CREE INC
Form 10-Q
April 24, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 0-21154
CREE, INC.
(Exact name of registrant as specified in its charter)

North Carolina	56-1572719
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4600 Silicon Drive Durham, North Carolina	27703
(Address of principal executive offices)	(Zip Code)

(919) 407-5300
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No[X]
The number of shares outstanding of the registrant's common stock, par value $0.00125 per share, as of April 17, 2013, was 117,923,891.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
CREE, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (unaudited)	June 24, 2012
	(Thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$178,438	$178,885
Short-term investments	758,613	565,628
Total cash, cash equivalents, and short-term investments	937,051	744,513
Accounts receivable, net	181,877	152,258
Inventories	195,743	188,849
Deferred income taxes	22,410	21,744
Prepaid expenses and other current assets	62,831	56,917
Total current assets	1,399,912	1,164,281
Property and equipment, net	550,237	582,461
Intangible assets, net	362,442	376,075
Goodwill	616,345	616,345
Other assets	8,552	8,336
Total assets	$2,937,488	$2,747,498
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$112,416	$78,873
Accrued salaries and wages	40,286	29,837
Income taxes payable	4,405	3,834
Other current liabilities	41,459	36,633
Total current liabilities	198,566	149,177
Long-term liabilities:		
Deferred income taxes	15,926	15,609
Other long-term liabilities	14,797	22,695
Total long-term liabilities	30,723	38,304
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, par value $0.01; 3,000 shares authorized at March 31, 2013 and June 24, 2012; none issued and outstanding	—	—
Common stock, par value $0.00125; 200,000 shares authorized at March 31, 2013 and June 24, 2012; 117,869 and 115,906 shares issued and outstanding at March 31, 2013 and June 24, 2012, respectively	146	144
Additional paid-in-capital	1,951,011	1,861,502
Accumulated other comprehensive income, net of taxes	11,121	11,133
Retained earnings	745,921	687,238
Total shareholders' equity	2,708,199	2,560,017
Total liabilities and shareholders' equity	$2,937,488	$2,747,498

The accompanying notes are an integral part of the consolidated financial statements.

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CREE, INC.
(UNAUDITED)
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
	March 31, 2013	March 25, 2012	March 31, 2013	March 25, 2012
	(Thousands, except per share amounts)			
Revenue, net	$348,934	$284,801	$1,010,973	$857,899
Cost of revenue, net	215,924	185,388	628,438	555,340
Gross profit	133,010	99,413	382,535	302,559
Operating expenses:				
Research and development	39,036	36,148	116,524	106,436
Sales, general and administrative	62,140	50,074	174,885	144,789
Amortization of acquisition-related intangibles	7,719	7,368	23,108	18,660
Loss on disposal or impairment of long-lived assets	863	816	2,385	2,088
Total operating expenses	109,758	94,406	316,902	271,973
Operating income	23,252	5,007	65,633	30,586
Non-operating income:				
Other non-operating income (expense), net	494	324	2,622	1,187
Interest income, net	2,018	1,859	5,756	5,628
Income before income taxes	25,764	7,190	74,011	37,401
Income tax expense (benefit)	3,607	(2,299)	15,328	3,015
Net income	$22,157	$9,489	$58,683	$34,386
Earnings per share:				
Basic	$0.19	$0.08	$0.51	$0.30
Diluted	$0.19	$0.08	$0.50	$0.30
Shares used in per share calculation:				
Basic	116,682	115,641	116,059	114,348
Diluted	118,608	116,074	116,768	114,879

The accompanying notes are an integral part of the consolidated financial statements.

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CREE, INC.
(UNAUDITED)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended	
	March 31, 2013	March 25, 2012	March 31, 2013	March 25, 2012
	(In thousands)			
Net income	$22,157	$9,489	$58,683	$34,386
Other comprehensive income:				
Currency translation (loss) gain, net of tax benefit (expense) of $90, $(167), $(1) and $55, respectively	(145)	273	5	(89)
Net unrealized gain (loss) on available-for-sale securities, net of tax (expense) benefit of $(75), $(290), $(22) and $915, respectively	67	480	(17)	(1,512)
Other comprehensive (loss) income	(78)	753	(12)	(1,601)
Comprehensive income	$22,079	$10,242	$58,671	$32,785

The accompanying notes are an integral part of the consolidated financial statements.

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CREE, INC.
(UNAUDITED)
CONSOLIDATED STATEMENTS OF CASH FLOW

	Nine Months Ended	
	March 31, 2013	March 25, 2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$58,683	$34,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	114,370	104,855
Stock-based compensation	40,945	34,884
Excess tax benefit from share-based payment arrangements	(3,636)	(263)
Loss on disposal or impairment of long-lived assets	2,385	2,088
Amortization of premium/discount on investments	7,075	6,099
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(29,624)	(25,321)
Inventories	(6,866)	19,184
Prepaid expenses and other assets	(6,472)	7,004
Accounts payable, trade	33,495	(430)
Accrued salaries and wages and other liabilities	13,715	(11,909)
Net cash provided by operating activities	224,070	170,577
Cash flows from investing activities:		
Purchases of property and equipment	(55,406)	(75,206)
Purchases of available-for-sale investments	(533,884)	(234,622)
Proceeds from maturities of available-for-sale investments	297,740	127,805
Proceeds from sale of property and equipment	301	5
Proceeds from sale of available-for-sale investments	36,089	274,453
Purchase of acquired business, net of cash acquired	—	(456,008)
Purchases of patent and licensing rights	(15,794)	(11,959)
Net cash used in investing activities	(270,954)	(375,532)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	43,352	4,035
Excess tax benefit from share-based payment arrangements	3,636	263
Repurchases of common stock	(638)	—
Net cash provided by financing activities	46,350	4,298
Effects of foreign exchange changes on cash and cash equivalents	87	1,116
Net change in cash and cash equivalents	(447)	(199,541)
Cash and cash equivalents:		
Beginning of period	178,885	390,598
End of period	$178,438	$191,057

The accompanying notes are an integral part of the consolidated financial statements.

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CREE, INC.
(UNAUDITED)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation and Changes in Significant Accounting Policies

Overview

Cree, Inc. (the “Company”) is a leading innovator of lighting-class light emitting diode (LED) products, lighting products and semiconductor products for power and radio-frequency (RF) applications. The Company's products are targeted for applications such as indoor and outdoor lighting, video displays, transportation, electronic signs and signals, power supplies, solar inverters and wireless systems.

The Company develops and manufactures semiconductor materials and devices primarily based on silicon carbide (SiC), gallium nitride (GaN) and related compounds. The physical and electronic properties of SiC and GaN offer technical advantages over traditional silicon, gallium arsenide (GaAs) and other materials used for electronic and opto-electronic applications.

The Company's LED products consist of LED components, LED chips, and SiC materials. As LED technology improves, the Company believes the potential market for LED lighting will continue to expand. The Company's success in selling LED products depends upon the ability to offer innovative products and its ability to enable its customers to develop and market LED based products that successfully compete and drive LED adoption against traditional lighting products.

The Company's lighting products consist of both LED and traditional lighting systems. The Company designs, manufactures and sells lighting fixtures and lamps for the commercial, industrial and consumer markets.

In addition, the Company develops, manufactures and sells power and RF devices. The Company's power products are made from SiC and provide faster switching speeds than comparable silicon-based power devices for a given power level. The Company's RF devices are made from GaN and produce higher power densities as compared to silicon or gallium arsenide.

The majority of the Company's products are manufactured at its production facilities located in North Carolina, Wisconsin, and China. The Company also uses contract manufacturers for certain aspects of product fabrication, assembly and packaging. The Company operates research and development facilities in North Carolina, California, Wisconsin, India, and China.

The Company currently operates its business as three reportable segments:

- LED Products
- Lighting Products
- Power and RF Products

Basis of Presentation

The consolidated balance sheet at March 31, 2013, the consolidated statements of income for the three and nine months ended March 31, 2013 and March 25, 2012, the consolidated statements of comprehensive income for the three and nine months ended March 31, 2013 and March 25, 2012, and the consolidated statements of cash flow for the nine months ended March 31, 2013 and March 25, 2012 (collectively, the “consolidated financial statements”) have been prepared by the Company and have not been audited. In the opinion of management, all normal and recurring adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows at March 31, 2013, and for all periods presented, have been made. All significant intercompany accounts and transactions have been eliminated. The consolidated balance sheet at June 24, 2012 has been derived from the audited financial statements as of that date. The nine month period ended March 31, 2013 includes one additional week as compared to the nine month period ended March 25, 2012.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 24, 2012 (“fiscal 2012”).

The results of operations for the three and nine months ended March 31, 2013 are not necessarily indicative of the operating results that may be attained for the entire fiscal year ending June 30, 2013 (“fiscal 2013”).

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The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual amounts could differ materially from those estimates.

Certain fiscal 2012 amounts in the accompanying consolidated financial statements have been reclassified to conform to the fiscal 2013 presentation. These reclassifications had no effect on previously reported consolidated net income or shareholders' equity.

Recently Adopted Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board ("FASB") issued new guidance concerning the presentation of total comprehensive income and its components. Under this guidance, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance also requires an entity to present on the face of the financial statements reclassification adjustments from other comprehensive income to net income. In December 2011, the FASB issued an accounting standards update that deferred the presentation requirement for other comprehensive income reclassifications on the face of the financial statements. This guidance, as amended, became effective for the Company beginning in the first quarter of fiscal 2013. The Company's adoption of the new accounting guidance did not have a significant impact on the consolidated financial statements.

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued an accounting standards update (ASU) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which seeks to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. In particular, the ASU requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account (e.g., inventory) instead of directly to income or expense in the same reporting period.

The ASU applies to all entities that issue financial statements that are presented in conformity with U.S. GAAP and that report items of other comprehensive income. Public companies are required to comply for all reporting periods presented, both annual and interim periods. For public entities, the ASU is effective prospectively for reporting periods beginning after December 15, 2012. This guidance became effective for the Company beginning in the third quarter of fiscal 2013. The Company's adoption of the new accounting guidance did not have a significant impact on the consolidated financial statements.

Note 2. Acquisitions

On August 17, 2011, the Company entered into a Stock Purchase Agreement with all of the shareholders of Ruud Lighting, Inc. ("Ruud Lighting"). Pursuant to the terms of the Stock Purchase Agreement and concurrently with the execution of the Stock Purchase Agreement, the Company acquired all of the outstanding share capital of Ruud Lighting in exchange for consideration consisting of 6.1 million shares of the Company's common stock valued at approximately $211.0 million and $372.2 million cash, subject to certain post-closing adjustments. The acquisition allowed the Company to expand its product portfolio into outdoor LED lighting.

Prior to the Company completing its acquisition of Ruud Lighting, Ruud Lighting completed the re-acquisition of its e-conolight business by purchasing all of the membership interests of E-conolight LLC ("E-conolight"). Ruud Lighting previously sold its e-conolight business in March 2010 and had been providing operational services to E-conolight since that date. In connection with the stock purchase transaction with Ruud Lighting, the Company funded Ruud Lighting's re-acquisition of E-conolight and repaid Ruud Lighting's outstanding debt in the aggregate amount of approximately $85.0 million.

Following the acquisition, the Company recorded certain post-closing purchase price adjustments resulting in a $2.3 million reduction to the purchase price and a total purchase price of approximately $666.0 million.

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The Company incurred total transaction costs related to the acquisition of approximately $3.6 million, of which, $3.1 million were expensed in the first quarter of fiscal 2012, in accordance with U.S. GAAP. These transaction costs were included in "Sales, general and administrative" expense in the consolidated statements of income. Ruud Lighting is included in the Lighting Products segment.

The amounts of revenue, operating income (loss), and net income (loss) of Ruud Lighting in the consolidated statements of income from and including August 17, 2011 to March 25, 2012 are as follows (in thousands, except per share data):

	Three Months Ended March 25, 2012	Nine Months Ended March 25, 2012
Revenue	$56,598	$140,089
Operating income (loss)	(1,376)	(251)
Net income (loss)	(1,207)	(552)
Basic net income (loss) per share	$(0.01)	$—
Diluted net income (loss) per share	$(0.01)	$—

The following unaudited pro forma information presents a summary of the Company's consolidated results of operations as if the Ruud Lighting acquisition occurred as of June 27, 2011 (in thousands, except per share data).

	Nine Months Ended March 25, 2012
Revenue	$888,231
Operating income	28,879
Net income	32,401
Basic net income per share	$0.28
Diluted net income per share	$0.28

The total revenue for Ruud Lighting included in the pro forma table above was $171.6 million for the nine month period from June 27, 2011 to March 25, 2012.

Note 3. Financial Statement Details

Accounts Receivable, net

The following table presents a summary of the components of accounts receivable, net (in thousands):

	March 31, 2013	June 24, 2012
Billed trade receivables	$208,807	$173,145
Unbilled contract receivables	1,364	1,576
	210,171	174,721
Allowance for sales returns, discounts, and other incentives	(25,714)	(20,681)
Allowance for bad debts	(2,580)	(1,782)
Total accounts receivable, net	$181,877	$152,258

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Inventories

The following table presents a summary of the components of inventories (in thousands):

	March 31, 2013	June 24, 2012
Raw material	$61,230	$57,618
Work-in-progress	71,243	74,241
Finished goods	63,270	56,990
Total inventories	$195,743	$188,849

Other current liabilities

The following table presents a summary of the components of other current liabilities (in thousands):

	March 31, 2013	June 24, 2012
Accrued taxes	$15,110	$11,615
Accrued professional fees	8,403	7,412
Accrued warranty	7,146	5,513
Accrued other	10,800	12,093
Total other current liabilities	$41,459	$36,633

Other non-operating income (expense), net

The following table presents a summary of the components of other non-operating income (expense), net (in thousands):

	Three Months Ended		Nine Months Ended	
	3/31/2013	3/25/2012	3/31/2013	3/25/2012
Foreign currency gain (loss), net	$296	$190	$424	$211
Gain on sale of investments, net	48	4	84	1,001
Other, net	150	130	2,114	(25)
Total other non-operating income (expense), net	$494	$324	$2,622	$1,187

Reclassifications Out of Accumulated Other Comprehensive Income

The following table presents a summary of the amounts reclassified out of accumulated other comprehensive income (in thousands):

Accumulated Other Comprehensive Income Component	Amount Reclassified from Accumulated Other Comprehensive Income				Affected Line Item in the Statement of Income
	Three Months Ended		Nine Months Ended		
	3/31/2013	3/25/2012	3/31/2013	3/25/2012	
Net unrealized gain (loss) on available-for-sale securities, net of tax expense (benefit)					
	$43	$4	$80	$1,001	Other non-operating income (expense), net
	43	4	80	1,001	Income before income taxes
	6	(1)	17	81	Income tax expense (benefit)
	$37	$5	$63	$920	Net income

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Note 4. Investments

Short-term investments consist of high grade municipal and corporate bonds and other debt securities. The Company classifies its marketable securities as available-for-sale based upon management's determination that the underlying cash invested in these securities is available for operations as necessary.

The following tables provide a summary of marketable investments by type (in thousands):

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds	$246,957	$1,496	$(61)	$ 248,392
Corporate bonds	176,963	2,468	(101)	179,330
Certificates of deposit	265,000	—	—	265,000
U.S. agency securities	56,391	333	(1)	56,723
Non-U.S. government securities	9,139	29	—	9,168
Total	$754,450	$4,326	$(163)	$ 758,613

	June 24, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds	$209,626	$2,036	$(58)	$ 211,604
Corporate bonds	144,942	1,848	(123)	146,667
Certificates of deposit	130,000	—	—	130,000
U.S. agency securities	68,156	450	(7)	68,599
Non-U.S. government securities	8,746	15	(3)	8,758
Total	$561,470	$4,349	$(191)	$ 565,628

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The following tables present the gross unrealized losses and estimated fair value of the Company's investment securities, aggregated by investment type and length of time that individual investments securities have been in a continuous unrealized loss position (in thousands):

	March 31, 2013					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$25,869	$(61)	$—	$—	$25,869	$(61)
Corporate bonds	37,174	(101)	—	—	37,174	(101)
U.S. agency securities	2,002	(1)	—	—	2,002	(1)
Total	$65,045	$(163)	$—	$—	$65,045	$(163)
Number of securities with an unrealized loss		33		—		33

	June 24, 2012					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$30,102	$(58)	$—	$—	$30,102	$(58)
Corporate bonds	30,550	(123)	—	—	30,550	(123)
U.S. agency securities	3,014	(7)	—	—	3,014	(7)
Non-U.S. government securities	1,543	(3)	—	—	1,543	(3)
Total	$65,209	$(191)	$—	$—	$65,209	$(191)
Number of securities with an unrealized loss		33		—		33

The contractual maturities of marketable investments at March 31, 2013 were as follows (in thousands):

	March 31, 2013				
	Within One Year	After One, Within Five Years	After Five, Within Ten Years	After Ten Years	Total
Municipal bonds	$59,355	$189,037	$—	$—	$248,392
Corporate bonds	25,404	151,426	2,500	—	179,330
Certificates of deposit	265,000	—	—	—	265,000
U.S. agency securities	20,145	36,578	—	—	56,723
Non-U.S. government securities	3,012	6,156	—	—	9,168
Total	$372,916	$383,197	$2,500	$—	$758,613

Note 5. Fair Value of Financial Instruments

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., “the exit price”) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including quoted market prices and discounted cash flows. U.S. GAAP also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

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Observable inputs are obtained from independent sources and can be validated by a third party, whereas, unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability. The fair value hierarchy is categorized into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical instruments that the Company is able to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in active markets for instruments that are similar, or quoted prices in markets that are not active for identical or similar instruments, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The financial assets for which the Company performs recurring fair value remeasurements are cash equivalents and short-term investments. As of March 31, 2013, financial assets utilizing Level 1 inputs included money market funds. Financial assets utilizing Level 2 inputs included certificates of deposit, corporate bonds and municipal bonds, U.S. agency securities and non-U.S. government securities. Level 2 assets are valued using a third-party pricing services consensus price which is a weighted average price based on multiple sources. These sources determine prices utilizing market income models which factor in, where applicable, transactions of similar assets in active markets, transactions of identical assets in infrequent markets, interest rates, bond or credit default swap spreads and volatility. The Company does not have any financial assets requiring the use of Level 3 inputs. There were no transfers between Level 1 and Level 2 during the nine months ended March 31, 2013.

The following table sets forth financial instruments carried at fair value within the U.S. GAAP hierarchy (in thousands):

	March 31, 2013				June 24, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents:								
Municipal bonds	$—	$—	$—	$—	$—	$3,000	$—	$3,000
Money market funds	3,564	—	—	3,564	31,318	—	—	31,318
Total cash equivalents	3,564	—	—	3,564	31,318	3,000	—	34,318
Short-term investments:								
Municipal bonds	—	248,392	—	248,392	—	211,604	—	211,604
Corporate bonds	—	179,330	—	179,330	—	146,667	—	146,667
Certificates of deposit	—	265,000	—	265,000	—	130,000	—	130,000
U.S. agency securities	—	56,723	—	56,723	—	68,599	—	68,599
Non-U.S. government securities	—	9,168	—	9,168	—	8,758	—	8,758
Total short-term investments	—	758,613	—	758,613	—	565,628	—	565,628
Total assets	$3,564	$758,613	$—	$762,177	$31,318	$568,628	$—	$599,946

The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized gains from the sale of investments for the nine months ended March 31, 2013 of approximately $84 thousand are included in "Other non-operating income (expense), net" and unrealized gains and losses are included as a separate component of equity, net of tax, unless the loss is determined to be “other-than-temporary.”

The Company evaluates its investments for possible impairment or a decline in fair value below cost basis that is deemed to be “other-than-temporary” on a periodic basis. It considers such factors as the length of time and extent to which fair value has been below cost basis, the financial condition of the investee, and its ability and intent to hold the investment for a period of time that may be sufficient for an anticipated recovery in market value.

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Note 6. Derivative Instruments and Hedging Activities

The Company operates internationally and thus is exposed to potential adverse changes in foreign currency exchange rates. In the third quarter of fiscal 2013, the Company entered into a foreign currency forward contract (a derivative instrument) as a means of reducing its exposure to foreign currency rate changes on accounts payable denominated in a foreign currency. The primary purpose of the Company's foreign currency hedging activities is to protect against the volatility of earnings associated with foreign currency transactions. The Company's strategy is to enter into foreign currency forward contracts so that losses or gains resulting from its foreign currency exposures are offset by gains or losses on the forward currency forward contracts in order to mitigate the risk and volatility associated with its foreign currency transactions. Such derivative instruments contain credit risk to the extent that the counterparty fails to perform under the contract. The Company seeks to mitigate such risks by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored. Management does not expect material losses as a result of nonperformance by counterparties.

Derivative instruments are recognized as either assets or liabilities and are measured at fair value. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative instrument and the resulting designation. The Company did not designate its foreign currency forward contract as a hedge for accounting purposes, and accordingly, the Company adjusted the contract to fair value by recognizing a gain on the derivative instrument in current earnings within "Other non-operating income (expense), net".

The Company continually monitors its exposure to fluctuations in foreign currency exchange rates. The Company may enter into additional foreign currency forward contracts in the future to mitigate its changing exposure to foreign currency exchange rate fluctuations, principally related to payables and receivables generated from sales and purchases denominated in non-functional currencies. The Company's intent is that foreign currency forward contracts will have terms corresponding to the duration and will mature upon settlement of the underlying asset or liability. The Company does not hold or issue financial instruments for speculative or trading purposes.

There were no foreign currency forward contracts outstanding as of March 31, 2013 or June 24, 2012.

The weighted average total notional amount of foreign currency forward contracts outstanding during the three months ended March 31, 2013 was $102 thousand, purchased in U.S. dollar equivalents. The weighted average total notional amount of foreign currency forward contracts outstanding during the nine months ended March 31, 2013 was $33 thousand, purchased in U.S. dollar equivalents.

The table below provides a summary of the effect of the derivative instrument on the unaudited condensed consolidated statements of income (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Net Income	Amount of Gain (Loss) Recognized in Net Income			
		Three months ended		Nine Months Ended	
		March 31, 2013	March 25, 2012	March 31, 2013	March 25, 2012
Foreign currency forward contract	Other non-operating income (expense), net	$8	$—	$8	$—

The above gain on the derivative instrument includes the cost of entering into the contract (i.e. forward points), and was generally offset by a corresponding foreign currency loss on the underlying hedged transaction (i.e. accounts payable). The net gain on both the derivative instrument and the corresponding hedged transaction are reflected in "Other non-operating income (expense), net" in the accompanying unaudited consolidated statements of income.

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Note 7. Intangible Assets

The following table presents the components of intangible assets, net (in thousands):

	March 31, 2013			June 24, 2012		
	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
Intangible assets with finite lives:						
Customer relationships	$137,440	$(57,485)	$79,955	$137,440	$(51,103)	$86,337
Developed technology	162,760	(48,379)	114,381	160,360	(33,141)	127,219
Non-compete agreements	10,244	(3,547)	6,697	10,244	(2,077)	8,167
Trade names, finite-lived	520	(487)	33	520	(469)	51
Patent and license rights	111,672	(33,176)	78,496	97,812	(28,791)	69,021
Total intangible assets with finite lives	422,636	(143,074)	279,562	406,376	(115,581)	290,795
In-process research and development, indefinite-lived	—		—	2,400		2,400
Trade names, indefinite-lived	82,880		82,880	82,880		82,880
Total intangible assets	$505,516	$(143,074)	$362,442	$491,656	$(115,581)	$376,075

Total amortization expense, including the amortization of acquisition related intangibles, patents and license rights, recognized during the three and nine months ended March 31, 2013 was $9.4 million and $28.2 million, respectively. For the three and nine months ended March 25, 2012, total amortization expense, including the amortization of acquisition related intangibles, patents and license rights, was $8.9 million and $22.9 million, respectively.

Total annual amortization expense of intangible assets is estimated to be as follows (in thousands):

Fiscal Year Ending	
June 30, 2013 (remainder of fiscal 2013)	$9,460
June 29, 2014	35,806
June 28, 2015	32,831
June 26, 2016	32,553
June 25, 2017	30,587
Thereafter	138,325
Total	$279,562

Note 8. Shareholders' Equity

As of March 31, 2013, the Company is authorized by the Board of Directors to repurchase shares of its common stock having an aggregate purchase price not exceeding $200.0 million for all purchases from June 14, 2012 through the June 30, 2013 expiration of the program. During the nine months ended March 31, 2013, there were no repurchases of common stock by the Company under the repurchase program.

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Note 9. Earnings Per Share

The following presents the computation of basic earnings per share (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	March 31, 2013	March 25, 2012	March 31, 2013	March 25, 2012
Basic:				
Net income	$22,157	$9,489	$58,683	$34,386
Weighted average common shares - basic	116,682	115,641	116,059	114,348
Basic earnings per share	$0.19	$0.08	$0.51	$0.30

The following computation reconciles the differences between the basic and diluted earnings per share presentations (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	March 31, 2013	March 25, 2012	March 31, 2013	March 25, 2012
Diluted:				
Net income	$22,157	$9,489	$58,683	$34,386
Weighted average common shares - basic	116,682	115,641	116,059	114,348
Dilutive effect of stock options, unvested shares and ESPP purchase rights	1,926	433	709	531
Weighted average common shares - diluted	118,608	116,074	116,768	114,879
Diluted earnings per share	$0.19	$0.08	$0.50	$0.30

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be antidilutive and as such, these shares are not included in calculating diluted earnings per share. For the three and nine months ended March 31, 2013, there were 2.2 million and 8.7 million, respectively, of potential common shares not included in the calculation of diluted earnings per share because their effect was antidilutive. For the three and nine months ended March 25, 2012, there were 7.9 million and 6.8 million, respectively, of potential common shares not included in the calculation of diluted earnings per share because their effect was antidilutive.

Note 10. Stock-Based Compensation

The Company currently has one equity-based compensation plan from which stock-based compensation awards can be granted to employees and directors. In addition, the Company has plans that have been terminated as to future grants, but under which options are currently outstanding.

During the first quarter of fiscal 2013, the Company initiated grants of performance-based stock option and stock unit awards. The compensation expense for an award with a performance condition is based on the probable outcome of that performance condition. Compensation expense is recognized if the Company believes it is probable that the performance condition will be achieved and is adjusted for subsequent changes in the estimate or actual outcome. As with non-performance based awards, compensation expense is recognized over the vesting period. The vesting period runs from the date of grant to the expected date that the performance objective is likely to be achieved.

The Company also has an Employee Stock Purchase Plan ("ESPP") that provides employees with the opportunity to purchase the Company’s common stock at a discount. The ESPP was amended in the second quarter of fiscal 2012 to increase the six-month participation period to a twelve-month participation period, divided into two equal six-month purchase periods, and to provide for a look-back feature. At the end of each six-month period, employees purchase the Company's common stock through the ESPP at 15% less than the fair market value of the common stock on the first day of the twelve-month participation period or the purchase date, whichever is lower. The plan amendment also provides for an automatic reset feature to start participants on a new twelve-month participation period if the share value declines during the first six-month purchase period.

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Stock Option Awards

The following table summarizes outstanding option awards as of March 31, 2013, and changes during the nine months then ended (shares in thousands):

	Number of Shares	Weighted-Average Exercise Price
Outstanding at June 24, 2012	8,800	$36.71
Granted	3,354	28.31
Exercised	(1,569)	27.79
Forfeited or expired	(453)	37.41
Outstanding at March 31, 2013	10,132	$35.28

Restricted Stock and Stock Unit Awards

A summary of nonvested shares of restricted stock and stock unit awards outstanding as of March 31, 2013, and changes during the nine months then ended, is as follows (shares in thousands):

	Number of Shares/Units	Weighted-Average Grant-Date Fair Value
Nonvested at June 24, 2012	517	$37.41
Granted	350	28.11
Vested	(181)	35.16
Forfeited	(7)	29.86
Nonvested at March 31, 2013	679	$33.29

Stock-Based Compensation Valuation and Expense

The Company accounts for its employee stock-based compensation plan using the fair value method. The fair value method requires the Company to estimate the grant date fair value of its stock-based awards and amortize this fair value to compensation expense over the requisite service period or vesting term.

To estimate the fair value of the Company's stock option awards, the Company currently uses the Black-Scholes option-valuation model. The determination of the fair value of stock-based payment awards on the date of grant using an option-valuation model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. Due to the inherent limitations of option-valuation models available today, including future events that are unpredictable and the estimation process utilized in determining the valuation of the stock-based awards, the ultimate value realized by award holders may vary significantly from the amounts expensed in the Company's financial statements.

For restricted stock and stock unit awards, grant date fair value is based upon the market price of the Company's common stock on the date of the grant. This fair value is then amortized to compensation expense over the requisite service period or vesting term.

Stock-based compensation expense is reduced by estimated forfeitures such that expense is recognized only for those stock-based awards that are expected to vest. A forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates.

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Total stock-based compensation expense was as follows (in thousands):

Income Statement Classification	Three Months Ended March 31, 2013	Three Months Ended March 25, 2012	Nine Months Ended March 31, 2013	Nine Months Ended March 25, 2012
Cost of revenue, net	$2,334	$2,104	$6,875	$5,433
Research and development	3,441	2,738	10,445	7,769
Sales, general and administrative	8,140	7,407	23,625	21,682
Total	$13,915	$12,249	$40,945	$34,884

Note 11. Income Taxes

The variation between the Company's effective income tax rate and the U.S. statutory rate of 35 percent is primarily due to (i) the inclusion, in the third quarter of fiscal 2013, of the tax benefit related to the retroactive reinstatement and extension of the research and development credit, including the cumulative effect of the decrease in the Company's full year estimated effective tax rate as a result, and (ii) a higher percentage of the Company's projected income for the full year being derived from international locations with lower tax rates than the U.S. The research and development credit, which had previously expired on December 31, 2011, was reinstated as part of the American Taxpayer Relief Act of 2012 enacted on January 2, 2013. This legislation retroactively reinstated and extended the credit from the previous expiration date through December 31, 2013.

U.S. GAAP requires a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is cumulatively more than 50 percent likely to be realized upon ultimate settlement.

As of June 24, 2012, the Company's liability for unrecognized tax benefits was $4.4 million. During the nine months ended March 31, 2013, there were no changes to the amount of unrecognized tax benefits. As a result, the total liability for unrecognized tax benefits as of March 31, 2013 was $4.4 million. If any portion of this $4.4 million is recognized, the Company will then include that portion in the computation of its effective tax rate. Although the ultimate timing of the resolution and/or closure of audits is highly uncertain, the Company believes it is reasonably possible that approximately $3.4 million of gross unrecognized tax benefits will change in the next 12 months as a result of pending audit settlements or statute requirements.

The Company files U.S. federal, U.S. state, and foreign tax returns. For U.S. federal purposes, the Company is generally no longer subject to tax examinations for fiscal years ended June 28, 2009 and prior. For U.S. state tax returns, the Company is generally no longer subject to tax examinations for fiscal years prior to 2009. For foreign purposes, the Company is generally no longer subject to examination for tax periods 2002 and prior. Certain carryforward tax attributes generated in prior years remain subject to examination and adjustment. The Company is currently under inquiry by the Hong Kong Inland Revenue Department for the fiscal year ended June 29, 2008 ("fiscal 2008") through the fiscal year ended June 27, 2010 ("fiscal 2010"). The Company is also currently under audit by the German Federal Central Tax Office for fiscal 2008 through fiscal 2010.

Note 12. Commitments and Contingencies

Warranties

The following table summarizes the changes in the Company's product warranty liabilities (in thousands):

Balance at June 24, 2012	$5,513
Warranties accrued in current period	2,873
Changes in estimates for pre-existing warranties	787
Expenditures	(2,027)
Balance at March 31, 2013	$7,146

Product warranties are estimated and recognized at the time the Company recognizes revenue. The warranty periods range from ninety days to ten years. The Company accrues warranty liabilities at the time of sale, based on historical and projected incident rates and expected future warranty costs. The warranty reserves, which are primarily related to Lighting products, are

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evaluated on a quarterly basis based on various factors including historical warranty claims, assumptions about the frequency of warranty claims, and assumptions about the frequency of product failures derived from quality testing, field monitoring and the Company's reliability estimates.

Litigation

The Company is a party to various legal proceedings, including those described in the Company's Annual Report on Form 10-K for fiscal 2012 and in the Company's Quarterly Reports on Form 10-Q for the first and second quarters of fiscal 2013. The following is provided as an update to the Company's legal proceedings as contained in those reports. Unless otherwise indicated, the potential losses for claims against the Company in these matters are not reasonably estimable.

Cooper Lighting Litigation

In addition to the previously disclosed litigation with Cooper Lighting, on February 19, 2013, the Company, as successor-in-interest to Ruud Lighting, Inc., filed a third complaint for patent infringement against Cooper Lighting in the U.S. District Court for the Eastern District of Wisconsin. The complaint seeks injunctive relief and damages for infringement of two U.S. patents owned by the Company, No. 8,282,239, entitled “Light-Directing Apparatus with Protected Reflector-Shield and Lighting Fixture Utilizing Same” and No. 8,070,306, entitled “LED Lighting Fixture.” Also, as previously reported, Illumination Management Solutions, Inc., a subsidiary of Cooper Lighting, LLC, filed a complaint for patent infringement against Ruud Lighting in the U.S. District Court for the Eastern District of Texas on June 7, 2010. The action was later transferred to the U.S. District Court for the Eastern District of Wisconsin. As amended in January 2012, the complaint alleged that Ruud Lighting infringed two U.S. patents owned by Illumination Management Solutions, No. 7,674,018 and No. 7,993,036, each entitled "LED Device for Wide Beam Generation." It also alleged that Ruud Lighting and its then president, Alan Ruud, who served on the plaintiff's board of directors in 2006 and 2007 when Ruud Lighting was a shareholder of the plaintiff, conspired to misuse confidential information obtained from the plaintiff to file patent applications and to obtain patents assigned to Ruud Lighting. The complaint sought injunctive relief, damages and ownership of the patent applications and patents alleged to have been wrongfully filed and obtained. The court in October 2012 granted partial summary judgment in favor of Ruud Lighting, finding that most of the accused products did not infringe either of the asserted patents. The court in February 2013 entered final judgment in which the court 1) dismissed the claims relating to most of the accused products, finding that they did not infringe either of the asserted patents; 2) dismissed with prejudice and with the consent of the parties the claims with respect to the remaining accused products; 3) severed the conspiracy claim, which was subsequently voluntarily dismissed; and 4) dismissed the remaining claims and counterclaims without prejudice. In March 2013, the plaintiffs filed a notice of appeal from this judgment to the U.S. Court of Appeals for the Federal Circuit.

Dow Corning Litigation

Dow Corning Compound Semiconductor Solutions, LLC filed a complaint against the Company in the U.S. District Court for the Eastern District of Michigan on September 27, 2011. The complaint sought a declaratory judgment that the plaintiff did not infringe three U.S. patents owned by the Company relating to high quality silicon carbide materials and that the patents are invalid. The patents in suit were: No. 7,294,324, entitled “Low Basal Plane Dislocation Bulk Grown SiC Wafers”; No. 7,314,520, entitled “Low 1C Screw Dislocation 3 Inch Silicon Carbide Wafer”; and No. 7,314,521, entitled “Low Micropipe 100 MM Silicon Carbide Wafer.” The district court dismissed the action with prejudice in March 2013 for lack of subject matter jurisdiction on the grounds that at the time the complaint was filed there was no substantial or immediate controversy between the parties regarding the patents-in-suit.

The Fox Group Litigation

The Fox Group, Inc. filed a complaint for patent infringement against the Company in the U.S. District Court for the Eastern District of Virginia on June 29, 2010. The complaint, which sought injunctive relief and damages, asserted that the Company was infringing two U.S. patents relating to high quality silicon carbide material: No. 6,534,026, entitled "Low Defect Density Silicon Carbide" (the "'026 patent"); and No. 6,562,130, entitled "Low Defect Axially Grown Single Crystal Silicon Carbide" (the "'130 patent"). The district court granted summary judgment in favor of the Company in August 2011. The court determined that the Company did not infringe the '026 patent and that the claims of the '130 patent asserted against the Company are invalid. The Fox Group appealed the judgment to the U.S. Court of Appeals for the Federal Circuit, which affirmed the judgment. The Fox Group's petition for a rehearing was denied in February 2013.

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Lighting Science Group Litigation

Lighting Science Group Corporation filed a complaint for patent infringement against the Company in the U.S. District Court for the Middle District of Florida on April 10, 2013. The complaint seeks injunctive relief and damages for alleged infringement of U.S. patent No. 8.201,968, entitled “Low Profile Light."

Note 13. Reportable Segments

The Company's three operating and reportable segments include:

- LED Products
- Lighting Products
- Power and RF Products

Reportable Segments Description

The Company's LED Products segment includes LED components, LED chips, and SiC materials. The Company's Lighting Products segment consists of both LED and traditional lighting systems, with its primary focus on LED lighting. The Company's Power and RF Products segment includes power devices and RF devices.

Financial Results by Reportable Segment

The following table reflects the results of the Company's reportable segments as reviewed by the Chief Operating Decision Maker (CODM) for the three and nine months ended March 31, 2013 and March 25, 2012. The Company's CODM is the Chief Executive Officer.

The Company uses substantially the same accounting policies to derive the segment results reported below as those used in the Company's consolidated financial statements.

The Company's CODM does not review inter-segment revenue when evaluating segment performance and allocating resources to each segment. Thus, inter-segment revenue is not included in the segment revenues presented in the following table. As such, total segment revenue in the table below is equal to the Company's consolidated revenue.

The Company's CODM reviews gross profit as the lowest and only level of segment profit. As such, all items below gross profit in the consolidated statement of income must be included to reconcile the consolidated gross profit presented in the following table to the Company's consolidated income before taxes.

In order to determine gross profit for each reportable segment, the Company allocates direct costs and indirect costs to each segment's cost of sales. The Company allocates indirect costs, such as employee benefits for manufacturing employees, shared facilities services, information technology, purchasing, and customer service, when the costs are identifiable and beneficial to the reportable segment. The Company allocates these indirect costs based on a reasonable measure of utilization that considers the specific facts and circumstances of the costs being allocated.

Inventory is normally transferred between the Company's reportable segments at cost. However, due to the vertically-integrated nature of the Company's business and the fixed cost nature of the Company's manufacturing operations, the Company will apportion lower of cost or market write-downs on products among the segments involved in producing the products. The lower of cost or market write-down is apportioned based on each segments' proportional production cost and is reported as an increase to each segment's cost of sales. The Company's CODM evaluates segment performance and resource allocation after apportionment of any lower of cost or market write-downs. For the three and nine months ended March 31, 2013, the Company allocated $2.2 million for a lower of cost or market write-down from the Lighting Products segment to the LED Products segment.

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Unallocated costs in the table below are not reviewed by the CODM when evaluating segment performance and allocating resources to each segment. These unallocated costs include variable compensation costs for manufacturing employees consisting primarily of stock-based compensation, expenses for profit sharing and quarterly or annual incentive plans, matching contributions under the Company's 401(k) plan, and acquisition related costs.

	Three Months Ended		Nine Months Ended	
	March 31, 2013	March 25, 2012	March 31, 2013	March 25, 2012
	(In thousands)			
Revenue				
LED Products	$195,561	$180,944	$584,070	$571,884
Lighting Products	130,659	86,527	361,446	233,936
Power and RF Products	22,714	17,330	65,457	52,079
Total Revenue	$348,934	$284,801	$1,010,973	$857,899
Gross Profit				
LED Products	$85,728	$70,257	$245,381	$218,319
Lighting Products	39,966	24,640	115,449	72,517
Power and RF Products	12,033	7,954	35,253	21,970
Total Segment Gross Profit	137,727	102,851	396,083	312,806
Unallocated Costs	(4,717)	(3,438)	(13,548)	(10,247)
Consolidated Gross Profit	$133,010	$99,413	$382,535	$302,559

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Information set forth in this Quarterly Report on Form 10-Q contains various “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All information contained in this report relative to future markets for our products and trends in and anticipated levels of revenue, gross margins and expenses, as well as other statements containing words such as “believe,” “project,” “may,” “will,” “anticipate,” “target,” “plan,” “estimate,” “expe “intend” and other similar expressions constitute forward-looking statements. These forward-looking statements are subject to business, economic and other risks and uncertainties, both known and unknown, and actual results may differ materially from those contained in the forward-looking statements. Any forward-looking statements we make are as of the date made, and except as required under the U.S. federal securities laws and the rules and regulations of the Securities and Exchange Commission (the "SEC"), we have no duty to update them if our views later change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this Quarterly Report. Examples of risks and uncertainties that could cause actual results to differ materially from historical performance and any forward-looking statements include, but are not limited to, those described in “Risk Factors” in Part II, Item 1A of this Quarterly Report.

The following discussion is designed to provide a better understanding of our unaudited consolidated financial statements, including a brief discussion of our business and products, key factors that impacted our performance, and a summary of our operating results. The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the consolidated financial statements and notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended June 24, 2012. Historical results and percentage relationships among any amounts in the financial statements are not necessarily indicative of trends in operating results for any future periods.

Overview

Cree, Inc. (Cree, we, our, or us) is a leading innovator of lighting-class light emitting diode (LED) products, lighting products and semiconductor products for power and radio-frequency (RF) applications. Our products are targeted for applications such as indoor and outdoor lighting, video displays, transportation, electronic signs and signals, power supplies, inverters and wireless systems.

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We develop and manufacture semiconductor materials and devices primarily based on silicon carbide (SiC), gallium nitride (GaN) and related compounds. In many cases the physical and electronic properties of SiC and GaN offer technical advantages over traditional silicon, gallium arsenide (GaAs) and other materials used for electronic and opto-electronic applications.

Our LED products consist of LED components, LED chips, and SiC materials. As LED technology improves, we believe the potential market for LED lighting will continue to expand. Our success in selling LED products depends upon our ability to offer innovative products and our ability to enable our customers to develop and market LED based products that successfully compete and drive LED adoption against traditional lighting products.

Our lighting products consist of both LED and traditional lighting systems. We design, manufacture and sell lighting fixtures and lamps for the commercial, industrial and consumer markets.

In addition, we develop, manufacture and sell power and RF devices. Our power products are made from SiC and provide faster switching speeds than comparable silicon-based power devices for a given power level. Our RF devices are made from GaN and produce higher power densities as compared to silicon or gallium arsenide.

The majority of our products are manufactured at our production facilities located in North Carolina, Wisconsin, and China. We also use contract manufacturers for certain aspects of product fabrication, assembly and packaging. We operate research and development facilities in North Carolina, California, Wisconsin, India, and China.

Reportable Segments

We have three reportable segments:

- LED Products
- Lighting Products
- Power and RF Products

Reportable segments are components of an entity that have separate financial data that the entity's Chief Operating Decision Maker (CODM) regularly reviews when allocating resources and assessing performance. Our CODM is the Chief Executive Officer.

Industry Dynamics and Trends

There are a number of industry factors that affect our business which include, among others:

- Overall Demand for Products and Applications using LEDs. Our potential for growth depends significantly on the adoption of LEDs within the general lighting market and our ability to affect this rate of adoption. Although LED lighting has grown in recent years, adoption of LEDs for general lighting is relatively new, still limited, and faces significant challenges before widespread adoption. Demand also fluctuates based on various market cycles, a continuously evolving LED industry supply chain, and demand dynamics in the market. These uncertainties make demand difficult to forecast for us and our customers.
- Intense and Constantly Evolving Competitive Environment. Competition in the LED and lighting industry is intense. Many companies have made significant investments in LED development and production equipment. Traditional lighting companies and new entrants are investing in LED based lighting products as LED adoption has gained momentum. Product pricing pressures exist as market participants often undertake pricing strategies to gain or protect market share, increase the utilization of their production capacity and open new applications to LED based solutions. To remain competitive, market participants must continuously increase product performance and reduce costs. To address these competitive pressures, we have invested in R&D activities to support new product development to deliver higher levels of performance and lower costs to differentiate our products in the market.
- Technological Innovation and Advancement. Innovations and advancements in LED technology continue to expand the potential commercial application of LEDs particularly in the general illumination market. However, new technologies or standards could emerge, or improvements could be made in existing technologies, that could reduce or limit the demand for LEDs in certain markets.
- Regulatory Actions Concerning Energy Efficiency. Many countries have already instituted or have announced plans to institute government regulations and programs designed to encourage or mandate increased energy efficiency, even in some cases banning forms of incandescent lighting, which are advancing the adoption of more energy efficient lighting solutions such as LEDs. While this trend is generally positive, these regulations are affected by changing

political priorities which can modify or limit the effectiveness of these new regulations.

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- Intellectual Property Issues. Market participants rely on patented and non-patented proprietary information relating to product development, manufacturing capabilities and other core competencies of their business. Protection of intellectual property is critical. Therefore, steps such as additional patent applications, confidentiality and non-disclosure agreements, as well as other security measures are generally taken. To enforce or protect intellectual property rights, litigation or threatened litigation commonly occurs.

Financial Results

The following is a summary of our financial results for the nine months ended March 31, 2013:

- Revenues increased to $1,011.0 million for the nine months ended March 31, 2013 from $857.9 million for the nine months ended March 25, 2012.
- For the nine months ended March 31, 2013, gross margins improved to 37.8% from 35.3% for the nine months ended March 25, 2012.
- Operating income was $65.6 million in the nine months ended March 31, 2013 compared to $30.6 million in the nine months ended March 25, 2012. Net income per diluted share for the nine months ended March 31, 2013, was $0.50 compared to $0.30 for the nine months ended March 25, 2012.
- Inventory increased to $195.7 million at March 31, 2013 compared to $188.8 million at June 24, 2012.
- Combined cash, cash equivalents and marketable investments increased to $937.1 million at March 31, 2013 compared to $744.5 million at June 24, 2012.

Business Outlook

We project that the markets for our products will remain highly competitive during fiscal 2013. We are focusing on the following key areas, among others, in response to this competitive environment:

- Accelerate adoption of LED lighting. We continue to work to develop new LED lighting systems to increase the lumens per dollar, which brings LED lighting closer to price parity with conventional technology and reduces the payback time for the customer. We are focused on delivering best-in-class products for key lighting categories and expanding our sales channels to build the Cree brand and access more customers.
- Grow LED component sales through product innovation. We are working to leverage our SC^3 Technology™ next generation LED platform into a range of new LED component products that are targeted to deliver more lumens per dollar to the customer. We are also developing component and module products targeted to simplify our customers' product designs and reduce their time to market.
- Leverage technology leadership in Power and RF to open new applications for these products. In the power product line, we are working with our customers to combine our SiC MOSFET and Schottky diodes technology to enable power modules for solar, uninterruptable power supplies (UPS) and motor control applications. In the RF product line, we are developing GaN based products to access new applications.
- Translate product innovation into revenue and profit growth. We target incremental improvement from factory cost reductions, process improvements and lower cost new product designs.

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Results of Operations

The following table sets forth certain consolidated statement of income data for the periods indicated:

	Three Months Ended				Nine Months Ended			
	March 31, 2013		March 25, 2012		March 31, 2013		March 25, 2012	
(in thousands, except per share amounts and percentages)	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
Revenue, net	$348,934	100 %	$284,801	100 %	$1,010,973	100 %	$857,899	100 %
Cost of revenue, net	215,924	62 %	185,388	65 %	628,438	62 %	555,340	65 %
Gross profit	133,010	38 %	99,413	35 %	382,535	38 %	302,559	35 %
Research and development	39,036	11 %	36,148	13 %	116,524	12 %	106,436	12 %
Sales, general and administrative	62,140	18 %	50,074	18 %	174,885	17 %	144,789	17 %
Amortization of acquisition-related intangibles	7,719	2 %	7,368	3 %	23,108	2 %	18,660	2 %
Loss on disposal or impairment of long-lived assets	863	— %	816	— %	2,385	— %	2,088	— %
Operating income	23,252	7 %	5,007	2 %	65,633	6 %	30,586	4 %
Other non-operating income (expense), net	494	— %	324	— %	2,622	— %	1,187	— %
Interest income, net	2,018	1 %	1,859	1 %	5,756	1 %	5,628	1 %
Income before income taxes	25,764	7 %	7,190	3 %	74,011	7 %	37,401	4 %
Income tax expense (benefit)	3,607	1 %	(2,299)	(1)%	15,328	2 %	3,015	— %
Net income	22,157	6 %	9,489	3 %	58,683	6 %	34,386	4 %
Diluted earnings per share	$0.19		$0.08		$0.50		$0.30	

Our fiscal 2013 results include a nominal benefit of an additional week included in the nine month period ended March 31, 2013, as compared to the nine month period ended March 25, 2012.

Revenues

Revenues for the three and nine months ended March 31, 2013 and March 25, 2012 were comprised of the following (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2013	March 25, 2012	Change		March 31, 2013	March 25, 2012	Change	
LED Products	$195,561	$180,944	$14,617	8 %	$584,070	$571,884	$12,186	2 %
Percent of revenue	56 %	64 %			58 %	67 %		
Lighting Products	130,659	86,527	44,132	51 %	361,446	233,936	127,510	55 %
Percent of revenue	37 %	30 %			36 %	27 %		
Power and RF Products	22,714	17,330	5,384	31 %	65,457	52,079	13,378	26 %

Percent of revenue	7 %	6 %			6 %	6 %		
Total revenue	$348,934	$284,801	$64,133	23 %	$1,010,973	$857,899	$153,074	18 %

Our consolidated revenue increased 23% to $348.9 million in the third quarter of fiscal 2013 from $284.8 million in the third quarter of fiscal 2012. This year-over-year increase is due to higher sales across all three of our reportable segments, but driven primarily by the Lighting Products segment. For the nine months ended March 31, 2013, our consolidated revenue increased 18% to $1,011.0 million from $857.9 million for the nine months ended March 25, 2012. This increase is due to increased

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sales of our existing products as discussed above, and recognition of revenues from the Ruud Lighting acquisition for a full first quarter of fiscal year 2013.

LED Products Segment Revenue

LED Products revenue represents the largest portion of our revenue with approximately 56% and 64% of our total revenues for the third quarter of fiscal 2013 and fiscal 2012, respectively.

LED Products revenue increased approximately 8% to $195.6 million in the third quarter of fiscal 2013 from $180.9 million in the third quarter of fiscal 2012, and approximately 2% to $584.1 million for the nine months ended March 31, 2013 from $571.9 million for the nine months ended March 25, 2012.

Changes in revenue are the result of an overall increase in the number of units sold, primarily from our newer products partially offset by a decline in selling prices. The average selling prices for our LED products decreased in fiscal 2013 compared to fiscal 2012, due primarily to market downward pricing pressure and sales of new lower cost products.

Lighting Products Segment Revenue

Lighting Products revenue represents approximately 37% and 30% of our total revenues for the third quarter of fiscal 2013 and fiscal 2012, respectively.

Lighting Products revenue increased approximately 51% to $130.7 million in the third quarter of fiscal 2013 from $86.5 million in the third quarter of fiscal 2012, and approximately 55% to $361.4 million for the nine months ended March 31, 2013 from $233.9 million for the nine months ended March 25, 2012.

The quarterly and year-to-date changes were the result of an overall increase in the number of units sold. On a year-to-date basis, the increases were also the result of recognizing a full quarter of sales in the first quarter of fiscal 2013 for products acquired from Ruud Lighting. The increases were partially offset by a reduction in selling prices primarily due to market downward pricing pressure and sales of new lower cost products.

Power and RF Products Segment Revenue

Power and RF Products revenue represents approximately 7% and 6% of our total revenues for the third quarter of fiscal 2013 and fiscal 2012, respectively.

Power and RF Products revenue increased approximately 31% to $22.7 million in the third quarter of fiscal 2013 from $17.3 million in the third quarter of fiscal 2012, and approximately 26% to $65.5 million for the nine months ended March 31, 2013 from $52.1 million for the nine months ended March 25, 2012.

The increases in revenue are the result of higher sales of RF products in fiscal 2013 compared to fiscal 2012 when the Power and RF Products segment revenue was impacted by the delays for RF orders related to certain military programs and lower demand in the solar inverter market. The selling prices for our power and RF products decreased in fiscal 2013 compared to fiscal 2012 due to a change in product mix and reductions in product pricing.

Unallocated Revenue

All of our revenue is allocated to our reportable segments. Our CODM does not review inter-segment revenue when evaluating performance and allocating resources to each segment, and inter-segment revenue is not included in the segment revenues presented above. As such, total segment revenue in the table above is equal to our consolidated revenue.

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Gross Profit and Gross Margin

Gross profit and gross margin for the three and nine months ended March 31, 2013 and March 25, 2012 were comprised of the following (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2013	March 25, 2012	Change		March 31, 2013	March 25, 2012	Change	
LED Products gross profit	$85,728	$70,257	$15,471	22 %	$245,381	$218,319	$27,062	12 %
LED Products gross margin	43.8 %	38.8 %			42.0 %	38.2 %		
Lighting Products gross profit	39,966	24,640	15,326	62 %	115,449	72,517	42,932	59 %
Lighting Products gross margin	30.6 %	28.5 %			31.9 %	31.0 %		
Power and RF Products gross profit	12,033	7,954	4,079	51 %	35,253	21,970	13,283	60 %
Power and RF Products gross margin	53.0 %	45.9 %			53.9 %	42.2 %		
Unallocated costs	(4,717)	(3,438)	(1,279)	37 %	(13,548)	(10,247)	(3,301)	32 %
Consolidated gross profit	$133,010	$99,413	$33,597	34 %	$382,535	$302,559	$79,976	26 %
Consolidated gross margin	38.1 %	34.9 %			37.8 %	35.3 %		

Our consolidated gross profit increased 34% to $133.0 million in the third quarter of fiscal 2013 from $99.4 million in the third quarter of fiscal 2012. Our consolidated gross margin increased to 38.1% in the third quarter of fiscal 2013 from 34.9% in the third quarter of fiscal 2012. For the nine months ended March 31, 2013, our consolidated gross profit increased 26% to $382.5 million from $302.6 million for the nine months ended March 25, 2012. For the nine months ended March 31, 2013, our consolidated gross margin increased to 37.8% from 35.3% for the nine months ended March 25, 2012.

LED Products Segment Gross Profit and Gross Margin

LED Products gross profit increased approximately 22% to $85.7 million in the third quarter of fiscal 2013 from $70.3 million in the third quarter of fiscal 2012 and LED Products gross margin increased to 43.8% in the third quarter of fiscal 2013 from 38.8% in the third quarter of fiscal 2012. For the nine months ended March 31, 2013, LED Products gross profit increased approximately $27.1 million to $245.4 million from $218.3 million for the nine months ended March 25, 2012, and increased to 42.0% for the nine months ended March 31, 2013 from 38.2% for the nine months ended March 25, 2012. LED Products gross profit and gross margin increased due to factory cost reductions, the introduction of new lower cost products and higher factory utilization. These benefits more than offset the decline in the average selling prices in fiscal 2013 as compared to fiscal 2012.

Lighting Products Segment Gross Profit and Gross Margin

Lighting Products gross profit increased approximately 62% to $40.0 million in the third quarter of fiscal 2013 from $24.6 million in the third quarter of fiscal 2012, and increased approximately 59% to $115.4 million from $72.5 million for the nine months ended March 25, 2012. Lighting Products gross margin increased to 30.6% in the third quarter of fiscal 2013 from 28.5% in the third quarter of fiscal 2012, and increased to 31.9% for the nine months ended March 31, 2013 from 31.0% for the nine months ended March 25, 2012. Lighting Products gross profit increased for both quarter-to-date and year-to-date due to higher overall revenues. Lighting Products gross margins increased, for both quarter-to-date and year-to-date periods, primarily due to factory cost reductions, the introduction of new lower cost products, and higher factory utilization. These benefits more than offset the decline in the average selling prices in fiscal 2013 as compared to fiscal 2012.

Power and RF Products Segment Gross Profit and Gross Margin

Power and RF Products gross profit increased approximately 51% to $12.0 million in the third quarter of fiscal 2013 from $8.0 million in the third quarter of fiscal 2012, and increased approximately 60% to $35.3 million for the nine months ended March 31, 2013 from $22.0 million for the nine months ended March 25, 2012. Power and RF Products gross margin increased to 53.0% in the third quarter of fiscal 2013 from 45.9% in the third quarter of fiscal 2012, and increased to 53.9% for the nine months ended March 31, 2013 from 42.2% for the nine months ended March 25, 2012. These gross profit and gross margin increases are due primarily to factory cost reductions, increased factory utilization, and introduction of new lower cost products. These benefits more than offset the decline in the average selling prices in fiscal 2013 as compared to fiscal 2012.

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Unallocated Costs

Unallocated costs were $4.7 million and $3.4 million in the third quarter of fiscal 2013 and 2012, respectively. These costs consist primarily of manufacturing employees' stock-based compensation, expenses for profit sharing and quarterly or annual incentive plans and matching contributions under our 401(k) plan, and acquisition related costs. These costs are not allocated to the reportable segments' gross profit because our CODM does not review them regularly when evaluating segment performance and allocating resources. The increase of $1.3 million in the third quarter of fiscal 2013 is primarily attributable to higher incentive and stock-based compensation incurred as a result of improved business performance in fiscal 2013 as compared to fiscal 2012. For the nine months ended March 31, 2013 and March 25, 2012, unallocated costs were $13.5 million and $10.2 million, respectively, increasing by $3.3 million for the reasons discussed above. For further information on the allocation of costs to segment gross profit, refer to Note 13, "Reportable Segments," in our consolidated financial statements included in Item 1 of this Quarterly Report.

Research and Development

Research and development expenses include costs associated with the development of new products, enhancements of existing products and general technology research. These costs consist primarily of employee salaries and related compensation costs, development materials, occupancy costs, consulting costs and the cost of development equipment and supplies.

The following sets forth our research and development expenses in dollars and as a percentage of revenues (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2013	March 25, 2012	Change		March 31, 2013	March 25, 2012	Change	
Research and development	$39,036	$36,148	$2,888	8 %	$116,524	$106,436	$10,088	9 %
Percent of revenues	11 %	13 %			12 %	12 %		

Research and development expenses in the third quarter of fiscal 2013 increased 8% to $39.0 million from $36.1 million in the third quarter of fiscal 2012. For the nine months ended March 31, 2013, research and development expenses increased 9% to $116.5 million from $106.4 million for the nine months ended March 25, 2012. These increases were primarily due to increased spending on research and development activities focused on new higher performance and lower cost LED chips, LED components, LED lighting products and power and RF products. Our research and development expenses vary significantly from quarter to quarter based on a number of factors, including the timing of new product introductions, the timing of expenditures and the number and nature of our ongoing research and development activities. However, we anticipate that in general our research and development expenses will continue to increase over time to support future growth.

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Sales, General and Administrative

Sales, general and administrative expenses are composed primarily of costs associated with our sales and marketing personnel and our executive and administrative personnel (for example, finance, human resources, information technology and legal) and consist of 1) salaries and related compensation costs, 2) consulting and other professional services (such as litigation and other outside legal counsel fees, audit and other compliance costs), 3) facilities and insurance costs, and 4) travel and other costs. The following table sets forth our sales, general and administrative expenses in dollars and as a percentage of revenues (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2013	March 25, 2012	Change		March 31, 2013	March 25, 2012	Change	
Sales, general and administrative	$62,140	$50,074	$12,066	24 %	$174,885	$144,789	$30,096	21 %
Percent of revenues	18 %	18 %			17 %	17 %		

Sales, general and administrative expenses in the third quarter of fiscal 2013 increased 24% to $62.1 million from $50.1 million in the third quarter of fiscal 2012. For the nine months ended March 31, 2013, sales, general and administrative expenses increased 21% to $174.9 million from $144.8 million for the nine months ended March 25, 2012. These increases are primarily due to an increase in spending on sales and marketing for lighting products, including commissions, trade shows and advertising, as we continue to expand our direct sales resources and channels and invest in building and promoting the Cree brands. Additionally, these increases include personnel additions during fiscal 2013 to support our growth.

Amortization of Acquisition Related Intangibles

As a result of our acquisitions, we have recognized various intangible assets that require amortization, including customer relationships and developed technologies. During fiscal 2012, we acquired Ruud Lighting, resulting in $206.0 million of amortizable intangible assets consisting of developed technology, customer relationships, trade names, in-process research and development, and non-compete agreements. During fiscal 2008, we acquired LLF, resulting in $41.2 million of amortizable intangible assets. These intangible assets are principally composed of developed technology that specifically relates to technologies underlying the development of LED lighting products for the general illumination market. During fiscal 2007, we acquired INTRINSIC Semiconductor Corporation and COTCO Luminant Device Limited (now Cree Hong Kong Limited) (COTCO), resulting in $63.7 million of amortizable intangible assets principally composed of customer relationships and developed technology.

Amortization of intangible assets related to our acquisitions is as follows (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2013	March 25, 2012	Change		March 31, 2013	March 25, 2012	Change	
INTRINSIC	$186	$186	$—	— %	$558	$558	$—	— %
COTCO	1,040	1,265	(225)	(18)%	3,121	3,793	(672)	(18)%
LLF	750	750	—	— %	2,249	2,250	(1)	— %
Ruud Lighting	5,743	5,167	576	11 %	17,180	12,059	5,121	42 %
Total	$7,719	$7,368	$351	5 %	$23,108	$18,660	$4,448	24 %

We recognized amortization of acquisition related intangibles of $7.7 million in the third quarter of fiscal 2013 compared to $7.4 million in the third quarter of fiscal 2012. For the nine months ended March 31, 2013, we recognized amortization of acquisition related intangibles of $23.1 million compared to $18.7 million for the nine months ended March 25, 2012. Amortization of acquisition related intangibles increased in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012, primarily due to the completion of in-process research and development projects in fiscal 2013. For the nine months ended March 31, 2013 compared to the nine months ended March 25, 2012, amortization of acquisition related intangibles increased primarily due to the acquisition of Ruud Lighting occurring during the first quarter of fiscal 2012.

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Loss on Disposal or Impairment of Long-Lived Assets

We operate a capital intensive business. As such, we dispose of a certain level of our equipment in the normal course of business as our production processes change due to production improvement initiatives or product mix changes. Due to the risk of technological obsolescence or changes in our production processes, we regularly review our equipment and capitalized patent costs for possible impairments in value. The following table sets forth our loss on disposal or impairment of long-lived assets (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2013	March 25, 2012	Change		March 31, 2013	March 25, 2012	Change	
Loss on disposal or impairment of long-lived assets, net	$863	$816	$47	6 %	$2,385	$2,088	$297	14 %

We recognized a net loss of $0.9 million on the disposal of long-lived assets in the third quarter of fiscal 2013 compared to a net loss of $0.8 million in the third quarter of fiscal 2012. For the nine months ended March 31, 2013, we recognized a net loss of $2.4 million compared to $2.1 million for the nine months ended March 25, 2012. These net losses resulted from the disposal of equipment due to manufacturing process changes and the abandonment of certain patent assets.

Non-Operating Income

The following table sets forth our non-operating income (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2013	March 25, 2012	Change		March 31, 2013	March 25, 2012	Change	
Other non-operating income (expense), net	$494	$324	$170	52 %	$2,622	$1,187	$1,435	121 %
Interest income, net	2,018	1,859	159	9 %	5,756	5,628	128	2 %
Total	$2,512	$2,183	$329	15 %	$8,378	$6,815	$1,563	23 %

We have no debt or active lines of credit and we are in a net interest income position. Our investments typically consist of fixed interest rate securities such as high-grade corporate debt, commercial paper, government securities, municipal bonds, and other fixed interest rate investments. The primary objective of our investment policy is preservation of principal.

Other non-operating income (expense), net, is typically comprised of gains on sales of investments and foreign exchange gains and losses. Other non-operating income, net increased in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012, primarily due to favorable foreign currency exchange rates fluctuations. For the nine months ended March 31, 2013 compared to the nine months ended March 25, 2012, other non-operating income, net increased primarily due to a one-time payment received in the first quarter of fiscal 2013 in connection with the SemiLEDs patent litigation settlement, partially offset by a decrease in gains from the sale of investments.

Income Tax Expense (Benefit)

The following table sets forth our income tax expense (benefit) in dollars and our effective tax rate (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2013	March 25, 2012	Change		March 31, 2013	March 25, 2012	Change	
Income tax expense (benefit)	$3,607	$(2,299)	$5,906	(257)%	$15,328	$3,015	$12,313	408 %
Effective Tax Rate	14.0 %	(32.0)%			20.7 %	8.1 %		

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The variation between our effective income tax rate and the U.S. statutory rate of 35 percent is primarily due to 1) the inclusion, in the third quarter of fiscal 2013, of the tax benefit related to the retroactive reinstatement and extension of the research and development credit, including the cumulative effect of the decrease in our full year estimated effective tax rate as a result, and 2) a higher percentage of our projected income for the full year being derived from international locations with lower tax rates than the U.S. The research and development credit, which had previously expired on December 31, 2011, was reinstated as part of the American Taxpayer Relief Act of 2012 enacted on January 2, 2013. This legislation retroactively reinstated and extended the credit from the previous expiration date through December 31, 2013.

We recognized income tax expense of $3.6 million for an effective tax rate of 14.0% in the third quarter of fiscal 2013 as compared to income tax benefit of $2.3 million for an effective tax rate of (32.0)% in the third quarter of fiscal 2012. For the nine months ended March 31, 2013, we recognized income tax expense of $15.3 million for an effective tax rate of 20.7% compared to $3.0 million for an effective tax rate of 8.1% for the nine months ended March 25, 2012. The increase in our effective tax rate for the three and nine month comparable periods is due to 1) higher overall pre-tax income relative to our tax credits, 2) a higher percentage of our projected income for the full year being derived from U.S. operations that are taxed at a higher tax rate than international locations and 3) the inclusion of a tax benefit related to a prior year audit settlement recorded in the third quarter of fiscal 2012.

Liquidity and Capital Resources

Overview

We require cash to fund our operating expenses and working capital requirements, including outlays for research and development, capital expenditures, strategic acquisitions and investments. Our principal sources of liquidity are cash on hand, marketable investments and cash generated from operations. Our ability to generate cash from operations has been one of our fundamental strengths and has provided us with substantial flexibility in meeting our operating, financing and investing needs. We have no debt or active lines of credit and have minimal lease commitments.

Based on past performance and current expectations, we believe our cash and cash equivalents, investments, cash generated from operations and our ability to access capital markets will satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, contractual obligations, commitments and other liquidity requirements associated with our operations through at least the next 12 months.

From time to time, we evaluate strategic opportunities, including potential acquisitions, divestitures or investments in complementary businesses and we anticipate continuing to make such evaluations. We may also access capital markets through the issuance of debt or additional shares of common stock in connection with the acquisition of complementary businesses or other significant assets or for other strategic opportunities.

We have and may continue to use a portion of our available cash and cash equivalents, or funds underlying our marketable securities, to repurchase shares of our common stock. With our strong working capital position, we believe that we have the ability to continue to invest in further development of our products and, when necessary or appropriate, make selective acquisitions or other strategic investments to strengthen our product portfolio, secure key intellectual properties, or expand our production capacity.

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Liquidity

Our liquidity and capital resources depend on our cash flows from operations and our working capital. The significant components of our working capital are liquid assets such as cash and cash equivalents, short-term investments, and accounts receivable and inventories, reduced by trade accounts payable, accrued salaries and wages, and other accrued expenses. Our working capital increased to $1.201 billion as of March 31, 2013 from $1.015 billion as of June 24, 2012, primarily due to cash flows provided by operating activities of $224.1 million, partially offset by payments for patent and licensing rights and purchases of property and equipment of $71.2 million. The following table presents the components of our cash conversion cycle for our third quarter of fiscal 2013 and fourth quarter of fiscal 2012:

	March 31, 2013	June 24, 2012	Change			
Days of sales outstanding[(a)]	47	45	2		4	%
Days of supply in inventory[(b)]	82	85	(3	)	(4	)%
Days in accounts payable[(c)]	(47)	(36)	(11	)	31	%
Cash conversion cycle	82	94	(12	)	(13	)%

a) Days of sales outstanding (DSO) measures the average collection period of our receivables. DSO is based on the ending net trade receivables and the revenue for the quarter then ended. DSO is calculated by dividing ending accounts receivable, net of applicable allowances and reserves, by the average net revenue per day for the respective 90 day period.

b) Days of supply in inventory (DSI) measures the average number of days from procurement to sale of our product. DSI is based on ending inventory and cost of revenue, net sold for the quarter then ended. DSI is calculated by dividing ending inventory by average cost of revenue, net per day for the respective 90 day period.

c) Days in accounts payable (DPO) measures the average number of days our payables remain outstanding before payment. DPO is based on ending accounts payable and cost of revenue, net for the quarter then ended. DPO is calculated by dividing ending accounts payable by the average cost of revenue, net per day for the respective 90 day period.

The decrease in the cash conversion cycle was driven by a decrease in days supply in inventory as a result of increased sales and an increase in days in accounts payable, partially offset by an increase in the days sales outstanding as more shipments occurred later in the quarter due to Chinese New Year, outdoor lighting business seasonality and the timing of new product launches.

As of March 31, 2013, all of our investments had investment grade ratings, and any such investments that were in an unrealized loss position at March 31, 2013 were in such position due to interest rate changes, sector credit rating changes or company-specific rating changes. As we intend and believe that we have the ability to hold such investments for a period of time that will be sufficient for anticipated recovery in market value, we currently expect to receive the full principal or recover our cost basis in these securities. The declines in value of the securities in our portfolio are considered to be temporary in nature and, accordingly, we do not believe these securities are impaired as of March 31, 2013.

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Cash Flows

In summary, our cash flows were as follows (in thousands, except percentages):

	Nine Months Ended			
	March 31, 2013	March 25, 2012	Change	
Cash provided by operating activities	$224,070	$170,577	$53,493	31 %
Cash used in investing activities	(270,954)	(375,532)	104,578	(28)%
Cash provided by financing activities	46,350	4,298	42,052	978 %
Effects of foreign exchange changes	87	1,116	(1,029)	(92)%
Net (decrease) increase in cash and cash equivalents	$(447)	$(199,541)	$199,094	

The following is a discussion of our primary sources and uses of cash in our operating, investing and financing activities.

Cash Flows from Operating Activities

Net cash provided by operating activities was $224.1 million in the first nine months of fiscal 2013 compared to $170.6 million for the first nine months of fiscal 2012. The increase was primarily due to the year-over-year increase in our net income, coupled with a reduction of our working capital balances in the first nine months of fiscal 2013 compared to the same period of fiscal 2012.

Cash Flows from Investing Activities

Our investing activities primarily relate to transactions within our investments, strategic acquisitions, purchase of property, plant and equipment and payments for patent and license rights. Net cash used in investing activities was $271.0 million for the first nine months of fiscal 2013 compared to $375.5 million for the first nine months of fiscal 2012. This year-over-year decrease in cash used in investing activities was primarily the result of the $456.0 million cash expended in the first quarter of fiscal 2012 for the acquisition of Ruud Lighting, partially offset by the proceeds from the sale of investments to fund the acquisition.

We are continuing to actively manage our capital spending to support our strategic priorities to lead the market, drive adoption of LED lighting, accelerate cost reductions and support incremental capacity as needed. For fiscal 2013, we target capital expenditures to be slightly less than 2012 levels.

Cash Flows from Financing Activities

Net cash provided by financing activities was $46.4 million for the first nine months of fiscal 2013 and $4.3 million for the first nine months of fiscal 2012. For the first nine months of fiscal 2013 and fiscal 2012, our financing activities primarily consisted of proceeds of $47.0 million and $4.3 million, respectively, from net issuances of common stock pursuant to the exercise of employee stock options and purchases under our employee stock purchase plan, including the excess tax benefit on those exercises.

Off-Balance Sheet Arrangements

We do not use off-balance sheet arrangements with unconsolidated entities or related parties, nor do we use other forms of off-balance sheet arrangements. Accordingly, our liquidity and capital resources are not subject to off-balance sheet risks from unconsolidated entities. As of March 31, 2013, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

We have entered into leases primarily for certain of our facilities in the normal course of business. These arrangements are often referred to as a form of off-balance-sheet financing. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 24, 2012, in the section entitled “Contractual Obligations” for the future minimum lease payments due under our operating leases as of June 24, 2012. There have been no significant changes to the contractual obligations discussed therein.

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Critical Accounting Policies and Estimates

For information about our critical accounting policies and estimates, see the “Critical Accounting Policies and Estimates” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended June 24, 2012.

Recently Adopted Accounting Pronouncements

See Note 1, “Basis of Presentation and Changes in Significant Accounting Policies,” to our unaudited financial statements in Part I, Item 1 of this Quarterly Report for a description of recent accounting pronouncements, including the estimated effects, if any, on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about our market risks, see “Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report on Form 10-K for the fiscal year ended June 24, 2012. Our exposures to market risks have not changed materially since June 24, 2012, except that 1) effective October 22, 2012, our Board of Directors approved a change to our cash management policy to permit us to acquire investments rated "A" grade or better. Previously, our cash management policy permitted us to acquire investments rated "AA" grade or better; and 2) during the third quarter of fiscal 2013 we entered into our first forward contract to mitigate foreign exchange risks. Please refer to Note 6 to our unaudited financial statements in Part I, Item 1 of this Quarterly Report for additional information.

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by the Form 10-Q, our disclosure controls and procedures are effective in that they provide reasonable assurances that the information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods required by the SEC’s rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

We routinely review our internal control over financial reporting and from time to time make changes intended to enhance the effectiveness of our internal control over financial reporting. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and will take action as appropriate. There have been no changes to our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the third quarter of fiscal 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this item is set forth under Note 12, “Commitments and Contingencies,” to our unaudited financial statements in Part I, Item 1 of this Quarterly Report and is incorporated herein by reference.

Item 1A. Risk Factors

Described below are various risks and uncertainties that may affect our business. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in “Part I, Item IA. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended June 24, 2012 and any subsequent periodic reports. If any of the risks described below actually occurs, our business, financial condition or results of operations could be materially and adversely affected.

Our operating results are substantially dependent on the development and acceptance of new products.

Our future success may depend on our ability to develop new, higher performing and lower cost solutions for existing and new markets and for customers to accept those solutions. We must introduce new products in a timely and cost-effective manner,

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and we must secure production orders for those products from our customers. The development of new products is a highly complex process, and we have in some instances experienced delays in completing the development and introduction of new products. Our research and development efforts are aimed at solving increasingly complex problems, and we do not expect that all of our projects will be successful. The successful development and introduction of these new products depends on a number of factors, including the following:

- achievement of technology breakthroughs required to make commercially viable devices;
- the accuracy of our predictions for market requirements beyond near term visibility;
- our ability to predict, influence, and/or react to evolving standards;
- acceptance of our new product designs;
- acceptance of new technology in certain markets;
- the availability of qualified research and development personnel;
- our timely completion of product designs and development;
- our ability to expand direct customer sales and influence key distribution customers to adopt our products;
- our ability to develop repeatable processes to manufacture new products in sufficient quantities, with the desired specifications and at competitive costs;
- our ability to effectively transfer products and technology developed in one country to our manufacturing facilities in other countries;
- our customers' ability to develop competitive products incorporating our products; and
- acceptance of our customers' products by the market.

If any of these or other factors becomes problematic, we may not be able to develop and introduce these new products in a timely or cost-effective manner.

If we are unable to effectively develop, manage and expand our sales and distribution channels for our products, our operating results may suffer.

We have expanded into business channels that are different from those in which we have historically operated as we grow our business and sell more LED and lighting products. For example, in the third quarter of fiscal 2012, we consolidated the Cree and BetaLED lighting product lines sales agents for each major market in North America which resulted in a disruption in the project pipeline and lower than targeted sales for our indoor lighting products. Lighting sales agents may also choose to drop our product lines from their portfolio to avoid losing access to our competitors' lighting products. If we are unable to effectively penetrate these channels or develop alternate channels to ensure our products are reaching the appropriate customer base, our financial results may be adversely impacted. In addition, if we successfully penetrate or develop these channels, we cannot guarantee that customers will accept our products or that we will be able to manufacture and deliver them in the timeline established by our customers.

We sell a substantial portion of our products to distributors. We rely on distributors to develop and expand their customer base as well as anticipate demand from their customers. If they are not successful, our growth and profitability may be adversely impacted. Distributors must balance the need to have enough products in stock in order to meet their customers' needs against their internal target inventory levels and the risk of potential inventory obsolescence. The risks of inventory obsolescence are especially true with technological products. The distributors' internal target inventory levels vary depending on market cycles and a number of factors within each distributor over which we have very little, if any, control.

We typically recognize revenue on products sold to distributors when the item is shipped and title passes to the distributor (sell-in method). Certain distributors have limited rights to return inventory under stock rotation programs and have limited price protection rights for which we make estimates. We evaluate inventory levels in the distribution channel, current economic trends and other related factors in order to account for these factors in our judgments and estimates. As inventory levels and product return trends change, we may have to revise our estimates and incur additional costs, and our gross margins and operating results could be adversely impacted.

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We face significant challenges managing our growth as the market adopts LEDs for general lighting.

Our potential for growth depends significantly on the adoption of LEDs within the general lighting market and our ability to affect this rate of adoption. Although LED lighting has grown rapidly in recent years, adoption of LEDs for general lighting is relatively new, still limited and faces significant challenges before widespread adoption. In order to manage our growth and business strategy effectively in light of uncertainty related to the pace of adoption, we must continue to:

- maintain, expand and purchase adequate manufacturing facilities and equipment to meet customer demand;
- maintain a sufficient supply of raw materials to support our growth;
- expand research and development, sales and marketing, technical support, distribution capabilities and administrative functions;
- manage organizational complexity and communication;
- expand the skills and capabilities of our current management team;
- add experienced senior level managers; and
- attract and retain qualified employees.

While we intend to focus on managing our costs and expenses, over the long term we expect to invest substantially to support our growth and may have additional unexpected costs. For example, in March 2013, we completed the 208,000 square foot expansion to our Wisconsin manufacturing and warehouse facilities to support our LED lighting products production and we are targeting to continue expanding our LED products manufacturing facilities in China. However, such investments take time to become fully operational, and we may not be able to expand quickly enough to exploit targeted market opportunities. There are also inherent execution risks in starting up a new factory or expanding production capacity that could increase costs and reduce our operating results, including design and construction cost overruns, poor production process yields and reduced quality control during the start-up phase.

We are also increasingly dependent on information technology to enable us to improve the effectiveness of our operations and to maintain financial accuracy and efficiency. If we do not allocate and effectively manage the resources necessary to build,implement, upgrade, integrate and sustain the proper technology infrastructure, we could be subject to transaction errors, processing inefficiencies, loss of customers, business disruptions or loss of or damage to intellectual property through security breach.

In connection with our efforts to cost-effectively manage our growth, we have increasingly relied on contractors for production capacity, logistics support and certain administrative functions including hosting of certain information technology software applications. If these service providers do not perform effectively, we may not be able to achieve the expected cost savings and may incur additional costs to correct errors or fulfill customer demand. Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies or the loss of or damage to intellectual property through security breach, or impact employee morale. Our operations may also be negatively impacted if any of these service providers do not have the financial capability to meet our growing needs.

The markets in which we operate are highly competitive and have evolving technical requirements.

The markets for our products are highly competitive. In the LED market, we compete with companies that manufacture or sell LED chips and LED components. In the lighting market we compete with companies that manufacture and sell traditional and LED lighting products, many of which have larger and more established sales channels. Competitors continue to offer new products with aggressive pricing and improved performance. Competitive pricing pressures may change and could accelerate the rate of decline of our average sales prices.

With the growth potential for LEDs, we may face increased competition in the future. If the investment in new capacity exceeds the growth in demand, the LED market is likely to become more competitive with additional pricing pressures. Additionally, new technologies could emerge or improvements could be made in existing technologies that may also reduce the demand for LEDs in certain markets. There are also new technologies, such as organic LEDs (OLEDs), which could potentially have the same impact on LED demand for backlighting, which could impact the overall LED market.

As competition increases, in order to continue to grow our business, we need to continue to develop new products that meet or exceed the needs of our customers. Therefore, our ability to continually produce more efficient, higher brightness and lower cost LEDs and lighting products that meet the evolving needs of our customers will be critical to our success. Competitors may

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also try to align with some of our strategic customers. This could mean lower prices for our products, reduced demand for our products and a corresponding reduction in our ability to recover development, engineering and manufacturing costs. Any of these developments could have an adverse effect on our business, results of operations or financial condition.

Global economic conditions could materially adversely impact demand for our products and services.

Our operations and performance depend significantly on worldwide economic conditions. Uncertainty about global economic conditions could result in customers postponing purchases of our products and services in response to tighter credit, unemployment, negative financial news and/or declines in income or asset values and other macroeconomic factors, which could have a material negative effect on demand for our products and services and accordingly, on our business, results of operations and financial condition.

We rely on a number of key sole source and limited source suppliers, and are subject to high price volatility on certain commodity inputs, variations in parts quality, and raw material consistency and availability.

We depend on a number of sole source and limited source suppliers for certain raw materials, including rare earth elements, components, services and equipment used in manufacturing our products, including key materials and equipment used in critical stages of our manufacturing processes. Although alternative sources generally exist for these items, qualification of many of these alternative sources could take up to six months or longer. Where possible, we attempt to identify and qualify alternative sources for our sole and limited source suppliers.

We generally purchase these sole or limited source items with purchase orders, and we have limited guaranteed supply arrangements with such suppliers. Some of our sources can have variations in attributes and availability which can affect our ability to produce products in sufficient volume or quality. We do not control the time and resources that these suppliers devote to our business, and we cannot be sure that these suppliers will perform their obligations to us. Additionally, general shortages in the marketplace of certain raw materials or key components may adversely impact our business. In the past, we have experienced decreases in our production yields when suppliers have varied from previously agreed upon specifications that have impacted our cost of sales.

Additionally, the inability of our suppliers to access capital efficiently could cause disruptions in their businesses, thereby negatively impacting ours. This risk may increase if an economic downturn negatively affects key suppliers or a significant number of our other suppliers. Any delay in product delivery or other interruption or variation in supply from these suppliers could prevent us from meeting commercial demand for our products. If we were to lose key suppliers, our key suppliers were unable to support our demand for any reason, or we were unable to identify and qualify alternative suppliers, our manufacturing operations could be interrupted or hampered significantly.

We rely on arrangements with independent shipping companies for the delivery of our products from vendors and to customers in both the United States and abroad. The failure or inability of these shipping companies to deliver products, or the unavailability of their shipping services, even temporarily, could have a material adverse effect on our business. We may also be adversely affected by an increase in freight surcharges due to rising fuel costs and added security.

In our fabrication process we consume a number of precious metals and other commodities, which are subject to high price volatility. Our operating margins could be significantly affected if we are not able to pass along price increases to our customers. In addition, production could be disrupted by the unavailability of the resources used in production such as water, silicon, electricity and gases. Future environmental regulations could restrict supply or increase the cost of certain of those materials.

We operate in an industry that is subject to significant fluctuation in supply and demand that affects our revenue and profitability.

The LED lighting industry is in the early stages of adoption and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life-cycles and fluctuations in product supply and demand. The industry has experienced significant fluctuations, often in connection with, or in anticipation of, product cycles and changes in general economic conditions. As the markets for our products mature, additional fluctuations may result from variability and consolidations within the industry's customer base. These fluctuations have been characterized by lower product demand, production overcapacity, higher inventory levels and increased pricing pressure. We have experienced these conditions in our business in the past and may experience such conditions in the future, which could have a material negative impact on our business and results of operations.

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In addition, as we diversify our product offerings and as pricing differences in the average selling prices among our product lines widen, a change in the mix of sales among our product lines may increase volatility in our revenue and gross margin from period to period.

As a result of our continued expansion into new markets, we may compete with existing customers who may reduce their orders.

Through acquisitions and organic growth, we continue to expand into new markets. Many of our existing customers who purchase our LED products develop and manufacture products using those chips and components that are offered into the same lighting markets. As a result, some of our current customers perceive us as a competitor in these new markets. In response, our customers may reduce or discontinue their orders for our LED products. This reduction in or discontinuation of orders could occur faster than our sales growth in these new markets, which could adversely affect our business, results of operations or financial condition.

We depend on a limited number of customers, including distributors, for a substantial portion of our revenues, and the loss of, or a significant reduction in purchases by, one or more of these customers could adversely affect our operating results.

We receive a significant amount of our revenues from a limited number of customers, including distributors who represented our two largest customers in fiscal 2012. Most of our customer orders are made on a purchase order basis, which does not generally require any long-term customer commitments. Therefore, these customers may alter their purchasing behavior with little or no notice to us for various reasons, including: developing, or, in the case of our distributors, their customers developing, their own product solutions; choosing to purchase product from our competitors; incorrectly forecasting end market demand for their products; or experiencing a reduction in their market share in the markets for which they purchase our products. If our customers alter their purchasing behavior, if our customers' purchasing behavior does not match our expectations, or if we encounter any problems collecting amounts due from them, our financial condition and results of operations could be negatively impacted.

Our results of operations, financial condition and business could be harmed if we are unable to balance customer demand and capacity.

As customer demand for our products changes, we must be able to ramp up or adjust our production capacity to meet demand. We are continually taking steps to address our manufacturing capacity needs for our products. If we are not able to increase our production capacity at our targeted rate, or if there are unforeseen costs associated with adjusting our capacity levels, we may not be able to achieve our financial targets.

Conversely, due to the proportionately high fixed cost nature of our business (such as facility expansion costs), if demand does not increase at the rate forecasted, we may not be able to scale our manufacturing expenses or overhead costs to correspond to the demand. This could result in lower margins and adversely impact our business and results of operations. Additionally, if product demand decreases or we fail to forecast demand accurately, we may be required to recognize impairments on our long-lived assets or recognize excess inventory write off charges. We have in the past and may in the future be required to recognize excess capacity charges, which would have a negative impact on our results of operations.

In addition, our efforts to improve quoted delivery lead-time performance may result in corresponding reductions in order backlog. A decline in backlog levels could result in more variability and less predictability in our quarter-to-quarter net sales and operating results.

If we fail to evaluate and execute strategic opportunities successfully, our business may suffer.

From time to time, we evaluate strategic opportunities available to us for product, technology or business transactions, such as business acquisitions or divestitures. If we choose to enter into such transactions, we face certain risks, such as the failure of an acquired business to meet our performance expectations, diversion of management attention, identification of additional liabilities relating to the acquired business, retention of existing customers of our current and acquired businesses due to concerns that new product lines may be in competition with the customers of existing product lines, and difficulty integrating an acquired business's operations, personnel and financial and operating systems into our current business.

We may not be able to adequately address these risks or any other problems that arise from our recent or future acquisitions or divestitures. Any failure to successfully evaluate strategic opportunities and address risks or other problems that arise related to any such business transaction could adversely affect our business, results of operations or financial condition.

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Our revenue is highly dependent on our customers' ability to produce, market and sell more integrated products.
Our revenue depends on getting our products designed into a larger number of our customers' products and in turn, our customers' ability to produce, market and sell their products. For example, we have current and prospective customers that create, or plan to create, lighting systems using our LED components. However, the traditional lighting industry is still developing technical expertise with LED-related designs, which may limit the success of our customers' products. Even if our customers are able to develop and produce LED lighting products and products that incorporate our Power and RF products, there can be no assurance that our customers will be successful in marketing and selling these products in the marketplace.
The adoption of or changes in government and/or industry policies, standards or regulations relating to the efficiency, performance or other aspects of LED lighting or changes in government and/or industry policies, standards or regulations that discourage the use of certain traditional lighting technologies, could impact the demand for our products.
The adoption of or changes in government and/or industry policies, standards or regulations relating to the efficiency, performance or other aspects of LED lighting may impact the demand for our products. Demand for our products may also be impacted by changes in government and/or industry policies, standards or regulations that discourage the use of certain traditional lighting technologies. These constraints may be eliminated or delayed by legislative action, which could have a negative impact on demand for our products.
If governments, their agencies or regulated utilities reduce their demand for our products or discontinue or curtail their funding, our business may suffer.
Changes in governmental budget priorities could adversely affect our business and results of operations. U.S. and foreign government agencies have purchased products directly from us and products from our customers, and U.S. government agencies have historically funded a portion of our research and development activities. When the government changes budget priorities, such as in times of war or financial crisis, our research and development funding and our product sales to government entities are at risk. For example, demand and payment for our products and our customers' products may be affected by public sector budgetary cycles, funding authorizations, or utility rebates. Funding reductions or delays could negatively impact demand for our products. If government funding is discontinued or significantly reduced, our business and results of operations could be adversely affected.
Variations in our production yields could impact our ability to reduce costs and could cause our margins to decline and our operating results to suffer.
All of our products are manufactured using technologies that are highly complex. The number of usable items, or yield, from our production processes may fluctuate as a result of many factors, including but not limited to the following:

- variability in our process repeatability and control;
- contamination of the manufacturing environment;
- equipment failure, power outages, information or other system failures or variations in the manufacturing process;
- lack of consistency and adequate quality and quantity of piece parts and other raw materials, and other bill of materials items;
- inventory shrinkage or human errors;
- defects in production processes (including system assembly) either within our facilities or at our contractors; and
- any transitions or changes in our production process, planned or unplanned.

In the past, we have experienced difficulties in achieving acceptable yields on certain products, which has adversely affected our operating results. We may experience similar problems in the future, and we cannot predict when they may occur or their severity.
In addition, our ability to convert volume manufacturing to larger diameter substrates can be an important factor in allowing for a more cost effective manufacturing process. If we are unable to make this transition in a timely or cost effective manner, our results could be negatively impacted.

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In some instances, we may offer products for future delivery at prices based on planned yield improvements or increased cost efficiencies from other production advances. Failure to achieve these planned improvements or advances could have a significant impact on our margins and operating results.

Catastrophic events may disrupt our business.

A disruption or failure of our systems or operations in the event of a natural disaster, health pandemic, such as an influenza outbreak within our workforce, or man-made catastrophic event could cause delays in completing sales, continuing production or performing other critical functions of our business, particularly if a catastrophic event occurred at our primary manufacturing locations in the U.S. and China. This could severely affect our ability to conduct normal business operations and, as a result, our operating results could be adversely affected. There may also be secondary impacts that are unforeseeable as well, such as impacts to our customers, which could cause delays in new orders, delays in completing sales or even order cancellations.

If our products fail to perform or fail to meet customer requirements or expectations, we could incur significant additional costs, including costs associated with the recall of those items.

The manufacture of our products involves highly complex processes. Our customers specify quality, performance and reliability standards that we must meet. If our products do not meet these standards, we may be required to replace or rework the products. In some cases, our products may contain undetected defects or flaws that only become evident after shipment. Even if our products meet standard specifications, our customers may attempt to use our products in applications they were not designed for or in products that were not designed or manufactured properly, resulting in product failures and creating customer satisfaction issues.

We have experienced product quality, performance or reliability problems from time to time and defects or failures may occur in the future. If failures or defects occur, we may need to recall our products. These recalls could result in significant losses due to:

- costs associated with the removal, collection and destruction of the product recalled;
- payments made to replace recalled product;
- the write down or destruction of existing inventory subject to the recall;
- lost sales due to the unavailability of product for a period of time;
- delays, cancellations or rescheduling of orders for our products; or
- increased product returns.

We also may be the target of product liability lawsuits, and could suffer losses from a significant product liability judgment against us if the use of our products at issue is determined to have caused injury.

We provide warranty periods ranging from ninety days to ten years on our products. The standard warranty on nearly all of our new LED lighting products, which represent an increasing portion of our sales, is ten years. We may experience an increase in warranty claims as a result of the extension of the warranty period. Increased warranty claims could result in significant losses due to a rise in warranty expense and costs associated with customer support.

A significant product recall or product liability case, or a significant increase in warranty claims, could also result in adverse publicity, damage to our reputation, and a loss of customer confidence in our products.

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Our operations in foreign countries expose us to certain risks inherent in doing business internationally, which may adversely affect our business, results of operations or financial condition.
As a result of acquisitions and organic growth, we have operations, manufacturing facilities and contract manufacturing arrangements in foreign countries that expose us to certain risks. For example, fluctuations in exchange rates may affect our revenues, expenses and results of operations as well as the value of our assets and liabilities as reflected in our financial statements. We are also subject to other types of risks, including the following:

- protection of intellectual property and trade secrets;
- tariffs, customs and other barriers to importing/exporting materials and products in a cost effective and timely manner;
- timing and availability of export licenses;
- rising labor costs;
- disruptions in or inadequate infrastructure of the countries where we operate;
- difficulties in accounts receivable collections;
- difficulties in staffing and managing international operations;
- the burden of complying with foreign and international laws and treaties; and
- the burden of complying with and changes in international taxation policies.

In some instances, we have been provided and may continue to receive incentives from foreign governments to encourage our investment in certain countries, regions, or areas outside of the United States. In particular, we have received and may continue to receive such incentives in connection with our operations in Asia, as Asian national and local governments seek to encourage the development of the technology industry. Government incentives may include tax rebates, reduced tax rates, favorable lending policies and other measures, some or all of which may be available to us due to our foreign operations. Any of these incentives could be reduced or eliminated by governmental authorities at any time. Any reduction or elimination of incentives currently provided to our operations could adversely affect our business and results of operations. These same governments also may provide increased incentives to or require production processes that favor local companies, which could further negatively impact our business and results of operations.
Abrupt political change, terrorist activity and armed conflict pose a risk of general economic disruption in affected countries, which could also result in an adverse effect on our business and results of operations.
Litigation could adversely affect our operating results and financial condition.
We are often involved in litigation, primarily patent litigation, as described in more detail in Note 12, "Commitments and Contingencies" to our consolidated financial statements included in "Item 8, Financial Statements and Supplementary Data" of our Annual Report on Form 10-K for fiscal 2012 and in Note 12 "Commitments and Contingencies," to our unaudited financial statements in Part I, Item 1 of this Quarterly Report. Defending against existing and potential litigation will likely require significant attention and resources and, regardless of the outcome, result in significant legal expenses, which could adversely affect our operating results unless covered by insurance or recovered from third parties. If our defenses are ultimately unsuccessful, or if we are unable to achieve a favorable resolution, we could be liable for damage awards that could materially affect our results of operations and financial condition.
Where necessary, we may initiate litigation to enforce our patent or other intellectual property rights. Any such litigation may require us to spend a substantial amount of time and money and could distract management from our day-to-day operations. Moreover, there is no assurance that we will be successful in any such litigation.

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Our business may be impaired by claims that we, or our customers, infringe the intellectual property rights of others.
Vigorous protection and pursuit of intellectual property rights characterize our industry. These traits have resulted in significant and often protracted and expensive litigation. Litigation to determine the validity of patents or claims by third parties of infringement of patents or other intellectual property rights could result in significant legal expense and divert the efforts of our technical personnel and management, even if the litigation results in a determination favorable to us. In the event of an adverse result in such litigation, we could be required to:

- pay substantial damages;
- indemnify our customers;
- stop the manufacture, use and sale of products found to be infringing;
- incur asset impairment charges;
- discontinue the use of processes found to be infringing;
- expend significant resources to develop non-infringing products or processes; or
- obtain a license to use third party technology.

There can be no assurance that third parties will not attempt to assert infringement claims against us, or our customers, with respect to our products. In addition, our customers may face infringement claims directed to the customer's products that incorporate our products, and an adverse result could impair the customer's demand for our products. We have also promised certain of our customers that we will indemnify them in the event they are sued by our competitors for infringement claims directed to the products we supply. Under these indemnification obligations, we may be responsible for future payments to resolve infringement claims against them.
From time to time, we receive correspondence asserting that our products or processes are or may be infringing patents or other intellectual property rights of others. If we believe the assertions may have merit or in other appropriate circumstances, we take steps to seek to obtain a license or to avoid the infringement. However, we cannot predict whether a license will be available; that we would find the terms of any license offered acceptable; or that we would be able to develop an alternative solution. Failure to obtain a necessary license or develop an alternative solution could cause us to incur substantial liabilities and costs and to suspend the manufacture of affected products.
There are limitations on our ability to protect our intellectual property.
Our intellectual property position is based in part on patents owned by us and patents licensed to us. We intend to continue to file patent applications in the future, where appropriate, and to pursue such applications with U.S. and foreign patent authorities.
However, our existing patents are subject to expiration and re-examination and we cannot be sure that additional patents will be issued on any new applications around the covered technology or that our existing or future patents will not be successfully contested by third parties. Also, since issuance of a valid patent does not prevent other companies from using alternative, non-infringing technology, we cannot be sure that any of our patents, or patents issued to others and licensed to us, will provide significant commercial protection, especially as new competitors enter the market.
We periodically discover products that are counterfeit reproductions of our products or that otherwise infringe on our intellectual property rights. The actions we take to establish and protect trademarks, patents, and other intellectual property rights may not be adequate to prevent imitation of our products by others, and therefore, may adversely affect our sales and our brand and result in the shift of customer preference away from our products. Further, the actions we take to establish and protect trademarks, patents and other intellectual property rights could result in significant legal expense and divert the efforts of our technical personnel and management, even if the litigation or other action results in a determination favorable to us.
We also rely on trade secrets and other non-patented proprietary information relating to our product development and manufacturing activities. We try to protect this information through appropriate efforts to maintain its secrecy, including requiring employees and third parties to sign confidentiality agreements. We cannot be sure that these efforts will be successful or that the confidentiality agreements will not be breached. We also cannot be sure that we would have adequate remedies for any breach of such agreements or other misappropriation of our trade secrets, or that our trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

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We may be required to record a significant charge to earnings if our goodwill or other intangible assets become impaired.

Goodwill and purchased intangible assets with indefinite lives are not amortized, but are reviewed for impairment annually and more frequently when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We assess the recoverability of the unamortized balance of our definite-lived intangible assets when indicators of potential impairment are present. Factors that may indicate that the carrying value of our goodwill or other intangible assets may not be recoverable include a decline in our stock price and market capitalization and slower growth rates in our industry. We may be required to recognize a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or other intangible assets is determined to exist, which could adversely impact our results of operations.

We may be subject to confidential information theft or misuse, which could harm our business and results of operations.

We face attempts by others to gain unauthorized access to our information technology systems on which we maintain proprietary and other confidential information. Our security measures may be breached as the result of industrial or other espionage actions of outside parties, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to our systems. Additionally, outside parties may attempt to access our confidential information through other means, for example by fraudulently inducing our employees to disclose confidential information. We actively seek to prevent, detect and investigate any unauthorized access, which sometimes occurs. We might be unaware of any such access or unable to determine its magnitude and effects. The theft and/or unauthorized use or publication of our trade secrets and other confidential business information as a result of such an incident could adversely affect our competitive position and the value of our investment in research and development could be reduced. Our business could be subject to significant disruption, and we could suffer monetary or other losses.

We are subject to risks related to international sales and purchases.

We expect that revenue from international sales will continue to represent the majority of our total revenue. As such, a significant slowdown or instability in these foreign economies, including the recent economic instability in Europe, or lower investments in new infrastructure could have a negative impact on our sales. We also purchase a portion of the materials included in our products from overseas sources.

Our international sales and purchases are subject to numerous U.S. and foreign laws and regulations, including, without limitation, tariffs, trade barriers, regulations relating to import-export control, technology transfer restrictions, the International Traffic in Arms Regulation promulgated under the Arms Export Control Act, the Foreign Corrupt Practices Act and the anti-boycott provisions of the U.S. Export Administration Act. If we fail to comply with these laws and regulations, we could be liable for administrative, civil or criminal liabilities, and in the extreme case, we could be suspended or debarred from government contracts or have our export privileges suspended, which could have a material adverse effect on our business.

International sales and purchases are also subject to a variety of other risks, including risks arising from currency fluctuations, collection issues and taxes. Our international sales are subject to variability as our selling prices become less competitive in countries with currencies that are declining in value against the U.S. Dollar and more competitive in countries with currencies that are increasing in value against the U.S. Dollar. In addition, our international purchases can become more expensive if the U.S. Dollar weakens against the foreign currencies in which we are billed.

We have entered and may in the future enter into foreign currency derivative financial instruments in an effort to manage or hedge some of our foreign exchange rate risk. We may not be able to engage in hedging transactions in the future, and even if we do, foreign currency fluctuations may still have a material adverse effect on our results of operations and financial performance.

Our business may be adversely affected by uncertainties in the global financial markets and our or our customers' or suppliers' ability to access the capital markets.

Global financial markets continue to reflect uncertainty about a sustained global economic recovery. Given these uncertainties, there could be future disruptions in the global economy, financial markets and consumer confidence. If

economic conditions deteriorate unexpectedly, our business and results of operations could be materially and adversely affected. For example, our customers, including our distributors and their customers, may experience difficulty obtaining the financing necessary to support historical or projected purchasing patterns, which could negatively affect our results of operations.
Although we believe we have adequate liquidity and capital resources to fund our operations internally, our inability to access the capital markets on favorable terms in the future, or at all, may adversely affect our financial performance. The inability to

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obtain adequate financing from debt or capital sources in the future could force us to self-fund strategic initiatives or even forego certain opportunities, which in turn could potentially harm our performance.

Changes in our effective tax rate may affect our results.

Our future effective tax rates may be affected by a number of factors including:

- the jurisdiction in which profits are determined to be earned and taxed;
- changes in government administrations, such as the Presidency and Congress of the U.S. as well as in the states and countries in which we operate;
- changes in tax laws or interpretation of such tax laws and changes in generally accepted accounting principles;
- the resolution of issues arising from tax audits with various authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
- the recognition and measurement of uncertain tax positions;
- the lack of sufficient excess tax benefits (credits) in our additional paid in capital pool in situations where our realized tax deductions for certain stock-based compensation awards (such as non-qualified stock options and restricted stock) are less than those originally anticipated; and
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes, or any changes in legislation that may result in these earnings being taxed within the U.S., regardless of our decision regarding repatriation of funds.

For example, proposals have been made by various U.S. governmental bodies to change the U.S. tax laws that include, among other things, limiting U.S. tax deductions for expenses related to un-repatriated foreign-source income and modifying the U.S. foreign tax credit rules. Although the scope of the proposed changes is unclear, it is possible that these or other changes in U.S. tax laws could increase our U.S. income tax liability and adversely affect our profitability. At this time, we cannot determine the timing that the proposed changes, if enacted, would become effective.

Any significant increase or decrease in our future effective tax rates could impact net income for future periods. In addition, the determination of our income tax provision requires complex estimations, significant judgments and significant knowledge and experience concerning the applicable tax laws. To the extent our income tax liability materially differs from our income tax provisions due to factors, including the above, which were not anticipated at the time we estimated our tax provision, our net income or cash flows could be affected.

In order to compete, we must attract, motivate and retain key employees, and our failure to do so could harm our results of operations.

Hiring and retaining qualified executives, scientists, engineers, technical staff and sales personnel is critical to our business, and competition for experienced employees in our industry can be intense. As a global company, this issue is not limited to the United States, but includes our other locations such as Europe and China. For example, there is substantial competition in China for qualified and capable personnel, particularly experienced engineers and technical personnel, which may make it difficult for us to recruit and retain qualified employees. Also, within Huizhou, China, there are other large companies building manufacturing plants that will likely attract qualified employees. If we are unable to staff sufficient and adequate personnel at our China facilities, we may experience lower revenues or increased manufacturing costs, which would adversely affect our results of operations.

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To help attract, motivate and retain key employees, we use benefits such as stock-based compensation awards, which include non-qualified stock options and restricted stock. If the value of such stock awards does not appreciate, as measured by the performance of the price of our common stock, or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate employees could be weakened, which could harm our business and results of operations.

Failure to comply with applicable environmental laws and regulations worldwide could harm our business and results of operations.

The manufacturing, assembling and testing of our products require the use of hazardous materials that are subject to a broad array of environmental, health and safety laws and regulations. Our failure to comply with any of these applicable laws or regulations could result in:

- regulatory penalties, fines, legal liabilities, and the forfeiture of certain tax benefits;
- suspension of production;
- alteration of our fabrication, assembly and test processes; and
- curtailment of our operations or sales.

In addition, our failure to manage the use, transportation, emission, discharge, storage, recycling or disposal of hazardous materials could subject us to increased costs or future liabilities. Existing and future environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify our product designs or incur other expenses, such as permit costs, associated with such laws and regulations. Many new materials that we are evaluating for use in our operations may be subject to regulation under existing or future environmental laws and regulations that may restrict our use of one or more of such materials in our manufacturing, assembly and test processes or products. Any of these restrictions could harm our business and results of operations by increasing our expenses or requiring us to alter our manufacturing processes.

Our results could vary as a result of the methods, estimates and judgments that we use in applying our accounting policies, including changes in the accounting regulations to be applied.

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results (see “Critical Accounting Policies and Estimates” in “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for fiscal 2012). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results.

Likewise, our results may be impacted due to changes in the accounting standards to be applied, such as the increased use of fair value measurement standards and proposed changes in revenue recognition requirements.

New regulations related to conflict-free minerals may force us to incur additional expenses.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC established new annual disclosure and reporting requirements for those companies who may use “conflict” minerals mined from the DRC and adjoining countries in their products. These new requirements required us to undertake due diligence efforts beginning in the 2013 calendar year, with initial disclosure requirements beginning in May 2014. These new requirements could affect the sourcing and availability of minerals used in the manufacture of our products. As a result, we may not be able to obtain minerals at competitive prices and there will likely be additional costs associated with complying with the new due diligence procedures as required by the SEC. In addition, as our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence procedures that we implement, and we may incur additional costs as a result of changes to product, processes or sources of supply as a consequence of these new requirements.

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We are exposed to fluctuations in the market value of our investment portfolio and in interest rates, and therefore, impairment of our investments or lower investment income could harm our earnings.

We are exposed to market value and inherent interest rate risk related to our investment portfolio. We have historically invested portions of our available cash in fixed interest rate securities such as high-grade corporate debt, commercial paper, government securities and other fixed interest rate investments. The primary objective of our investment policy is preservation of principal. However, our investments are generally not FDIC insured and may lose value and/or become illiquid regardless of their credit rating.

Our stock price may be volatile.

Historically, our common stock has experienced substantial price volatility, particularly as a result of significant fluctuations in our revenue, earnings and margins over the past few years, and variations between our actual financial results and the published expectations of analysts. For example, the closing price per share of our common stock on the NASDAQ Global Select Market ranged from a low of $22.78 to a high of $55.28 in the first nine months of fiscal 2013. If our future operating results or margins are below the expectations of stock market analysts or our investors, our stock price will likely decline.

Speculation and opinions in the press or investment community about our strategic position, financial condition, results of operations, or significant transactions can also cause changes in our stock price. In particular, speculation around our market opportunities for energy efficient lighting may have a dramatic effect on our stock price, especially as various government agencies announce their planned investments in energy efficient technology, including lighting.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

The following exhibits are being filed herewith and are numbered in accordance with Item 601 of Regulation S-K:

Exhibit No.	Description
4.1	Amendment No. 1 to Amended and Restated Rights Agreement, dated as of January 29, 2013 (incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, dated January 29, 2013, as filed with the Securities and Exchange Commission on January 31, 2013).
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Cree Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Cash Flow; and (v) Notes to Consolidated Financial Statements

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CREE, INC.

April 24, 2013

/s/ MICHAEL E. MCDEVITT
Michael E. McDevitt
Executive Vice President and Chief Financial Officer
(Authorized Officer and Principal Financial and Chief Accounting Officer)

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