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Cray co-founder, CEO steps down

By **Brier Dudley**

Seattle Times technology reporter

Seattle supercomputer maker Cray yesterday revealed that it lost more than Wall Street expected, including its co-founder and chief executive.

Jim Rottsolk, 60, retired yesterday after 27 years of running the company. He's being replaced by Peter Ungaro, 36, a former IBM sales executive who was promoted to Cray president in March.

Rottsolk's biggest contribution was building a company with "a culture of innovation, one that can rapidly move on new technology opportunities," said Thomas Sterling, principal scientist at the Jet Propulsion Laboratory (JPL) and a faculty associate at the California Institute of Technology in Pasadena.

"How many people can at the same time have the button-down, conservative approach that's needed in business and to keep the cash flow and at the same time be receptive and responsive to risk?" Sterling said. "There's not a lot of CEOs that are able to do that."

Cray remains a leader in the elite world of supercomputing, but the business has struggled since 2003. The company is restructuring, dropping some development projects and cutting 10 percent of its workers.

Yesterday it said sales are picking up but it lost \$24 million in the second quarter, which ended June 30. It lost \$55 million during the same period last year.

Sales more than doubled to \$53.4 million, compared with \$21.7 million a year ago. The loss came to 27 cents a share, including restructuring costs and other charges.

Analysts surveyed by Thomson Financial on average had expected a 12 cent per share loss, but they generally don't count special charges.

"They missed on the [earnings per share] but it didn't miss by a huge amount," said Alan Robinson, research director at Delafield Hambrecht in Seattle.

Cray appears to be taking the right steps to resume profitability, said Robinson, who doesn't own Cray shares but whose firm does make a market in the stock.

"I think perhaps we can say there is light at the end of the tunnel here," he said.

After closing yesterday at \$1.25, up 8 cents, the stock jumped to \$1.31 in after-hours trading, after the earnings report.



TOM REESE / THE SEATTLE TIMES, 2002
Cray Computer CEO Jim Rottsolk will be replaced by Peter Ungaro, the company's president.

New product bookings fell during the quarter, but the company expects higher sales and lower costs in the second half of the year.

"While we had a solid revenue quarter, some of our largest and most complex installations have been delayed in getting into full production," Ungaro said in a news release. "We will not recognize the revenue on these systems until we receive customer acceptances, which should happen over the next several months."

The company also announced that board member Stephen Kiely, a tech executive, is now chairman.

Rottsolk will remain on the board and serve as a company adviser through 2005.

"Jim Rottsolk's vision and leadership were key to returning Cray to the forefront of supercomputing," Kiely said in a news release.

Cray is the latest incarnation of Tera Computer, a company that Rottsolk and computer scientist Burton Smith started in 1987 in Washington, D.C. They moved it to Seattle a year later and in 2000 bought the assets of Cray Research and renamed the company. Smith remains Cray's chief scientist.

"Burton certainly brought the brilliance and the ideas and a certain charisma, but taking nothing away from Burton's accomplishments, Jim made it happen," JPL's Sterling said.

Rottsolk took a long-term view of the potential of high-performance computing. He also revitalized Cray with new architectures and products created to address computing capability needs, said David Bader, associate professor at the Georgia Institute of Technology.

"Cray's reputation is still extremely strong," he said. "They're a leading player in this market area."

Brier Dudley: 206-515-5687 or bdudley@seattletimes.com

Cray

Dollar figures in thousands, except per share; parentheses denote losses

| | June 30 | | % |
|-----------|------------|------------|-------|
| 2nd QTR | 2005 | 2004 | CHG |
| Profit | (\$23,800) | (\$54,500) | 56.3 |
| Per share | (0.27) | (0.64) | 57.8 |
| Revenue | 53,400 | 21,700 | 146.1 |
| 1st half | 2005 | 2004 | CHG |
| Profit | (\$44,831) | (\$58,347) | 23.2 |
| Per share | (0.51) | (0.74) | 31.1 |
| Revenue | 91,053 | 63,845 | 42.6 |

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