as our Senior Vice President and Chief Technology Officer on September 8, 2014. His 2014 salary reflects his partial service during 2014. Dr. Scott was compensated based on an annual salary of \$350,000.

(16) This amount represents a one-time signing bonus received by Dr. Scott.

(17) This amount reflects Dr. Scott's initial new hire equity award, the size of which was determined as part of the negotiation of his total compensation package.

(18) Prior to and including July 1, 2016, Mr. Waites's annual salary was \$300,000. Effective July 2, 2016, Mr. Waites's annual salary was increased to \$325,000.

(19) Mr. Waite was appointed as our Senior Vice President, Products on December 1, 2014. His 2014 salary reflects his partial service during 2014. Mr. Waite was compensated based on an annual salary of \$300,000.

(20) This amount represents a one-time signing bonus received by Mr. Waite.

(21) This amount reflects Mr. Waite's initial new hire equity award, the size of which was determined as part of the negotiation of his total compensation package.

## Grants of Plan-Based Awards in 2016

The following table sets forth certain information with respect to the potential cash incentive awards and the equity awards for the year ended December 31, 2016, to the Named Executive Officers. See “2016 Compensation Determinations - Annual Cash Incentive Compensation Plans” and “2016 Compensation Determinations - Long-Term Equity Awards” in the Compensation Discussion and Analysis above.

## Grants of Plan-Based Awards

Name	Grant Date	Approval Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Stock Awards (shares)	Other Option Awards (underlying shares)	Exercise Price of Option Awards (\$ per share) (2)	Grant Date Fair Value (3)	
			Threshold	Target	Maximum				Units	Options
Peter J. Ungaro	05/19/16	05/19/16	—	—	—	28,000(4)	28,000 (5)	\$ 31.45	\$ 869,400	\$ 354,045
Brian C. Henry	—	—	\$ 202,500	\$ 810,000	\$ 1,620,000	—	—	—	—	—
Charles A. Morreale	05/19/16	05/19/16	—	—	—	14,000(4)	14,000 (5)	\$ 31.45	\$ 434,700	\$ 177,022
Michael C. Piraino	—	—	\$ 65,000	\$ 260,000	\$ 520,000	—	—	—	—	—
Margaret A. Williams	05/19/16	05/19/16	—	—	—	8,000 (4)	8,000 (5)	\$ 31.45	\$ 248,400	\$ 101,156
Steven L. Scott	—	—	\$ 52,815	\$ 211,250	\$ 422,500	—	—	—	—	—
Ryan W. J. Waite	05/19/16	05/19/16	—	—	—	8,000 (4)	8,000 (5)	\$ 31.45	\$ 248,400	\$ 101,156

The threshold payout level represents the minimum aggregate balanced scorecard percentage payout that would result from achieving at least the threshold attainment (25%) for certain components. The target and maximum (1) payout levels represent, respectively, the target attainment (100%) and maximum attainment (200%). Additional information regarding the 2016 Executive Bonus Plan is included under “2016 Compensation Determinations - Annual Cash Incentive Compensation Plans” in the Compensation Discussion and Analysis above.

(2) In determining the exercise price, we use the most recent closing price per share for our common stock as reported by NASDAQ prior to the grant date of the stock option.

The grant date fair value of the restricted stock units and stock option grants is computed in accordance with ASC 718 and represents our total projected expense for financial reporting purposes of those units and grants. See the sections entitled “Share-Based Compensation” and “Shareholders’ Equity” in Notes 2 and 15 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016, for a description of the valuation of these restricted stock units and stock option grants, including key assumptions under the Black-Scholes pricing model for determining values of stock options; the values determined by the

(3) Black-Scholes model are highly dependent on these assumptions, particularly regarding volatility of the market price for our common stock and expected life of the stock options. There is no assurance that the stock options will ever be exercised, in which case no value will be realized by the Named Executive Officer. The amount any Named Executive Officer realizes, if any, from these restricted stock units and stock option grants depends on the market value of our common stock in the future when the Named Executive Officer sells the restricted stock units or the shares underlying the stock options, as the case may be, and there is no assurance that the Named Executive Officers will realize amounts at or near the values shown.

The valuation methodology for restricted stock units as described in footnote (3) assumes full vesting.

(4)

Reflects the number of restricted stock units granted on May 19, 2016, pursuant to our shareholder-approved 2013 Equity Incentive Plan. Twenty-five percent of the restricted stock units vest on each of the first, second, third and fourth anniversaries of May 19, 2016. Restricted stock units are forfeitable upon certain events and also vest in full upon the death or Disability of the recipient and upon certain other events, as discussed below in “Termination of Employment and Change of Control Arrangements - Narrative to the Termination of Employment and Change of Control Payments Table.”

Reflects the number of stock options granted on May 19, 2016, pursuant to our shareholder-approved 2013 Equity Incentive Plan. Twenty-five percent of the stock options vest on May 19, 2017, with the remaining balance vesting monthly over the next 36 months, so that all options will be vested on May 19, 2020. Vesting of stock options is accelerated upon the death or Disability of the optionee, and may be accelerated upon certain other events, as (5) discussed below in “Termination of Employment and Change of Control Arrangements - Narrative to the Termination of Employment and Change of Control Payments Table.” Additional information regarding the design and terms of these long-term equity awards is included under “2016 Compensation Determinations - Long-Term Equity Awards” and “2016 Compensation Determinations - Severance Policy and Change of Control Agreements” in the Compensation Discussion and Analysis above.

## Outstanding Equity Awards on December 31, 2016

The following table sets forth certain information with respect to outstanding equity awards at December 31, 2016, held by the Named Executive Officers listed below.

## Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards				Stock Awards	
	Number of Shares	Options	Exercise Price	Option	Number of	Market Value
	Underlying	Unexercised	(\$ per share)	Expiration	Shares That	of Shares
	Exercisable	Options	(3)	Date	Have Not	That Have
	(1)	(2)			Vested	Not Vested
					(4)	(5)
Peter J. Ungaro	80,000	—	\$ 6.63	05/16/18	20,000 (6)	\$ 414,000
	150,000	—	\$ 3.74	05/13/19	11,875 (7)	\$ 245,813
	100,000	—	\$ 5.47	05/12/20	18,000 (8)	\$ 372,600
	100,000	—	\$ 6.08	11/16/21	133,200 (9)	\$ 2,757,240
	65,000	—	\$ 12.08	07/01/22	22,500 (10)	\$ 465,750
	45,270	7,730 (11)	\$ 19.64	07/01/23	28,000 (12)	\$ 579,600
	23,249	12,751 (13)	\$ 26.58	05/21/24		
	11,874	18,126 (14)	\$ 27.83	05/06/25		
	—	28,000 (15)	\$ 31.45	05/19/26		
Brian C. Henry	21,667	—	\$ 3.74	05/13/19	10,000 (6)	\$ 207,000
	35,000	—	\$ 12.08	07/01/22	6,500 (7)	\$ 134,550
	24,770	4,230 (11)	\$ 19.64	07/01/23	8,500 (8)	\$ 175,950
	10,979	6,021 (13)	\$ 26.58	05/21/24	66,600 (9)	\$ 1,378,620
	5,937	9,063 (14)	\$ 27.83	05/06/25	11,250 (10)	\$ 232,875
	—	14,000 (15)	\$ 31.45	05/19/26	14,000 (12)	\$ 289,800
Charles A. Morreale	16,797	—	\$ 12.08	07/01/22	7,000 (6)	\$ 144,900
	14,520	2,480 (11)	\$ 19.64	07/01/23	4,000 (7)	\$ 82,800
	7,104	3,896 (13)	\$ 26.58	05/21/24	5,500 (8)	\$ 113,850
	3,958	6,042 (14)	\$ 27.83	05/06/25	66,600 (9)	\$ 1,378,620
	—	8,000 (15)	\$ 31.45	05/19/26	7,500 (10)	\$ 155,250
				8,000 (12)	\$ 165,600	
Michael C. Piraino	85,000	—	\$ 8.33	10/01/19	7,000 (6)	\$ 144,900
	10,000	—	\$ 5.47	05/12/20	4,000 (7)	\$ 82,800
	13,570	—	\$ 6.08	11/16/21	4,750 (8)	\$ 98,325
	25,000	—	\$ 12.08	07/01/22	66,600 (9)	\$ 1,378,620
	14,520	2,480 (11)	\$ 19.64	07/01/23	7,500 (10)	\$ 155,250
	6,135	3,365 (13)	\$ 26.58	05/21/24	8,000 (12)	\$ 165,600
	3,958	6,042 (14)	\$ 27.83	05/06/25		
	—	8,000 (15)	\$ 31.45	05/19/26		
Margaret A. Williams	5,626	—	\$ 6.08	11/16/21	66,600 (9)	\$ 1,378,620
	35,000	—	\$ 12.08	07/01/22	4,000 (16)	\$ 82,800
	7,000	—	\$ 26.27	08/06/24		
	4,000	4,000 (17)	\$ 27.83	05/06/25		
Steven L. Scott	4,354	6,646 (14)	\$ 27.83	05/06/25	40,000 (18)	\$ 828,000



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	—	10,000	(15)	\$ 31.45	05/19/26	66,600	(9)	\$ 1,378,620
						8,250	(10)	\$ 170,775
						10,000	(12)	\$ 207,000
Ryan W. J. Waite	3,166	4,834	(14)	\$ 27.83	05/06/25	12,500	(19)	\$ 258,750
	—	8,000	(15)	\$ 31.45	05/19/26	66,600	(9)	\$ 1,378,620
						6,000	(10)	\$ 124,200
						8,000	(12)	\$ 165,600

(1) All stock options listed in this column are fully vested and exercisable.

Vesting of stock options is accelerated upon the death or Disability of the optionee, and may be accelerated upon

(2) certain other events, as discussed below in “Termination of Employment and Change of Control Arrangements - Narrative to the Termination of Employment and Change of Control Payments Table.”

(3) The option exercise prices were set at 100% of fair market value of our common stock using the most recent closing price per share for our common stock as reported by NASDAQ prior to the grant date of the stock option award.

Restricted stock awards and restricted stock units are forfeitable upon certain events. Time-based vesting restricted stock awards and time-based vesting restricted stock units also vest in full upon the death or Disability of the recipient, and upon certain other events. Additional information regarding the design and terms of these long-term equity awards is included under “2016 Compensation Determinations - Long-Term Equity Awards” in the Compensation Discussion and Analysis above and in the “Termination of Employment and Change of Control Arrangements - Narrative to the Termination of Employment and Change of Control Payments Table - Restricted Stock Agreements” below.

(5) Determined by multiplying the closing price of \$20.70 per share for our common stock as reported by NASDAQ on December 30, 2016, the last trading day of the year, by the number of unvested restricted shares then held by the Named Executive Officer. Additional information regarding the design and terms of these long-term equity awards are included under “2016 Compensation Determinations - Long-Term Equity Awards” in the Compensation Discussion and Analysis above and in the “Termination of Employment and Change of Control Arrangements - Equity Plans and Equity Award Agreements” below.

(6) The vesting of these Performance Vesting RSAs was tied to the achievement of certain operational and strategic performance criteria related to our big data analytics business or a change of control of Cray. None of the targets for these Performance Vesting RSAs were achieved and therefore these Performance Vesting RSAs expired in their entirety the calendar day immediately following that date on which we filed our Annual Report Form 10 K with the SEC for the fiscal year ended December 31, 2016.

(7) Twenty-five percent of the restricted stock awards from this grant vested on each of July 1, 2014, July 1, 2015, and July 1, 2016, and the remaining balance will vest on July 1, 2017.

(8) Twenty-five percent of the restricted stock awards from this grant vested on each of May 21, 2015 and May 21, 2016, and twenty-five percent of the restricted stock awards from this grant will vest on each of May 21, 2017 and May 21, 2018.

(9) These Performance Vesting RSUs vest, if at all, upon the achievement of certain revenue and operating income milestones, both of which must be met, in either fiscal year 2016, 2017, 2018 or 2019 (with achievement to be determined, generally, no later than July 1 of each subsequent calendar year), or upon a change in control of Cray. Upon a change of control of Cray, the number of shares subject to the Performance Vesting RSU that may be earned depends on the size of the change of control, and such earned shares will be subject to an additional one-year vesting cliff. Vesting is subject to the executive officers’ provision of services to us on the applicable determination or vesting dates. These Performance Vesting RSUs will expire completely if the milestones are not satisfied, or a change of control has not occurred, by the calendar day immediately following that date on which we file our Annual Report Form 10-K with the SEC for the fiscal year ended December 31, 2019. No milestones were achieved and no shares vested in 2016.

(10) Twenty-five percent of the restricted stock units from this grant vested on May 6, 2016, and twenty-five percent of the restricted stock units from this grant will vest on each of May 6, 2017, May 6, 2018 and May 6, 2019.

(11) Twenty-five percent of the options from this grant vested on July 1, 2014, and the remaining balance will vest monthly over the following 36 months so that all of these options will be vested on July 1, 2017.

(12) Twenty-five percent of the restricted stock units from this grant will vest on each of May 19, 2017, May 19, 2018, May 19, 2019 and May 19, 2020.

(13) Twenty-five percent of the options from this grant vested on May 21, 2015, and the remaining balance will vest monthly over the following 36 months so that all of these options will be vested on May 21, 2018.

(14) Twenty-five percent of the options from this grant vested on May 6, 2016 and the remaining balance will vest monthly over the following 36 months so that all of these options will be vested on May 6, 2019.

(15) Twenty-five percent of the options from this grant will vest on May 19, 2017 and the remaining balance will vest monthly over the following 36 months so that all of these options will be vested on May 19, 2020.

(16)

Fifty percent of the restricted stock units from this grant vested on May 6, 2016, and the remaining balance will vest on May 6, 2017.

(17) Fifty percent of the options from this grant vested on May 6, 2016, and the remaining balance will vest on May 6, 2017.

(18) Twenty-five percent of the restricted stock awards from this grant vested on each of September 15, 2015 and September 15, 2016, and twenty-five percent of the restricted stock awards from this grant will vest on each of September 15, 2017 and September 15, 2018.

(19) Twenty-five percent of the restricted stock awards from this grant vested on each of December 1, 2015 and December 1, 2016, and twenty-five percent of the restricted stock awards from this grant will vest on each of December 1, 2017 and December 1, 2018.

## 2016 Option Exercises and Stock Vested

The following table provides information regarding options exercised by and stock awards vested for the Named Executive Officers during the year ended December 31, 2016.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)(1)	Value Realized on Exercise \$(2)	Number of Shares Acquired on Vesting (#)(3)	Value Realized on Vesting \$(4)
Peter J. Ungaro	—	—	44,625	\$ 1,376,858
Brian C. Henry	55,348	\$ 1,937,932	23,250	\$ 716,373
Charles A. Morreale	—	—	15,500	\$ 477,465
Michael C. Piraino	15,000	\$ 204,527	15,125	\$ 465,623
Margaret A. Williams	—	—	16,250	\$ 499,745
Steven L. Scott	—	—	22,750	\$ 555,803
Ryan W. J. Waite	—	—	2,000	\$ 65,020

(1) Represents the number of shares acquired upon exercise of vested options.

(2) Represents the value of options exercised calculated by determining the difference between the market price of our common stock as reported by NASDAQ at exercise and the exercise price of the options.

(3) Represents the number of shares acquired upon vesting of restricted shares and restricted stock units.

(4) Represents the value of vested restricted stock awards and vested restricted stock units calculated by multiplying the number of vested restricted stock awards and vested restricted stock units by the market value of our common stock as reported by NASDAQ on the vesting date or, if the vesting occurred on a day on which NASDAQ was closed for trading, the trading day immediately prior to the vesting date.

## Termination of Employment and Change of Control Arrangements

We have adopted an Executive Severance Policy and entered into certain change of control agreements (titled Management Retention Agreements (as defined below)), designed to attract and retain officers in a competitive marketplace for talent, to retain officers during the uncertainty of rumored or actual fundamental corporate changes and to ensure that the officers evaluate any potential acquisition situations impartially without concern for how they may be personally affected. In addition, stock option, restricted stock and restricted stock unit agreements, including those held by our Named Executive Officers, provide for certain accelerated vesting rights. We believe that these plans are important competitive considerations, as it is generally believed that it takes senior corporate officers significant time to find new employment after their employment ends. We have a policy that prohibits the inclusion of any new provisions related to 280G gross-up payments and requires the removal of any provisions related to 280G gross-up payments in any existing agreement or arrangement with any executive officer in the event the material compensation terms of any such arrangement or agreement are amended in a manner that is materially favorable to the executive. Each of these policies is described in detail in the “Narrative to the Termination of Employment and Change of Control Payments Table” below.

The following discussion and table summarize the compensation that would have been payable to each Named Executive Officer under the various scenarios assuming termination of his or her employment at the close of business on December 31, 2016. The payments summarized in the following table are governed by the various agreements and arrangements described below.

No special payments are due if any of the Named Executive Officers terminates his or her employment voluntarily without Good Reason, or is terminated for Cause, as those terms are defined in our policies and agreements. For all terminations, a terminated employee receives accrued and unpaid salary and the balance in his or her Cray 401(k) Plan account. We do not accrue vacation pay for the Named Executive Officers or other senior officers. On the same basis as we provide benefits to all of our U.S. employees, the Named Executive Officers have life insurance and disability benefits.

The actual amounts to be paid to and the value of stock options, restricted stock and restricted stock units held by a Named Executive Officer upon any termination of employment can be determined only at the time of such termination, and depend on the facts and circumstances then applicable.



## Termination of Employment and Change of Control Payments

Name and Termination Event	Severance Payment (1)	Accelerated Restricted Stock Awards and Restricted Stock Units (2)	Accelerated Stock Options (3)	Accelerated Performance Vesting Restricted Stock Awards and Performance Restricted Stock Units (4)	Continued Benefit Plan Coverage (5)	Total (6)
Peter J. Ungaro						
Death/Disability	—	\$ 1,663,763	\$ 8,194	—	—	\$ 1,671,957
Resignation for Good Reason or Termination without Cause	\$ 1,350,000	\$ 301,640	—	—	\$ 55,086	\$ 1,706,726
After Change of Control, Resignation for Good Reason or Termination without Cause	\$ 2,700,000	\$ 1,663,763	\$ 8,194	\$ 3,171,240	\$ 57,762	\$ 7,600,959
Retirement	—	\$ 301,640	—	—	—	\$ 301,640
Brian C. Henry						
Death/Disability	—	\$ 833,175	\$ 4,484	—	—	\$ 837,659
Resignation for Good Reason or Termination without Cause	\$ 660,000	\$ 152,642	—	—	\$ 70,932	\$ 883,574
After Change of Control, Resignation for Good Reason or Termination without Cause	\$ 1,320,000	\$ 833,175	\$ 4,484	\$ 1,585,620	\$ 80,394	\$ 3,823,673
Retirement	—	\$ 152,642	—	—	—	\$ 152,642
Charles A. Morreale						
Death/Disability	—	\$ 517,500	\$ 2,629	—	—	\$ 520,129
Resignation for Good Reason or Termination without Cause	\$ 536,250	\$ 97,870	—	—	\$ 68,676	\$ 702,796
After Change of Control, Resignation for Good Reason or Termination without Cause	\$ 1,072,500	\$ 517,500	\$ 2,629	\$ 1,523,520	\$ 75,882	\$ 3,192,031
Retirement	—	\$ 97,870	—	—	—	\$ 97,870
Michael C. Piraino						
Death/Disability	—	\$ 501,975	\$ 2,629	—	—	\$ 504,604
Resignation for Good Reason or Termination without Cause	\$ 536,250	\$ 93,336	—	—	\$ 56,811	\$ 686,397
After Change of Control, Resignation for Good Reason or Termination without Cause	\$ 1,072,500	\$ 501,975	\$ 2,629	\$ 1,523,520	\$ 61,212	\$ 3,161,836
Retirement	—	\$ 93,336	—	—	—	\$ 93,336
Margaret A. Williams						
Death/Disability	—	\$ 82,800	—	—	—	\$ 82,800
Resignation for Good Reason or Termination without Cause	\$ 647,000	\$ 48,293	—	—	\$ 46,267	\$ 741,560
	\$ 1,294,000	\$ 82,800	—	\$ 1,378,620	\$ 53,473	\$ 2,808,893

After Change of Control, Resignation for Good Reason or Termination without Cause						
Retirement Steven L. Scott	—	\$48,293	—	—	—	\$48,293
Death/Disability	—	\$1,205,775	—	—	—	\$1,205,775
Resignation for Good Reason or Termination without Cause	\$595,333	\$136,703	—	—	\$50,677	\$782,713
After Change of Control, Resignation for Good Reason or Termination without Cause	\$1,254,000	\$1,205,775	—	\$1,378,620	\$55,078	\$3,893,473
Retirement Ryan W. J. Waite	—	\$136,703	—	—	—	\$136,703
Death/Disability	—	\$548,550	—	—	—	\$548,550
Resignation for Good Reason or Termination without Cause	\$509,167	\$24,136	—	—	\$45,502	\$578,805
After Change of Control, Resignation for Good Reason or Termination without Cause	\$1,072,500	\$548,550	—	\$1,378,620	\$48,178	\$3,047,848
Retirement	—	\$24,136	—	—	—	\$24,136



Except for termination events following a Change of Control, the amounts shown in this column for the Named Executive Officers are the salary and bonus cash severance amounts due under the Executive Severance Policy. (1) The amounts due under the Executive Severance Policy are to be paid in a single lump sum payment. The bonus cash severance amount included in this column assumes 100% achievement under our 2016 Executive Bonus Plan. For a termination within two years following a Change of Control due to a resignation for Good Reason or a termination without Cause, including a termination by Mr. Ungaro or by Mr. Henry pursuant to their election in the seventh month following a Change of Control if at such time he no longer holds his same position and reporting relationship at a company registered under the Exchange Act as he held with us prior to the Change of Control, the amounts shown in this column are the salary and bonus cash severance amounts due under our Management Retention Agreements and are payable in a lump sum payment. The bonus cash severance amount included in this column assumes 100% achievement under our 2016 Executive Bonus Plan.

(2) Except for Performance Vesting RSAs and Performance Vesting RSUs, all unvested restricted stock awards and restricted stock units vest in full upon (x) death or Disability or (y) if following a Change of Control, the Named Executive Officer is terminated without Cause or resigns for Good Reason (each as defined in the applicable equity agreement).

Except for Performance Vesting RSAs and Performance Vesting RSUs, if (x) a Named Executive Officer has held restricted stock awards or restricted stock units for 18 months and his or her employment is terminated for any reason other than Cause, or (y) a Named Executive Officer retires after the age of 65, then the Named Executive Officer receives a pro-rata portion of the unvested shares based on the time period he or she has held the restricted stock award or restricted stock unit compared to the applicable vesting period.

The amounts shown in this column reflect the value of the Named Executive Officer's unvested restricted stock awards and/or restricted stock units with vesting accelerated in full as of December 31, 2016 based on these terms, and assuming for purposes of disclosure that each Named Executive Officer was of the age to be eligible for the pro-rata retirement benefit as of December 31, 2016. The value of the unvested restricted stock awards and/or restricted stock units held by each Named Executive Officer was calculated based upon the aggregate market value of such shares. We used a price of \$20.70 per share to determine market value, which was the closing market price of our common stock as reported by NASDAQ on December 30, 2016, the last trading day of the year. See the "Outstanding Equity Awards at Fiscal Year-End" table above for a description of the unvested re