

CRAY INC
Form 424B7
January 20, 2006

Prospectus Supplement No. 1, dated January 20, 2006
(To Prospectus dated July 13, 2005)

Filed Pursuant to Rule 424(b)(7)
Registration No. 333-123135

\$80,000,000

Aggregate Principal Amount

3.0% Convertible Senior Subordinated Notes due 2024

and up to 22,792,024 Shares of Common Stock Issuable Upon Conversion of the Notes

We sold \$80 million aggregate principal amount of our 3.0% Convertible Senior Subordinated Notes due 2024 in private transactions on December 6 and December 21, 2004. Selling securityholders may use this prospectus supplement no. 1 and the prospectus dated July 13, 2005 to resell from time to time their notes and up to 22,792,024 shares of common stock issuable upon conversion of the notes. In this document, we refer to that prospectus as supplemented by this supplement as the prospectus. We will not receive the proceeds of any sales of securities pursuant to the prospectus.

The section of the July 13, 2005 prospectus entitled Selling Securityholders is hereby replaced with the following section.

SELLING SECURITYHOLDERS

We originally issued and sold the notes to Bear, Stearns & Co. Inc., to whom we refer to elsewhere in the prospectus as the initial purchaser, in transactions exempt from the registration requirements of the federal securities laws. The initial purchaser resold the notes to persons reasonably believed by it to be qualified institutional buyers, as defined by Rule 144A under the Securities Act of 1933, as amended, or the Securities Act. The selling securityholders, which term includes their transferees, pledges, donees or successors, may from time to time offer and sell pursuant to the prospectus any and all of the notes and the shares of common stock issuable upon conversion of the notes, which we refer to in this section as the conversion shares. Set forth below are the names of each selling securityholder, the principal amount of the notes that may be offered by such selling securityholder pursuant to the prospectus, any common stock owned prior to conversion, and the number of conversion shares into which such notes are convertible, each based on the most recent information that we received from each selling securityholder regarding its holding. Unless set forth in this section, none of the selling securityholders has had a material relationship with us or, to our knowledge, with any of our predecessors or affiliates within the past three years.

Any or all of the notes or common stock registered hereby and listed below may be offered for sale pursuant to the prospectus by the selling securityholders from time to time. Accordingly, no estimate can be given as to the amount of notes or common stock that will be held by the selling securityholders upon consummation of any particular sale. In addition, the selling securityholders identified below may have sold, transferred or otherwise disposed of all or a portion of their notes since the date on which the information regarding their notes was provided in transactions exempt from the registration requirements of the Securities Act.

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Name	Aggregate Principal Amount of Notes that May be Sold	Percentage of Notes Outstanding	Common Stock Owned Prior to Conversion	Common Stock Registered Hereby(1)
Alexandra Global Master Fund, Ltd.(2)	\$ 5,500,000	6.88%		1,139,601
Argent Classic Convertible Arbitrage Fund (Bermuda) Ltd.(3)	2,000,000	2.50%		414,400
Bear, Stearns & Co. Inc.(4)(B)	550,000	*		113,960
Convertible Securities Fund(5)	6,000	*		1,243
Credit Suisse First Boston LLC(6)(B)	6,000,000	7.50%		1,243,201
DBAG London(7)(A)	1,000,000	1.25%		207,200
dbX Convertible Arbitrage 9 Fund(2)	750,000	*		155,400
DKR SoundShore Opportunity Holding Fund Ltd.(8)	1,000,000	1.25%		207,200
Drawbridge Convertible I Ltd.(9)	750,000	*		155,400
Drawbridge Convertible II Ltd.(9)	240,000	*		49,728
Drawbridge Global Macro Master Fund Ltd.(9)	2,010,000	2.51%		416,472
Grace Convertible Arbitrage Fund, Ltd.(10)	3,500,000	4.38%		725,200
HFR RVA Combined Master Trust(11)	250,000	*		51,800
Highbridge International LLC(12)(A)	7,500,000	9.38%		1,554,001
KBC Financial Products USA, Inc.(13)(B)	1,000,000	1.25%		207,200
Linden Capital LP(14)	6,160,000	7.7%		1,276,353
Man Convertible Bond Master Fund, Ltd.(15)	4,150,000	5.19%		859,880
Mohican VCA Master Fund, Ltd.(16)	600,000	*		124,320
Nations Convertible Securities Fund(5)	1,494,000	1.87%		309,557
Putnam Convertible Income-Growth Trust(17)(A)	4,600,000	5.75%		953,120

Name	Aggregate Principal Amount of Notes that May be Sold	Percentage of Notes Outstanding	Common Stock Owned Prior to Conversion	Common Stock Registered Hereby(1)
Radcliffe SPC, Ltd. for and on behalf of the Class A Convertible Crossover Segregated Portfolio(18)	4,150,000	5.19%		859,880
Ritchie Convertible Arbitrage Trading(19)	400,000	*		82,880
SG Americas Securities, LLC(20)(B)	11,400,000	14.25%		2,362,082
Sunrise Partners Limited Partnership(21)(A)	8,390,000	10.49%		1,738,410
UBS O Connor LLC f/b/o O Connor Global Convertible Bond Master Limited(22)	5,500,000	6.88%		1,139,601
Vicis Capital Master Fund(23)	3,000,000	3.75%		621,600
Whitebox Convertible Arbitrage Partners LP(24)	4,000,000	5.00%		828,800
Whitebox Diversified Convertible Arbitrage Partners LP(25)	1,000,000	1.25%		207,200
Wolverine Convertible Arbitrage Fund Trading Limited(26)	3,500,000	4.38%		725,200
All other holders of notes or future transferees pledges, donees or successors of any such holders(27)			(28)	

* Less than 1%

(A) This selling securityholder has identified itself as an affiliate of a registered broker-dealer. This selling securityholder

has represented to us that it acquired these securities in the ordinary course of business and, at the time of such acquisition, the selling securityholder had no plans or proposals, directly or with any other person, to distribute these securities.

- (B) This selling securityholder has identified itself as a registered broker-dealer and represented to us that it acquired these securities as an investment, and not as compensation for investment banking services. Accordingly, this selling securityholder is an underwriter, as defined in section 2(11) of the Securities Act, with respect to these securities.
- (1) Assumes conversion of all of the holder's notes at a conversion

rate of 207.2002
shares of
common stock
per \$1,000
principal
amount at
maturity of the
notes. This
conversion rate
will be subject
to adjustment as
described under
Description of
Notes
Conversion
Rights. As a
result, the
amount of
common stock
issuable upon
conversion of
the notes may
increase or
decrease in the
future.

- (2) Alexandra
Investment
Management,
LLC, a
Delaware
limited liability
company
(Alexandra),
serves as
investment
adviser to this
selling
securityholder.
By reason of
such
relationship,
Alexandra may
be deemed to
share dispositive
power or
investment
control over the
notes and shares
of common
stock stated as

beneficially
owned by this
selling
shareholder.
Alexandra
disclaims
beneficial
ownership of
such notes and
shares of
common stock.
Messrs. Mikhail
A. Filimonov
(Filimonov) and
Dimitri Sogoloff
(Sogoloff) are
managing
members of
Alexandra. By
reason of such
relationships,
Filimonov and
Sogoloff may be
deemed to share
dispositive
power or
investment
control over the
notes and shares
of common
stock stated as
beneficially
owned by this
selling
securityholder.
Filimonov and
Sogoloff
disclaim
beneficial
ownership of
such notes and
shares of
common stock.

- (3) Nathaniel
Brown and
Robert
Richardson have
voting and

dispositive
power over the
notes and
conversion
shares of this
selling
securityholder.

(4) This selling
securityholder is
a wholly-owned
subsidiary of
The Bear
Stearns
Companies Inc.,
a publicly-held
New York Stock
Exchange listed
company.

(5) Yanfang
(Emma) Yan,
director and
senior equity
portfolio
manager, has
voting and
dispositive
power over the
notes and
conversion
shares of this
selling
securityholder.

(6) This selling
securityholder is
a public
company.

(7) Patrick Corrigan
has voting and
dispositive
power over the
notes and
conversion
shares of this
selling
securityholder.
The selling
securityholder is

a subsidiary of
Deutsche Bank
Securities, Inc.,
a registered
broker-dealer.

- (8) DKR Capital Partners L.P. (DKR LP) is a registered investment adviser with the Securities and Exchange Commission and as such is the investment manager to DKR SoundShore Opportunity Holding Fund Ltd. (the Fund). DKR LP has retained certain portfolio managers to act as the portfolio manager to the Fund managed by DKR LP. As such, DKR LP and certain portfolio managers have shared dispositive and voting power over the securities. Tom Kirvaitis has voting and dispositive power over the notes and conversion shares of the Fund.
- (9) Kevin Treacy has voting and dispositive

power over the
notes and
conversion
shares of this
selling
securityholder.

(10) Bradford
Whitmore and
Michael Brailov
have voting and
dispositive
power over the
notes and
conversion
shares of this
selling
securityholder.

(11) Whitebox HFR
RVA Combined
Master Trust
LLC is the
general partner
of this selling
securityholder.
Andrew Redleaf
is the managing
member of
Whitebox HFR
RVA Combined
Master Trust
LLC and
exercises voting
control and
dispositive
power over these
securities.

(12) Highbridge
Capital
Management,
LLC
(Highbridge) is
the trading
manager of
Highbridge
International
LLC (HIC) and
consequently
has voting

control and investment discretion over securities held by HIC. Glenn Dubin and Henry Swieca control Highbridge. Each of Highbridge, Glenn Dubin and Henry Swieca disclaims beneficial ownership of the securities held by HIC. HIC is a subsidiary of Highbridge Capital Corp., a registered broker-dealer.

(13) KBC Financial Products USA, Inc. is an indirect wholly-owned subsidiary of KBC Bank N.V., which in turn is a direct wholly-owned subsidiary of KBC Bank & Insurance Holding Company N.V., a publicly traded entity.

(14) Siu Min Wong has sole voting and dispositive power over the notes and conversion shares of this selling

securityholder.

- (15) John Null and J.T. Hansen, principals of Marin Capital Partners, LP, the investment adviser to this selling securityholder, have voting and dispositive power over the notes and conversion shares of this selling securityholder.

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(16) Eric C. Hage and Daniel C. Hage act as investment managers for this selling securityholder and exercise voting control and dispositive power over these securities.

(17) This selling securityholder is a mutual fund registered under the Investment Company Act of 1940. This selling securityholder is managed by Putnam Investment Management, LLC, which, through a series of holding companies, is owned by Marsh & McLennan Companies, Inc., a publicly owned corporation. Putnam Investment Management, LLC, through holding companies, is owned by Putnam, LLC. Putnam, LLC also owns Putnam Retail Management,

LP, a registered
broker-dealer.

- (18) Pursuant to an investment management agreement, RG Capital Management, L.P. (RG Capital) serves as the investment manager of Radcliffe SPC, Ltd. s Class A Convertible Crossover Segregated Portfolio. RGC Management Company, LLC (Management) is the general partner of RG Capital. Steve Katznelson and Gerald Stahlecker serve as the managing members of Management. Each of RG Capital, Management and Messrs. Katznelson and Stahlecker disclaims beneficial ownership of the securities owned by Radcliffe SPC, Ltd. for and on behalf of the Class A Convertible Crossover Segregated Portfolio.

- (19) Ritchie Capital Management acts as investment adviser to this selling securityholder. A.R. Thane Ritchie is the President of Ritchie Capital Management and exercises voting control and dispositive power over these securities.
- (20) This selling securityholder is a wholly-owned subsidiary of Societe Generale, a publicly traded corporation.
- (21) S. Donald Sussman has sole voting and dispositive power over the notes and conversion shares of this selling securityholder. Sunrise Partners Limited Partnership is the parent of Paloma Securities L.L.C., a registered broker-dealer.
- (22) The investment adviser, UBS O Connor LLC,

has the investment and voting power over the securities held by this entity and is a wholly owned subsidiary of UBS AG, which is a publicly traded company on the New York Stock Exchange.

(23) Vicis Capital, LLC is the investment adviser to Vicis Capital Master Fund. John Succo, Sky Lucas and Shad Stastney share voting and dispositive power over the notes and conversion shares of this selling securityholder.

(24) Whitebox Convertible Arbitrage Advisors LLC is the general partner of this selling securityholder. Andrew Redleaf is the managing member of Whitebox Convertible Arbitrage Advisors LLC and exercises voting control

and dispositive
power over
these securities.

(25) Whitebox
Diversified
Convertible
Arbitrage
Advisors LLC is
the general
partner of this
selling
securityholder.
Andrew Redleaf
is the managing
member of
Whitebox
Diversified
Convertible
Arbitrage
Advisors LLC
and exercises
voting control
and dispositive
power over
these securities.

(26) Rob Bellick has
voting and
dispositive
power over the
notes and
conversion
shares of this
selling
securityholder.

(27) Information
about other
selling
securityholders
will be set forth
in supplements
or amendments
to the
prospectus.
Holders of notes
and conversion
shares not
named in the
prospectus, and

any transferees from such holders, may not use the prospectus until a post-effective amendment has been filed and declared effective, or a prospectus in accordance with Rule 430B(d) has been filed, that names such holders and includes the required disclosure about those holders and their plan of distribution.

- (28) Assumes that any other holders of notes, or any future transferees, pledgees, donees or successors of or from any such other holders of notes, do not beneficially own any common stock other than the common stock issuable upon conversion of the notes at the initial conversion rate.

The preceding table has been prepared based upon information furnished to us by the selling securityholders named in the table. The aggregate principal amount of notes reflected in the table is more than the aggregate principal amount of notes outstanding because securityholders have provided us with information as of different dates and may not have updated us on transfers of notes. Noteholders whose notes are not reflected in the table have chosen not to provide us with the information necessary to list them in the table or to permit them to be selling securityholders under the prospectus. Information about the selling securityholders may change over time. If we become aware of any such changed information, we may amend or supplement the prospectus to reflect the changed information. However, our failure to amend or supplement the prospectus should not be interpreted as a representation that such a change has not occurred.

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