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CREE INC
Form DEF 14A
September 04, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

CREE, INC.

(Name of Registrant as Specified In Its Charter)

N/A

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

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- 4) Proposed maximum aggregate value of transaction: _____
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- 1) Amount Previously Paid: _____
- 2) Form, Schedule or Registration Statement No.: _____
- 3) Filing Party: _____
- 4) Date Filed: _____

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Cree, Inc.:

The 2009 Annual Meeting of Shareholders of Cree, Inc. will be held at the offices of the corporation at 4425 Silicon Drive, Durham, North Carolina 27703, on Thursday, October 29, 2009, at 10:00 a.m. local time, to consider and vote upon the following matters and to transact such other business as may be properly brought before the meeting:

Proposal No. 1 Election of eight directors

Proposal No. 2 Approval of an amendment to the 2004 Long-Term Incentive Compensation Plan

Proposal No. 3 Ratification of the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending June 27, 2010

All shareholders are invited to attend the meeting in person. Only shareholders of record at the close of business on August 31, 2009 are entitled to notice of and to vote at the meeting.

We are also pleased to announce that we are primarily providing access to our proxy materials over the Internet pursuant to the Securities and Exchange Commission's notice and access rules. We believe this new process should provide you with a convenient and quick way to access your proxy materials and vote your shares. Beginning on or about September 15, 2009, our Board of Directors expects to mail to our shareholders a Notice of Internet Availability of Proxy Materials, or Notice, which will indicate how to access our 2009 Proxy Statement and 2009 Annual Report on the Internet. The Notice also includes instructions on how you can receive a paper copy of your annual meeting materials, including the notice of annual meeting, proxy statement and proxy card.

By order of the Board of Directors,
Adam H. Broome
Secretary

Durham, North Carolina

September 4, 2009

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IMPORTANT: Whether or not you plan to attend the meeting in person, please submit voting instructions for your shares promptly using the directions on your Notice or, if you elected to receive printed proxy materials by mail, your proxy card to vote by one of the following methods: (1) by telephone, by calling the toll-free telephone number available on the Internet voting site; (2) over the Internet, by accessing the website address printed on your Notice; or (3) if you elected to receive printed proxy materials by mail, by marking, dating and signing your proxy card and returning it in the accompanying postage-paid envelope.

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CREE, INC.

PROXY STATEMENT

MEETING INFORMATION

The Board of Directors of Cree, Inc., or the Company, is asking for your proxy for use at the 2009 Annual Meeting of Shareholders and any adjournments of the meeting. The meeting will be held at our offices at 4425 Silicon Drive, Durham, North Carolina 27703, on Thursday, October 29, 2009, at 10:00 a.m. local time, to conduct the following business and such other business as may be properly brought before the meeting: (1) election of eight directors; (2) approval of an amendment to the 2004 Long-Term Incentive Compensation Plan, or the LTIP; and (3) ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending June 27, 2010.

The Board of Directors recommends that you vote FOR the election of the director nominees listed in this proxy statement, FOR approval of the amendment to the LTIP, and FOR ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending June 27, 2010.

Beginning on or about September 15, 2009, proxy materials for the annual meeting, including this proxy statement and our 2009 Annual Report, are being made available to shareholders entitled to vote at the annual meeting. The annual report is not part of our proxy soliciting materials.

Important Notice Regarding the Availability of Proxy Materials

For the Shareholder Meeting to Be Held on October 29, 2009:

The annual report and proxy statement will be available on the Internet at

www.cree.com/annualmeeting

Pursuant to the Securities and Exchange Commission's Notice and Access rules, we are furnishing proxy materials to our shareholders primarily via the Internet. Beginning on or about September 15, 2009, we intend to mail to our shareholders a Notice of Internet Availability of Proxy Materials, or Notice, containing instructions on how to access our proxy materials on the Internet, including our proxy statement and our annual report. The Notice also instructs you on how you can vote using the Internet and how you can access the Internet voting site, which will contain instructions on how you can vote by telephone. Other shareholders, in accordance with their prior requests, have received e-mail notification of how to access our proxy materials and vote via the Internet, or have been mailed paper copies of our proxy materials and a proxy card or voting form.

Internet distribution of our proxy materials is designed to expedite receipt by shareholders, lower the cost of the annual meeting, and conserve natural resources. However, if you would prefer to receive printed proxy materials, please follow the instructions included in the Notice. If you have previously elected to receive our proxy materials electronically, you will continue to receive these materials via e-mail unless you elect otherwise.

VOTING PROCEDURES

Who Can Vote

Only shareholders of record of the Company at the close of business on August 31, 2009 are entitled to vote at the meeting and any adjournments of the meeting. At that time, there were 90,376,290 shares of the Company's common stock outstanding, each of which is entitled to one vote on each matter submitted to a vote at the meeting.

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How You Can Vote

You may vote shares by proxy or in person using one of the following methods:

Voting by Telephone. You can vote by following the directions on your Notice to access the Internet voting site and by calling the toll-free telephone number available on the site, or if you requested printed proxy materials, by calling the toll-free number printed on your proxy card. The deadline for voting by telephone is Wednesday, October 28, 2009, at 11:59 p.m. Eastern time.

Voting by Internet. You can vote over the Internet by following the directions on your Notice to access the website address printed on the Notice. The deadline for voting over the Internet is Wednesday, October 28, 2009 at 11:59 p.m. Eastern time.

Voting by Mail. If you requested printed proxy materials, you can vote by completing and returning your signed proxy card. To vote using your proxy card, please mark, date and sign the card and return it by mail in the accompanying postage-paid envelope. You should mail your signed proxy card sufficiently in advance for it to be received by Wednesday, October 28, 2009.

Voting in Person. You can vote in person at the meeting if you are the record owner of the shares to be voted. You can also vote in person at the meeting if you present a properly signed proxy that authorizes you to vote shares on behalf of the record owner. If a broker, bank, custodian or other nominee holds your shares, to vote in person at the meeting you must present a letter or other proxy appointment, signed on behalf of the broker or nominee, granting you authority to vote the shares.

How You Can Revoke Your Proxy and Change Your Vote

You can revoke your proxy and change your vote by (1) attending the meeting and voting in person, (2) delivering written notice of revocation of your proxy to the Secretary at any time before voting is closed, (3) timely submitting new voting instructions by telephone or over the Internet as described above or (4) if you requested printed proxy materials, timely submitting a signed proxy card bearing a later date.

How Your Proxy Will Be Voted

If you timely submit your proxy by telephone, over the Internet or by proxy card as described above and have not revoked it, your shares will be voted or withheld from voting in accordance with the voting instructions you gave. If you timely submit your proxy without giving contrary voting instructions, your shares will be voted FOR election of the director nominees listed in this proxy statement, FOR approval of the amendment to the LTIP, and FOR ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending June 27, 2010.

How You Can Vote Shares Held by a Broker or Other Nominee

If a broker, bank, custodian or other nominee holds your shares, you may have received a notice or voting instruction form from them. Please follow the directions that your broker, bank, custodian or other nominee provides or contact the firm to determine the voting methods available

to you.

Quorum Required

A quorum must be present at the meeting before business can be conducted. A quorum will be present if a majority of the shares entitled to vote are represented in person or by proxy at the meeting. Shares represented by a proxy with instructions to withhold authority to vote or to abstain from voting on any matter will be considered present for purposes of determining the existence of a quorum. Shares represented by a proxy as to which a broker, bank, custodian or other nominee has indicated that it does not have discretionary authority to vote on any matter (sometimes referred to as a "broker non-vote") will also be considered present for purposes of determining the existence of a quorum.

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Vote Required

Directors will be elected by a plurality of the votes cast. Thus the eight nominees who receive the most votes will be elected to fill the available positions. Shareholders do not have the right to vote cumulatively in electing directors. Withholding authority in your proxy to vote for a nominee will result in the nominee receiving fewer votes.

The proposed amendment to the LTIP and ratification of the appointment of Ernst & Young LLP as independent auditors for fiscal 2010 will be approved if the votes cast for approval exceed the votes cast against approval.

Abstentions and broker non-votes will not be counted for purposes of determining whether these proposals have received sufficient votes for approval.

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All eight of the persons nominated for election to the Board of Directors at the annual meeting are currently serving as directors of the Company. The Company is not aware of any nominee who will be unable or will decline to serve as a director. If a nominee becomes unable or declines to serve, the accompanying proxy may be voted for a substitute nominee, if any, designated by the Board of Directors. The term of office of each person elected as a director will continue until the later of the next annual meeting of shareholders or until such time as his successor has been duly elected and qualified.

The following table lists the nominees for election and information about each.

Name	Age	Principal Occupation and Background	Director Since
Charles M. Swoboda	42	Mr. Swoboda has served as the Company's Chief Executive Officer since June 2001, as President since January 1999, as a member of the Board of Directors since October 2000 and as chairman since April 2005. He was Chief Operating Officer of the Company from 1997 to June 2001 and Vice President for Operations from 1997 to 1999. Prior to his appointment as Vice President for Operations, Mr. Swoboda served as Operations Manager from 1996 to 1997, as General Manager of the Company's former subsidiary, Real Color Displays, Incorporated, from 1994 to 1996 and as LED Product Manager from 1993 to 1994. He was previously employed by Hewlett-Packard Company.	2000
John W. Palmour, Ph.D.	48	Dr. Palmour, one of the Company's founders, has been a member of the Board of Directors since October 1995 and has served as the Company's Chief Technology Officer-Advanced Devices since September 2008. He previously served as the Company's Director of Advanced Devices from 1995 to September 2008 and as an Executive Vice President from August 2002 to September 2008. As Chief Technology Officer-Advanced Devices, Dr. Palmour is responsible for research associated with the Company's power and radio frequency businesses and also manages the Company's contract research programs. He previously served on the Board of Directors from 1992 to 1993.	1995
Dolph W. von Arx	75	Mr. von Arx has been a member of the Board of Directors since October 1991 and has served as Lead Independent Director since April 2005. He is the former Chairman, President and Chief Executive Officer of Planters Lifesavers Company, an affiliate of RJR Nabisco, Inc. Since his retirement from Planters Lifesavers Company in 1991, Mr. von Arx served as non-executive Chairman of Morrison Restaurants Inc., a publicly held family dining business, from 1996 to 1998 and is currently a director of Sanibel Captiva Trust Company and Juice Technologies LLC.	1991

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Name	Age	Principal Occupation and Background	Director Since
Clyde R. Hosein	50	Mr. Hosein has been a member of the Board of Directors since December 2005. Since June 2008, he has served as Chief Financial Officer of Marvell Technology Group Ltd., a publicly traded semiconductor provider of high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits, and has also served as its Interim Chief Operating Officer and Secretary since October 2008. From 2003 to 2008, he served as Vice President and Chief Financial Officer of Integrated Device Technology, Inc., a provider of essential mixed-signal semiconductor solutions. From 2001 to 2003, he served as Senior Vice President, Finance and Administration and Chief Financial Officer of Advanced Interconnect Technologies, a semiconductor assembly and test company. He has also held other senior level financial positions, including the role of Chief Financial Officer at Candescant Technologies, a developer of flat panel display technology. Early in his career he spent 14 years in financial and engineering roles at IBM Corporation.	2005
Robert A. Ingram	66	Mr. Ingram joined the Board of Directors in December 2008. Since January 2003, he has served as Vice Chairman Pharmaceuticals, GlaxoSmithKline, a publicly traded pharmaceutical research and development company. He previously served as Chief Operating Officer and President of Pharmaceutical Operations of GlaxoSmithKline following the December 2000 merger of Glaxo Wellcome plc and SmithKline Beecham plc. Prior to the merger he served as Chief Executive Officer of Glaxo Wellcome plc and as Chairman, President and Chief Executive Officer of Glaxo Wellcome Inc. He also serves on the Boards of Directors of Lowe's Companies, Inc., Allergan, Inc., and Edwards Lifesciences Corporation, and also as Chairman of the Board of Directors of OSI Pharmaceuticals, Inc. and as Lead Director of Valeant Pharmaceuticals International.	2008
Franco Plastina	46	Mr. Plastina joined the Board of Directors in December 2007. Since February 2006, he has served as President and Chief Executive Officer, and as a board member, of Tekelec, a publicly traded provider of telecommunications network systems and software applications. Before joining Tekelec, from September 2005 through February 2006, Mr. Plastina served as Executive in Residence at Warburg Pincus LLC, a private equity firm, where he was responsible for evaluating potential investments and providing executive support to portfolio companies. From 2003 to 2005, he held various executive positions with Proxim Corporation, a provider of Wi-Fi and broadband wireless access products, including Executive Chairman, President and CEO. In June 2005, Proxim Corporation filed a voluntary petition for relief under the reorganization provisions of Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. From 1987 until 2002, Mr. Plastina served in a series of management and executive positions with Nortel Networks Corporation, a multi-national telecommunications equipment provider.	2007

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Name	Age	Principal Occupation and Background	Director Since
Harvey A. Wagner	68	Mr. Wagner has served on the Board of Directors since February 2004. Since April 2008, he has served as President and Chief Executive Officer, and as a board member, of Caregiver Services, Inc., a home care provider. Mr. Wagner previously served as President and Chief Executive Officer of Quovadx, Inc., a global software and services company, from October 2004 to July 2007, as its Acting President and Chief Executive Officer from May 2004 to October 2004, and as a member of its Board of Directors from April 2004 to July 2007. From 1989 to 1994 he served as CFO at Computervision Corporation and from 1994 to 1998 at Scientific-Atlanta, Inc. From 1998 until joining Quovadx in 2004, he held CFO positions with Premiere Technologies, Inc., PaySys International, Inc., Optio Software, Inc. and Mirant Corporation. Earlier in his career he spent 18 years in Silicon Valley where he held senior financial positions with GTE Corporation, Fairchild and American Microsystems. He is currently also a director of FormFactor, Inc. and StarTek, Inc.	2004
Thomas H. Werner	49	Mr. Werner has been a member of the Board of Directors since March 2006. He has served as Chief Executive Officer for SunPower Corporation, a publicly traded manufacturer of high-efficiency solar cells and solar panels, since June 2003, and is also a member of its Board of Directors. Prior to SunPower, he served as Chief Executive Officer of Silicon Light Machines Corporation, an optical solutions subsidiary of Cypress Semiconductor Corporation, from July 2001 to June 2003. Earlier, Mr. Werner was Vice President and General Manager of the Business Connectivity Group of 3Com Corporation, a network solutions company.	2006

The Board of Directors recommends shareholders

vote FOR election of the nominees named above.

Executive Officers

Mr. Swoboda serves as both an executive officer of the Company and a member of the Board of Directors. John T. Kurtzweil (age 53) and Stephen D. Kelley (age 47) also serve as executive officers of the Company.

Mr. Kurtzweil was appointed as Executive Vice President – Finance and as Chief Financial Officer and Treasurer of the Company effective September 29, 2006. Before joining the Company, he served from 2004 to 2006 as Senior Vice President and Chief Financial Officer of Cirrus Logic, Inc., a publicly traded supplier of analog, mixed-signal and digital processing solutions for audio and industrial product applications, based in Austin, Texas. He previously served as Senior Vice President and Chief Financial Officer of ON Semiconductor Corporation, a global supplier of power- and data-management semiconductors and standard semiconductor components, and of disk drive component manufacturer Read-Rite Corporation, which sold substantially all of its assets to Western Digital Corp. in 2003. Immediately prior to joining Cirrus Logic, Mr. Kurtzweil had served as interim Chief Financial Officer for Quepasa Corporation, an online company serving the growing U.S. Hispanic community.

Mr. Kelley was appointed as an Executive Vice President and as Chief Operating Officer of the Company effective August 19, 2008. Before joining the Company, he served from 2003 to 2008 as Vice President and General Manager of the Standard Linear and Logic Group of Texas Instruments Incorporated, a publicly traded semiconductor supplier based in Dallas, Texas. Mr. Kelley previously served as Senior Vice President and

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General Manager of Philips Semiconductors, a division of Royal Philips Electronics N.V., from 2002 to 2003 and held a series of other executive positions with Philips Semiconductors beginning in 1993. He was previously employed by National Semiconductor Corporation, MX-COM, Inc., Fairchild Semiconductor International, Inc. and Motorola Semiconductor (now Freescale, Inc.).

Code of Ethics

We have adopted a Code of Ethics applicable to our senior financial officers, including our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. The full text of our Code of Ethics is published on our website at www.cree.com. Consistent with Item 5.05 of Form 8-K, we intend to disclose future amendments to, or waivers from, the Code of Ethics on our website within four business days following the date of such amendment or waiver. We will also provide a copy of our Code of Ethics to any person, without charge. All such requests should be in writing and sent to the attention of the Corporate Secretary, Cree, Inc., 4600 Silicon Drive, Durham, NC 27703.

Board Composition and Independence of Directors

The size of the Board of Directors was fixed at nine members in 1988 by shareholder action pursuant to the Company's Bylaws. Generally only from six to eight persons have served on the Board of Directors at any one time. Only eight persons have been nominated for election at the annual meeting. Under the rules of the Securities and Exchange Commission, the accompanying proxy cannot be voted for more than eight nominees.

A majority of the Board of Directors must be comprised of independent directors for the Company to comply with the listing requirements of The Nasdaq Stock Market, or Nasdaq. The Board of Directors has determined that six of the present directors Messrs. von Arx, Hosein, Ingram, Plastina, Wagner and Werner are each an independent director within the meaning of the applicable Marketplace Rules of Nasdaq. All of these directors are standing for re-election. Additionally, the Board of Directors has determined that James E. Dykes, whose term expired and who ceased to be a director effective as of the date of last year's annual meeting of shareholders, was an independent director within the meaning of the applicable Marketplace Rules of Nasdaq.

Attendance at Meetings

The Board of Directors held five meetings during the fiscal year ended June 28, 2009, or fiscal 2009. Each incumbent director attended or participated in 75% or more of the aggregate of the number of meetings of the Board of Directors held during the period he was a director and the number of meetings of committees on which he served that were held during the period of his service.

The Company expects all directors to attend each annual meeting of shareholders absent good reason. Seven directors, including all nominees for re-election at the 2009 Annual Meeting of Shareholders who were directors at that time, attended the 2008 Annual Meeting of Shareholders.

Standing Committees

The standing committees of the Board of Directors include the Audit Committee, the Governance and Nominations Committee and the Compensation Committee. Each of these committees operates under a written charter adopted by the Board of Directors, copies of which are available on the Company's website at www.cree.com. Each committee is composed solely of independent directors. The following is a brief description of the responsibilities of each of the existing standing committees and their composition.

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Audit Committee

The Audit Committee is appointed by the Board of Directors to oversee the accounting and financial reporting processes of the Company and audits of the Company's financial statements. The responsibilities of the Audit Committee include acting on the Board of Directors' behalf in providing oversight with respect to (i) the quality and integrity of the Company's financial statements and internal accounting and financial controls, (ii) all audit, review and attest services relating to the Company's financial statements and internal controls, including the appointment, compensation, retention and oversight of the work of the auditors engaged to provide audit services to the Company and (iii) the Company's compliance with legal and regulatory requirements.

The members of the Audit Committee are Messrs. Wagner, Hosein and Plastina. The Board of Directors has determined that all members of the Committee are independent directors within the meaning of the applicable Nasdaq Marketplace Rules, including the special independence requirements applicable to Audit Committee members. Mr. Wagner is Chairman of the Audit Committee and has served in that capacity since 2004. The Board of Directors has determined that each of Mr. Wagner, Mr. Hosein and Mr. Plastina is an audit committee financial expert as defined in Item 407 of Regulation S-K of the Securities and Exchange Commission. The Audit Committee held nine meetings during fiscal 2009. The Audit Committee from time to time also takes action by unanimous written consent in lieu of holding a meeting.

Governance and Nominations Committee

The Governance and Nominations Committee is appointed by the Board of Directors to assist the Board of Directors in fulfilling its responsibilities to shareholders by (i) identifying individuals qualified to become directors and recommending that the Board of Directors select the candidates for all directorships to be filled by the Board of Directors or by the shareholders, (ii) upon the recommendation of the Compensation Committee, determining compensation arrangements for non-employee directors, (iii) developing and recommending to the Board of Directors corporate governance principles for the Company and (iv) otherwise taking a leadership role in shaping the corporate governance of the Company.

The members of the Governance and Nominations Committee are Messrs. von Arx, Hosein, Ingram, Plastina, Wagner and Werner. The Board of Directors has determined that all members of the Committee are independent directors within the meaning of the applicable Nasdaq Marketplace Rules. Mr. von Arx is Chairman of the Governance and Nominations Committee and has served in that capacity since 2004. The Governance and Nominations Committee charter establishes a policy with regard to the consideration of director candidates, including those candidates recommended by shareholders. The Committee will consider written nominations properly submitted by shareholders according to procedures set forth in the Company's Bylaws. For a description of these procedures and policies regarding nominations see Procedures for Director Nominations and 2010 Annual Meeting of Shareholders below. The Governance and Nominations Committee held four meetings during fiscal 2009. The Governance and Nominations Committee from time to time also takes action by unanimous written consent in lieu of holding a meeting.

Compensation Committee

The Compensation Committee is appointed by the Board of Directors to assist the Board of Directors in discharging its overall responsibility relating to executive officer and director compensation and to oversee and report to the Board of Directors as appropriate on the Company's compensation and benefit policies, programs and plans, including its stock-based compensation programs and employee stock purchase plan. The Compensation Committee approves the compensation of all executive officers, administers the Company's stock-based compensation programs and recommends compensation for non-employee directors to the Governance and Nominations Committee for approval.

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The Compensation Committee solicits the recommendations of the Company's Chief Executive Officer with respect to the compensation of the Company's executive officers other than himself and factors these

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recommendations into the determination of compensation, as described in the Compensation Discussion and Analysis. In addition, beginning in 2008, the Compensation Committee engaged Radford Consulting, an Aon Company, or Radford, an outside global human resources consulting firm, to conduct an annual review of the Company's total compensation program for its executive officers and directors, including a review for fiscal 2009. Radford provided the Committee with relevant market data and alternatives to consider when making compensation decisions with respect to the Company's executive officers and in making recommendations with respect to the compensation of non-employee directors. The Committee generally makes decisions and recommendations regarding annual compensation at its August meeting each year.

The members of the Compensation Committee are Messrs. Werner, von Arx and Ingram. Mr. Dykes also served on the Compensation Committee until his term expired at last year's annual meeting of shareholders. The Board of Directors has determined that all members of the Committee are independent directors within the meaning of the applicable Nasdaq Marketplace Rules. Mr. Werner is Chairman of the Compensation Committee and has served in that capacity since January 30, 2007. The Compensation Committee held five meetings during fiscal 2009. The Compensation Committee from time to time also takes action by unanimous written consent in lieu of holding a meeting.

Certain Transactions

Transactions with Companies Related to Paul Lo

The Company acquired COTCO Luminant Device Limited (now Cree Hong Kong Limited), or COTCO, from COTCO Holdings Limited, a Hong Kong company (now United Luminous International (Holdings) Limited), or Holdings, on March 30, 2007 pursuant to a Share Purchase Agreement dated March 12, 2007. As a result of the acquisition, Holdings (which is beneficially owned by Paul Lo), became a beneficial owner of more than 5% of the Company's common stock. As reported by Mr. Lo to the Company, Mr. Lo ceased to be a beneficial owner of more than 5% of the Company's common stock during fiscal 2009.

The Share Purchase Agreement with Holdings provided that additional consideration of up to \$125.0 million would become payable to Holdings or its designees in the event COTCO achieved specific EBITDA targets over the Company's two full fiscal years following the acquisition. The operations acquired in the COTCO acquisition achieved the required EBITDA target for the fiscal year ended June 29, 2008, or fiscal 2008, such that the first tranche of the additional consideration in the amount of \$60.0 million was earned as of June 2008. To settle that obligation, the Company made a cash payment in the amount of \$60.0 million to Holdings in the first quarter of fiscal 2009. The operations acquired in the COTCO acquisition achieved certain defined EBITDA targets for fiscal 2009 as well, such that the second and final tranche of additional consideration in the amount of \$57.1 million was earned as of June 2009. To settle that obligation, the Company made a second and final cash payment in the amount of \$57.1 million to Holdings in the first quarter of fiscal 2010.

Transactions with United Luminous International Holdings (Limited)

Concurrently with the Company's acquisition of COTCO, the Company, COTCO and Holdings entered into a Transition Services Agreement under which Holdings agreed to make certain services and systems available to the Company and COTCO, and COTCO agreed to provide certain services to Holdings, in order to effect an orderly transfer of administrative support services and facilities. The Transition Services Agreement expired in March 2009. Under the agreement, COTCO agreed to pay Holdings monthly fees totaling approximately \$25,000 for the services and use of the systems, and Holdings agreed to pay COTCO a monthly service fee of approximately \$4,200.

Transactions with Light Engine Limited

As the beneficial owner of Holdings, Paul Lo is also the beneficial owner of Light Engine Limited, or Light Engine, which is a subsidiary of Holdings and a former sister company of COTCO. Light Engine is primarily

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focused on value added modules and systems for lighting products. During fiscal 2009, Light Engine purchased approximately \$39.8 million of LED products from two of the Company's subsidiaries, COTCO and LED Lighting Fixtures, Inc. (now Cree LED Lighting Solutions, Inc.), or LLF. The Company acquired LLF on February 29, 2008.

Light Engine's purchases from COTCO were made pursuant to the Supply Agreement, entered into at the time of the Company's acquisition of COTCO, under which Light Engine agreed to purchase LED lamp products until June 28, 2009. The Supply Agreement was amended effective June 28, 2009 to extend until June 26, 2011. The Supply Agreement requires Light Engine to purchase a minimum quarterly volume of lamp products from COTCO based on the volume of products COTCO sold to Holdings and its subsidiaries in the quarter ended December 31, 2006. Light Engine is to use commercially reasonable efforts to increase its quarterly volume of purchases by at least 10% per quarter after September 24, 2007, subject to business and market conditions. In addition, in the event Light Engine intends to purchase lamp products beyond the minimum requirements of the Supply Agreement, COTCO has a right of first refusal to supply the additional lamp products so long as the products meet Light Engine's reasonable requirements. Light Engine's purchases from LLF were made pursuant to standard purchase orders.

Light Engine and LLF are also parties to a Manufacturing Agreement and a Distribution Agreement, each dated as of May 31, 2007. Under the Manufacturing Agreement, Light Engine agreed to combine materials consigned by LLF with raw materials procured by Light Engine to manufacture, assemble and test solid state lighting fixtures for LLF. LLF reimburses Light Engine for the raw materials Light Engine supplies and pays Light Engine an assembly fee and a management and logistics fee for the solid state lighting fixtures. During fiscal 2009, LLF incurred fees of approximately \$10.6 million payable to Light Engine for lighting fixtures manufactured pursuant to the Manufacturing Agreement. Under the Distribution Agreement, LLF appointed Light Engine as the exclusive distributor of LLF's LR6 products in China, Hong Kong, Taiwan, Macau, Australia and New Zealand, and as a non-exclusive distributor of the products in certain countries in Southeast Asia. No sales have occurred under the Distribution Agreement.

Transactions with Konwin Technology Limited-Unaudited

Paul Lo collectively with certain immediate family members, owns a minority interest in Gold Peak Industries (Holdings) Limited, which owns a minority interest in Lighthouse Technologies Limited. Lighthouse Technologies Limited wholly owns Konwin Technology Limited, or Konwin, resulting in Paul Lo, collectively with certain immediate family members, indirectly beneficially owning approximately 11% of Konwin. Konwin is primarily focused on LED modules for video displays and is an established customer of COTCO. In fiscal 2009, Konwin purchased a total of approximately \$38.1 million of LED lamp products from COTCO pursuant to standard purchase orders.

Transactions with Bridgelux, Inc.

From September 2006 until December 2008, the Company and the Trustees of Boston University, or the University, had multiple patent infringement lawsuits pending with Bridgelux, Inc. (formerly eLite Optoelectronics), or Bridgelux, as the opposing party. In June 2007, Mark Swoboda was appointed Chief Executive Officer of Bridgelux. Mark Swoboda is the brother of the Company's Chairman, Chief Executive Officer and President, Charles M. Swoboda.

On December 22, 2008, the Company and the University entered into a Settlement and License Agreement with Bridgelux in which the parties agreed to settle their pending patent infringement litigation and to dismiss all claims and counterclaims in the suits. As part of the settlement, the Company granted Bridgelux a license to the Company and University patents at issue in the litigation, and Bridgelux agreed to pay the Company an upfront fee of \$1,500,000 and royalties ranging from 3% to 6% of certain Bridgelux sales, depending on the percentage of Bridgelux's LED chip requirements that it purchases from the Company during each royalty measurement

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period. In fiscal 2009, Bridgelux paid the Company royalties of approximately \$0.1 million. Bridgelux is required to purchase a certain portion of its LED chip requirements from the Company beginning July 1, 2010 through the end of the term of the Agreement.

To facilitate Bridgelux's purchases of LED chips from the Company, Bridgelux and the Company also entered into a Supply Agreement on December 22, 2008. During fiscal 2009, no sales occurred under the Supply Agreement.

Review and Approval of Related Person Transactions

The Audit Committee must approve any related person transaction, which is defined in the Audit Committee Charter as any transaction required to be disclosed pursuant to Securities and Exchange Commission Regulation S-K, Item 404, and any other transactions for which Audit Committee approval is required pursuant to applicable law or listing standards applicable to the Company. In determining whether to approve such transactions, the members of the Audit Committee may exercise their discretion in performance of their duties as directors. These duties include the obligation of a director under North Carolina law to discharge his duties as a director, including his duties as a member of a committee: (1) in good faith; (2) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and (3) in a manner he reasonably believes to be in the best interests of the corporation. [North Carolina General Statutes Section 55-8-30(a)]. The Audit Committee approved the related person transactions described above under Certain Transactions.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Directors, officers and greater-than-ten-percent beneficial owners are required by Securities and Exchange Commission rules to furnish the Company with copies of all reports they file under Section 16(a). To the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company and written representations that no other reports were required, all Section 16(a) filing requirements applicable to our directors, officers and beneficial owners were complied with on a timely basis during 2009.

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PROPOSAL NO. 2 APPROVAL OF AMENDMENT TO 2004

LONG-TERM INCENTIVE COMPENSATION PLAN

General

We are requesting that shareholders approve a proposed amendment to the 2004 Long-Term Incentive Compensation Plan, or LTIP, by approving the amended plan in Appendix A to this proxy statement. The amendment was unanimously approved at a meeting of the Board of Directors on August 18, 2009 and will become effective only upon shareholder approval. The LTIP is currently the only plan under which we are authorized to award share-based compensation to employees and outside directors, including stock options and restricted stock.

The following summary describes the material changes that would be made by the proposed amendment. This summary is qualified by the full text of the amended plan as set out in Appendix A.

Number of Authorized Shares. As of September 2, 2009, there remained 2,258,144 shares available for future awards under the LTIP. The proposed amendment would increase the number of shares that may be issued under the plan by 3,000,000 shares. If the amendment is approved, then based on the awards outstanding as of September 2, 2009, there would be 5,258,144 shares available for future awards under the plan, of which no more than 654,406 shares could be awarded as restricted stock, stock units and performance units. The plan limits the total number of shares that may be awarded as restricted stock, stock units and performance units, and the proposed amendment would not increase this limit. For additional information regarding outstanding awards under our equity compensation plans, please refer to the section below entitled *Equity Compensation Plans*.

We believe the LTIP, as proposed to be amended, is essential to the Company's future success and encourage shareholders to vote in favor of its approval. Assuming the presence of a quorum, approval of this amendment to the plan requires that the votes cast in favor of the proposal exceed the votes cast opposing the proposal. Under North Carolina corporate law, abstentions are treated as non-votes in determining whether shareholders have approved a proposal. Abstentions and non-votes will have no effect on the vote to approve this proposal.

The Board of Directors recommends

shareholders vote FOR Proposal No. 2.

Description of LTIP

The following is a description of the LTIP as proposed to be amended. This description is merely a summary of material provisions of the plan and is qualified by the full text of the amended plan as set out in Appendix A.

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Nature and Purpose. The LTIP provides for grants to eligible participants in the form of nonqualified stock options, incentive stock options, SARs, restricted stock, stock units and performance units. The objectives of the plan are to (i) attract and retain employees for the Company and its affiliates and directors of the Company by providing competitive compensation opportunities; (ii) provide incentives to those individuals who contribute significantly to the long-term performance and growth of the Company and its affiliates; and (iii) align the long-term financial interests of employees and directors with those of the Company's shareholders.

The LTIP is not generally subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. The LTIP is not a qualified employee pension plan under Section 401 of the Internal Revenue Code of 1986, as amended, or the Code.

Eligible Participants. Only employees of the Company and its subsidiaries, and non-employee directors of the Company, are eligible to receive awards under the LTIP. As of September 2, 2009, there were approximately

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3,227 employees, including part-time and temporary employees, and six non-employee directors who were eligible to participate in the LTIP. The Company generally does not make stock-based awards to part-time employees working less than 30 hours per week, to temporary employees, or to employees of subsidiaries incorporated in the People's Republic of China. Since September 2005, the Company has generally limited awards to salaried (exempt) employees and to non-employee directors.

Administration. The LTIP provides that it is to be administered by a committee, or the Committee, consisting of two or more non-employee directors appointed by the Board of Directors. The Committee has the exclusive right to interpret, construe and administer the LTIP, to select the persons eligible to receive awards and to act in all matters pertaining to the granting of awards and the contents of agreements evidencing awards. The Committee has the exclusive right to approve awards to outside directors. The Committee's decisions are conclusive, final and binding upon all parties. The Board of Directors, in its sole discretion, may exercise any authority of the Committee under the LTIP. The Board of Directors may appoint separate Committees, each composed solely of outside directors, to administer specific provisions of the plan.

Unless the Board of Directors directs otherwise, the Compensation Committee of the Board of Directors serves as the Committee under the terms of the LTIP. The charter adopted by the Board of Directors for the Compensation Committee provides that all members of the Compensation Committee must be (i) independent directors who meet the independence requirements of Nasdaq's Marketplace Rules, (ii) non-employee directors as defined by Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and (iii) outside directors as defined by Section 162(m) of the Code. To the extent permitted by law and the Company's Bylaws, and subject to the applicable rules of any securities exchange or quotation or trading system on which the Company's shares are traded, the Committee may delegate authority under the LTIP to one or more Committee members or executive officers of the Company, except that the Committee may not delegate such authority with respect to awards to directors or executive officers. The Committee may also delegate authority for certain administrative functions under the LTIP to an officer or employee of the Company.

Securities to be Offered. The Company is authorized to issue shares of the Company's common stock, par value \$0.00125 per share, pursuant to awards under the LTIP. Shares subject to awards under the plan are made available from the authorized and unissued shares of the Company's common stock. The last sale price of the common stock on September 2, 2009 was \$36.08 per share, as reported by Nasdaq.

As of September 2, 2009, there were available for future awards under the LTIP a total of 2,258,144 shares, of which 654,406 shares were available for awards of restricted stock, stock units and performance units. The amendment proposed by Proposal No. 2 would increase the aggregate number of shares that may be issued pursuant to awards under the LTIP by 3,000,000 shares. If for any reason any shares awarded or subject to purchase under the LTIP are not delivered or purchased, or are reacquired by the Company, the shares will again become available for issuance pursuant to awards under the LTIP, except that shares with respect to which a SAR is exercised and any shares withheld for payment of taxes in connection with an award will not thereafter be available for issuance under the plan. The determination of the number of shares that may again become available for issuance with respect to grants of incentive stock options will be made in accordance with the requirements of applicable regulations under the Code.

The Committee has authority to determine the individuals to whom awards will be granted, the number of shares subject to an award and the other terms and conditions of an award. Except to the extent the Committee determines that an award shall not comply with the performance-based compensation provisions of Section 162(m) of the Code, (i) the aggregate number of shares subject to options or SARs granted in any one fiscal year to any one participant shall not exceed 300,000; (ii) the aggregate number of shares subject to restricted stock or stock unit awards granted in any one fiscal year to any one participant shall not exceed 100,000; and (iii) the aggregate value of performance unit awards (valued as of the grant date) that may be granted in any one fiscal year to any one participant shall not exceed the fair market value of 100,000 shares.

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The Committee will make equitable adjustments upon the occurrence of certain events that result in changes in the outstanding shares of the Company's common stock or that result in exchanges of shares of common stock for a different number or class of common stock or other securities of the Company or another corporation. These events include changes in corporate capitalization, such as a stock split, reverse stock split or stock dividend, or any corporate transaction such as a reorganization, reclassification, merger or consolidation or separation, including a spin-off, of the Company or sale or other disposition by the Company of all or a portion of its assets, any other change in the Company's corporate structure or any distribution to shareholders (other than a cash dividend). Under such circumstances, adjustments may be made by the Committee in the number of shares that may be awarded under the LTIP, the limitations on the aggregate number of shares that may be awarded to any one participant, the number and class of shares that may be subject to an award and which have not been issued or transferred under an outstanding award, the exercise price under outstanding options and the number of shares to be transferred in settlement of outstanding SARs and the terms, conditions or restrictions of any award and award agreement, including the price payable for the acquisition of shares.

Amendments. The Committee or the Board of Directors may at any time terminate or from time to time amend the LTIP, but no such action may adversely affect any rights or obligations with respect to any awards previously granted under the LTIP unless the affected participants consent in writing. However, neither the Committee nor the Board of Directors may, without approval of the shareholders, amend the LTIP to materially (i) increase benefits accruing to participants, (ii) increase the number of shares which may be issued under the LTIP or (iii) modify the requirements for participation in the LTIP. The Company must also obtain the approval of the shareholders before amending the LTIP to the extent required by Section 162(m) or Section 422 of the Code or the rules of any securities exchange or quotation or trading system on which shares are traded or other applicable law.

The Committee may amend outstanding awards in a manner not inconsistent with the terms of the LTIP; provided, however, that (i) if the amendment is adverse to the participant, as determined by the Committee, the amendment will not be effective unless and until the participant consents in writing, except as otherwise permitted by the LTIP or the award agreement; and (ii) the Committee shall not have the authority to decrease the exercise price of any outstanding option or SAR, nor award any option or SAR to replace a canceled option or SAR with a higher exercise price, except for adjustments in connection with changes in corporate capitalization and other events as described above, unless such an amendment is approved by the shareholders. Neither the Committee nor the Board of Directors may amend, waive, lapse or otherwise modify any conditions or restrictions in any outstanding award without shareholder approval, except to the extent that the award as so modified would have been permitted by provisions of the plan, described below under Limitations on Acceleration of Awards, that permit accelerated vesting, or the lapse or waiver of restrictions or other conditions, so long as the aggregate number of shares subject to such awards does not exceed five percent (5%) of the number of shares authorized for grant under the plan.

Limitations on Acceleration of Awards. The Committee may grant awards with terms that provide that vesting of the award accelerates or other restrictions lapse, or that conditions to payment of a performance unit may be deemed met without achieving the related performance goal, only in certain circumstances. Subject to the exceptions described below, such circumstances are limited to (i) the death, disability or retirement of the participant, (ii) a change in control of the Company (as defined in a written employment or similar agreement with the Company), or (iii) an acquisition of the Company in which outstanding awards are not assumed by the acquiror or replaced with equivalent awards issued by the acquiror.

As an exception to these limitations, the Committee may grant awards with terms that provide for accelerated vesting, or the lapse or waiver of restrictions or other conditions, in other circumstances so long as the aggregate number of shares subject to such awards does not exceed five percent (5%) of the number of shares authorized for grant under the plan. In addition, stock options and restricted stock awards granted on or before June 29, 2008 may provide for accelerated vesting, or lapse or waiver of restrictions or other conditions, in the event that the participant's employment is terminated by the Company without cause or by the participant for

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good reason, where cause and good reason are defined in a written employment agreement with the Company.

Stock Options. The number of shares subject to a stock option, the type of stock option (i.e., incentive stock option or nonqualified stock option), the exercise price of the option and the period of exercise are determined by the Committee and set forth in an award agreement. The exercise price may not be less than the fair market value of a share on the date of grant. No option granted under the LTIP shall be exercisable after the seventh anniversary of the date of grant.

Options granted under the LTIP shall be exercised by the delivery of written or electronic notice of exercise to the Company or its designated representative, setting forth the number of shares with respect to which the option is to be exercised and satisfying any requirements that the Committee may establish in or pursuant to the award agreement. Unless otherwise authorized by the Committee, no shares shall be delivered, whether in certificated or uncertificated form, until the full exercise price has been paid. The option price upon exercise shall be payable to the Company either (a) in cash, (b) in a cash equivalent approved by the Committee, (c) if approved by the Committee, by tendering previously acquired shares (or delivering a certification or attestation of ownership of such shares) having an aggregate fair market value at the time of exercise equal to the total option price (provided that the tendered shares must have been held by the participant for any period required by the Committee), or (d) by a combination of (a), (b) or (c). The Committee also may allow cashless exercises as permitted under Regulation T of the Federal Reserve Board, subject to applicable securities law restrictions, or by any other means that the Committee determines to be consistent with the LTIP's purpose and applicable law.

SARs. SARs granted under the LTIP entitle the participant to receive an amount payable in shares and/or cash, as determined by the Committee, equal to the excess of the fair market value of a share on the day the SAR is exercised over the specified purchase price. SARs may be granted in tandem with a related stock option or independently. If a SAR is granted in tandem with a stock option, the participant may exercise the stock option or the SAR, but not both. The Committee shall determine and set forth in the award agreement the extent to which SARs are exercisable after termination of employment. No SAR granted under the LTIP shall be exercisable after the seventh anniversary of the date of grant.

Restricted Stock and Stock Units. A restricted stock award under the LTIP is an award of shares issued to a participant with such restrictions as the Committee may impose, including restrictions on the right to retain the shares, to sell, transfer, pledge or assign the shares, to vote the shares and/or to receive any cash dividends with respect to the shares. A stock unit award under the LTIP is an award, valued by reference to a share, in which the Company promises to pay the value of the award to the participant by delivery of such property as the Committee shall determine, including cash or shares or any combination thereof, and that has such restrictions as the Committee may impose, including restrictions on the right to retain the award, to sell, transfer, pledge or assign the award and/or to receive any cash dividend equivalents with respect to the award.

The restrictions on restricted stock and stock unit awards may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate, subject to certain minimum restriction periods described below. Restricted stock and stock unit awards may be made either alone, in addition to or in tandem with other types of awards permitted under the LTIP and may be current or deferred grants of restricted stock or stock units.

The terms of restricted stock and stock unit awards, including the purchase price, if any, to be paid for the restricted stock or stock unit, any restrictions applicable to the restricted stock or stock unit such as continued service or achievement of performance goals, the length of the restriction period and whether any circumstances will shorten or terminate the restriction period, and rights of the participant during the restriction period to vote and receive dividends in the case of restricted stock, or to receive dividend equivalents in the case of stock units that accrue dividend equivalents, will be determined by the Committee and set forth in the agreement relating to such award.

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All grants of restricted stock or stock units shall have a restriction period of at least three years, except that awards with restrictions based upon achievement of performance goals shall have a restriction period of at least one year. These minimum restriction periods may be shortened in limited circumstances as described above under Limitations on Acceleration of Awards. In addition, the Committee may provide in the award agreement or an individual employment or similar agreement for vesting of an award on a pro rata basis during the restriction period. Unless otherwise set forth in an agreement relating to a restricted stock award, a participant awarded shares as restricted stock shall have all of the rights of a shareholder of the Company, including the right to vote the shares and the right to receive dividends, provided however that the Committee may require that any dividends on such shares of restricted stock be automatically deferred and reinvested in additional restricted stock or may require that dividends on such shares be paid to the Company for the account of the participant. A participant to whom stock units are awarded has no rights as a shareholder with respect to the shares represented by the stock units unless and until shares are actually delivered to the participant in settlement of the award. However, the Committee may specify in the award agreement that stock units have dividend equivalent rights.

Performance Units. Performance units are awards granted in terms of a value set by the Committee (or that is determined by reference to a valuation formula specified by the Committee) in which the Company promises to pay the value of the award by delivery of such property as the Committee shall determine, including without limitation, cash or shares, or any combination thereof, upon achievement of such performance objectives during the relevant performance period as the Committee shall establish. Such awards may be granted subject to any restrictions deemed appropriate by the Committee. The determination of the Committee with respect to the form and timing of payout of such awards shall be set forth in the award agreement. Except as otherwise provided in the award agreement, a participant shall be entitled to receive any dividends declared with respect to earned grants of performance units that are being settled in shares and that have not yet been distributed to the participant (such dividends may be subject to the same accrual, forfeiture and payout restrictions as apply to dividends earned with respect to stock units under the LTIP). In addition, unless otherwise provided in the award agreement, a participant shall be entitled to exercise full voting rights with respect to such shares.

Performance Measures. For awards under the LTIP that are intended to qualify under the performance-based compensation provisions of Section 162(m) of the Code, the performance measure or measures to be used for purposes of such awards shall be chosen from among the following: earnings, earnings per share, consolidated pre-tax earnings, net earnings, operating income, EBIT (earnings before interest and taxes), EBITDA (earnings before interest, taxes, depreciation and amortization), gross margin, revenues, revenue growth, market value added, economic value added, return on equity, return on investment, return on assets, return on net assets, return on capital employed, total shareholder return, profit, economic profit, after-tax profit, pre-tax profit, cash flow measures, cash flow return, sales, sales volume, stock price, cost and/or unit cost. The Committee can establish other performance measures for awards granted to participants that are not intended to qualify under the performance-based compensation provisions of Section 162(m) of the Code.

Awards to Outside Directors. Each non-employee director may receive awards of nonqualified stock options, SARs, restricted stock, stock units or a combination thereof in any fiscal year for up to a total of 20,000 shares, of which no more than 10,000 shares may be awarded as restricted stock or stock units. The number of shares subject to such awards, any formula pursuant to which such number shall be determined, the date of grant and the vesting, expiration and other terms applicable to such awards shall be approved from time to time by the Committee and shall be subject to the terms of the LTIP applicable to awards in general.

Federal Income Tax Consequences

The following is a brief summary of the U.S. federal income tax consequences of awards made under the LTIP.

Stock Options. A participant will not recognize any income upon the grant of a stock option. A participant will recognize income taxable as ordinary income upon exercise of a nonqualified stock option equal to the

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excess of the fair market value of the shares purchased over the sum of the exercise price and the amount, if any, paid for the option, and the Company will be entitled to a corresponding deduction. A participant who is an employee of the Company or a consolidated subsidiary (which are collectively referred to as the Company in this section entitled "Federal Income Tax Consequences") will be subject to income tax withholding on the ordinary income recognized upon exercise of a nonqualified stock option. A participant will not recognize income (except for purposes of the alternative minimum tax) upon exercise of an incentive stock option provided that the incentive stock option is exercised either while the participant is an employee of the Company or within three months (one year if the participant is disabled within the meaning of Section 22(c)(3) of the Code) following the participant's termination of employment. If shares acquired by such exercise of an incentive stock option are held for the longer of two years from the date the incentive stock option was granted or one year from the date it was exercised, any gain or loss arising from a subsequent disposition of such shares will be taxed as long-term capital gain or loss, and the Company will not be entitled to any deduction. If, however, such shares are disposed of within the above-described period, then in the year of such disposition the participant will recognize income taxable as ordinary income equal to the excess of (i) the lesser of the amount realized upon such disposition and the fair market value of such shares on the date of exercise over (ii) the exercise price, and the Company will be entitled to a corresponding deduction.

SARs. A participant will not recognize any income upon the grant of a SAR. A participant will recognize income taxable as ordinary income (and with respect to a Company employee, be subject to income tax withholding) upon exercise of a SAR equal to the fair market value of any shares delivered and the amount of cash paid by the Company upon such exercise, and the Company will be entitled to a corresponding deduction.

Restricted Stock Awards. A participant will not recognize taxable income upon the grant of a restricted stock award, and the Company will not be entitled to a tax deduction at such time, unless the participant makes an election to be taxed at the time such restricted stock award is granted. If such election is made, the participant will recognize income taxable as ordinary income (and with respect to a Company employee, be subject to income tax withholding) at the time of grant in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. If such election is not made, the participant will recognize income taxable as ordinary income (and with respect to a Company employee, be subject to income tax withholding) at the time the restrictions lapse in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. The amount of ordinary income recognized by a participant by making the above-described election or upon the lapse of the restrictions will be deductible by the Company, as compensation expense, except to the extent the limit of Section 162(m) of the Code applies. In addition, a participant receiving dividends with respect to shares subject to a restricted stock award for which the above-described election has not been made and prior to the time the restrictions lapse will recognize income taxable as ordinary income (and with respect to a Company employee, be subject to income tax withholding), rather than dividend income, in an amount equal to the dividends paid, and the Company will be entitled to a corresponding deduction, except to the extent the limit of Section 162(m) of the Code applies.

Stock Units. A participant will not recognize taxable income upon the grant of a stock unit and the Company will not be entitled to a tax deduction at that time. When the participant receives shares pursuant to a stock unit that is settled in shares, the federal income tax laws applicable to restricted stock awards, described above, will apply if the shares are restricted at that time. If the shares are unrestricted at that time, the participant will recognize income taxable as ordinary income (and with respect to a Company employee, be subject to income tax withholding) in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. The amount of ordinary income recognized by the participant is deductible by the Company, as compensation expense, except to the extent the limit of Section 162(m) of the Code applies.

Performance Units. A participant will not recognize taxable income upon the grant of a performance unit and the Company will not be entitled to a tax deduction at that time. Upon the settlement of a performance unit, the participant will recognize income taxable as ordinary income (and with respect to a Company employee, be subject to income tax withholding) in an amount equal to the cash paid and the fair market value of the shares or

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other property delivered to the participant, and the Company will be entitled to a corresponding deduction, except to the extent the limit of Section 162(m) of the Code applies and except in the case of performance units settled in shares of restricted stock (in which case the federal income tax laws applicable to restricted stock described above will apply).

Compliance with Section 162(m). Section 162(m) of the Code limits the income tax deduction by the Company for certain compensation paid to the chief executive officer and the three other highest-paid executive officers (other than the chief financial officer) to \$1 million per year. Compensation realized with respect to stock options awarded under the LTIP, including upon exercise of a nonqualified stock option or upon a disqualifying disposition of an incentive stock option, as described above, and compensation realized with respect to SARs awarded under the LTIP, will be excluded from this deductibility limit if it satisfies certain requirements, including a requirement that the LTIP be approved by the Company's current shareholders. In addition, other types of awards under the LTIP may be excluded from this deduction limit if they are conditioned on the achievement of one or more of the performance measures described above, as required by Section 162(m).

Compliance with Section 409A. Section 409A of the Code prescribes certain requirements for nonqualified deferred compensation arrangements. These include requirements with respect to an individual's election to defer compensation and the individual's selection of the timing and form of distribution of the deferred compensation. Awards granted under the LTIP with a deferral feature will be subject to the requirements of Section 409A. The Company seeks to structure all awards granted under the LTIP to satisfy the requirements of Section 409A of the Code and any regulations or guidance that may be adopted thereunder from time to time. However, if an award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that award may recognize ordinary income on the amounts deferred under the award, to the extent vested, prior to when the compensation is actually or constructively received. Also, if an award that is subject to Section 409A fails to comply with Section 409A's provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation.

Table of Contents**Plan Awards**

The following table sets forth with respect to each individual and group listed below (i) the number of shares of common stock issued or issuable pursuant to stock options granted under the LTIP, (ii) the number of restricted shares of common stock awarded under the LTIP and (iii) the number of shares of common stock issued or issuable pursuant to performance units granted under the LTIP, in each case since the LTIP's inception on November 4, 2004 through September 2, 2009. Any future awards granted to eligible participants under the LTIP are subject to the discretion of the Committee or Board of Directors and therefore are not determinable at this time. To date, no incentive stock options have been granted under the LTIP and none are presently contemplated. The table does not include grants made under any of the Company's other compensation plans.

*Cumulative Grants Since**Plan Inception in 2004*

	<u>No. of Shares Underlying Options Granted</u>	<u>Restricted Shares Granted</u>	<u>No. of Shares Underlying Performance Units Granted</u>
Charles M. Swoboda Chairman, Chief Executive Officer and President	396,000	160,000	5,794
John T. Kurtzweil Executive Vice President Finance, Chief Financial Officer and Treasurer	155,000	38,000	
John W. Palmour, Ph.D. Chief Technology Officer Advanced Devices (1)	120,000	30,000	
Stephen D. Kelley Executive Vice President and Chief Operating Officer	115,000	26,000	
Dolph W. von Arx	25,000	25,000	
Clyde R. Hosein	23,750	23,750	
Robert A. Ingram	8,750	8,750	
Franco Plastina	13,750	13,750	
Harvey A. Wagner	25,000	25,000	
Thomas H. Werner	22,500	22,500	
All current executive officers as a group	666,000	224,000	5,794
All current directors who are not executive officers as a group	238,750	148,750	
All associates of directors, executive officers or nominees	0	0	
All other persons who received or are to receive 5% of plan awards	0	0	
All employees, including all current officers who are not executive officers, as a group (2)	8,357,008	619,200	

(1) Dr. Palmour has been a member of the Company's Board of Directors since October 1995. He previously served as an Executive Vice President of the Company from August 2002 to September 27, 2008.

(2) Amounts reported are the gross number of shares underlying grants; 860,280 options and 13,150 restricted shares have been forfeited upon termination of employees.

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The Company in August 2009 also granted additional performance units to Mr. Swoboda under the LTIP. Pursuant to this award, he may earn incentive compensation, in a target amount equal to 88% of his base salary, if the Company achieves certain financial goals during fiscal 2010. This award does not provide for settlement in shares. The actual payout may range from 0% to 150% of the target amount depending upon the Company's financial performance.

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Table of Contents**Equity Compensation Plans**

As of September 2, 2009:

There were options to purchase 10,140,556 shares of our common stock outstanding under all of our equity compensation plans, including legacy plans under which we will make no more grants. The weighted average remaining life of these outstanding options was 4.23 years, and the weighted average exercise price was \$30.30.

There were 414,670 shares outstanding subject to restricted stock awards that remain subject to forfeiture.

There were 2,258,144 shares available for future grants under the LTIP, of which no more than 654,406 shares can be awarded as restricted stock, stock units and performance units, and 816,516 shares available for future issuance under our 2005 Employee Stock Purchase Plan, or ESPP.

The following table provides information, as of June 28, 2009, for all of the Company's compensation plans (including individual compensation arrangements) under which it is authorized to issue equity securities.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (1)
Equity compensation plans approved by security holders	8,608,956(2)	\$ 29.03	5,212,569(3)
Equity compensation plans not approved by security holders	369,068(4)	\$ 12.07	0
Total	8,978,024	\$ 28.33	5,212,569

(1) Refers to shares of the Company's common stock.

(2) Includes shares issuable upon exercise of outstanding options under the following plans in the amounts indicated: Equity Compensation Plan 3,534,471 shares; and LTIP 5,074,485.

(3) Includes shares remaining for future issuance under the following plans in the amounts indicated: LTIP 4,396,053 shares, 820,906 shares of which are available for issuance as restricted shares; and ESPP 816,516 shares.

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- (4) Includes shares issuable upon exercise of outstanding options under the following plans in the amounts indicated: 2001 Nonqualified Stock Option Plan, or the Nonqualified Plan 28,417 shares; Fiscal 2001 Stock Option Bonus Plan, or the Fiscal 2001 Bonus Plan 93,090 shares; Nitres, Inc. 1999 Stock Option/Stock Issuance Plan, or the Nitres Plan 20,307 shares; INTRINSIC Semiconductor Corporation 2003 Equity Incentive Plan, or the INTRINSIC Plan 56,702 shares; and LED Lighting Fixtures, Inc. 2006 Stock Plan, or the LLF Plan 170,552 shares. The Company assumed (i) the options outstanding under the Nitres Plan, which have a weighted average exercise price of \$0.005 per share, in connection with the Company's acquisition of Nitres, Inc. in May 2000; (ii) the options outstanding under the INTRINSIC Plan, which have a weighted average exercise price of \$5.86 per share, in connection with the Company's acquisition of INTRINSIC Semiconductor Corporation, or INTRINSIC, in July 2006; and (iii) the options outstanding under the LLF Plan, which have a weighted average exercise price of \$3.47 per share, in connection with the Company's acquisition of LLF in February 2008.

As of June 28, 2009, the only compensation plans or arrangements under which the Company is authorized to issue equity securities and which have not been previously approved by the shareholders are the Nonqualified

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Plan, the Fiscal 2001 Bonus Plan and the options assumed under the Nitres Plan, the INTRINSIC Plan and the LLF Plan. All of these plans have been terminated as to future grants. The following is a brief description of the material features of these plans; this description is not intended to be a complete description of the plans and is qualified in its entirety by reference to the full text of the applicable plan:

Nonqualified Plan. The Nonqualified Plan was adopted by the Board of Directors in April 2001. It provided for grants to the Company's eligible employees (including employees of its controlled subsidiaries) of nonqualified stock options to purchase shares of the Company's common stock. None of the Company's directors or officers was eligible to receive awards under the Nonqualified Plan. The Nonqualified Plan terminated as to additional grants in January 2003. As of June 28, 2009, there were 28,417 nonqualified stock options outstanding under the Nonqualified Plan.

Fiscal 2001 Bonus Plans. The Board of Directors adopted the Fiscal 2001 Bonus Plan in October 1999 in order to provide for grants of nonqualified stock options to the Company's eligible employees (including employees of its controlled subsidiaries) for each quarter of fiscal 2001 if the Company achieved pre-established financial targets for the quarter. None of the Company's directors or officers was eligible to receive awards under the plan, and employees participating in its cash incentive compensation programs did not participate in the plan. The Fiscal 2001 Bonus Plan expired as to additional grants in September 2001. As of June 28, 2009, there were 93,090 nonqualified stock options outstanding under the Fiscal 2001 Bonus Plan.

Nitres Plan. In connection with the acquisition of Nitres, Inc. in May 2000, pursuant to which Nitres became the Company's wholly owned subsidiary, the Company assumed certain outstanding stock options granted under the Nitres Plan. Since the closing of the acquisition, no additional stock options have been awarded, nor are any authorized to be awarded, under the Nitres Plan. As of June 28, 2009, there were 20,307 nonqualified stock options outstanding under the Nitres Plan.

INTRINSIC Plan. In connection with the acquisition of INTRINSIC in July 2006, pursuant to which INTRINSIC became the Company's wholly owned subsidiary, the Company assumed certain outstanding stock options granted under the INTRINSIC Plan. Since the closing of the acquisition, no additional stock options have been awarded, nor are any authorized to be awarded, under the INTRINSIC Plan. As of June 28, 2009, there were 12,341 incentive stock options and 44,361 nonqualified stock options outstanding under the INTRINSIC Plan.

LLF Plan. In connection with the acquisition of LLF in February 2008, pursuant to which LLF became the Company's wholly owned subsidiary, the Company assumed certain outstanding stock options granted under the LLF Plan. Since the closing of the acquisition, no additional stock options have been awarded, nor are any authorized to be awarded, under the LLF Plan. As of June 28, 2009, there were 170,552 nonqualified stock options outstanding under the LLF Plan.

Table of Contents**OWNERSHIP OF SECURITIES****Principal Shareholders and Share Ownership by Management**

The following table sets forth information regarding the beneficial ownership of the Company's common stock as of September 2, 2009 by (i) each person known to the Company to be the beneficial owner of more than 5% of the outstanding common stock, (ii) each person named in the Summary Compensation Table on page 34, (iii) each person serving as a director or nominated for election as a director and (iv) all current executive officers and directors as a group. Except as otherwise indicated by footnote, to the Company's knowledge, the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

Name and Address (1)	Common Stock Beneficially Owned	Percentage of Outstanding Shares
FMR LLC (2) 82 Devonshire Street Boston, MA 02109	11,169,482	12.3%
PRIMECAP Management Company (3) 225 South Lake Avenue, #400 Pasadena, CA 91101	8,852,407	9.8%
ClearBridge Advisors, LLC (4) 620 8 th Avenue New York, NY 10018	6,264,610	6.9%
John W. Palmour, Ph.D. (5)	1,036,145	1.1%
Dolph W. von Arx (6)	630,206	*
Charles M. Swoboda (7)	782,314	*
John T. Kurtzweil (8)	136,435	*
Stephen D. Kelley (9)	51,807	*
Robert A. Ingram (10)	13,500	*
Harvey A. Wagner (11)	68,000	*
Clyde R. Hosein (12)	42,500	*
Thomas H. Werner (13)	40,000	*
Franco Plastina (14)	22,500	*
All current directors and executive officers as a group (10 persons) (15)	2,823,407	3.1%

* Less than 1%.

- (1) Unless otherwise noted, all addresses are in care of the Company at 4600 Silicon Drive, Durham, NC 27703.
- (2) As reported by FMR LLC in its report on Form 13F filed with the Securities and Exchange Commission for the quarter ended June 30, 2009, which states that FMR LLC has defined investment discretion with respect to all of such shares, sole voting authority with respect to 1,055 shares and no voting authority with respect to 11,168,427 shares.
- (3) As reported by PRIMECAP Management Company in its report on Form 13F filed with the Securities and Exchange Commission for the quarter ended June 30, 2009, which states that PRIMECAP Management Company has sole investment discretion with respect to all of such shares, sole voting authority with respect to 3,909,507 shares and no voting authority with respect to 4,942,900 shares.

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- (4) As reported by ClearBridge Advisors, LLC in its report on Form 13F filed with the Securities and Exchange Commission for the quarter ended June 30, 2009, which states that ClearBridge Advisors, LLC has defined investment discretion with respect to all of such shares, sole voting authority with respect to 4,806,436 shares and no voting authority with respect to 1,458,174 shares.

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- (5) Includes 411,667 shares subject to options exercisable within sixty days of September 2, 2009, and 18,000 shares held by Dr. Palmour pursuant to restricted stock awards which had not vested as of September 2, 2009. Also includes 141,840 shares held in a margin account. The share amount reported for Dr. Palmour includes 40,000 shares owned by his spouse and with respect to which he may be deemed to possess shared voting and investment power; Dr. Palmour disclaims beneficial ownership of these shares.
- (6) Includes 76,000 shares subject to options exercisable within sixty days of September 2, 2009. Also includes 5,000 shares held by Mr. von Arx pursuant to a restricted stock award which had not vested as of September 2, 2009. The share amount reported for Mr. von Arx includes 453,380 shares held in revocable living trusts over which Mr. von Arx has shared voting and investment power. The share amount reported for Mr. von Arx also includes 29,326 shares held by a family trust of which his spouse is a co-trustee with respect to which he has no voting or investment power, and 8,000 shares owned by a charitable foundation of which he is a director and with respect to which he may be deemed to possess shared voting and investment power. Mr. von Arx disclaims beneficial ownership of the 29,326 shares held by the family trust.
- (7) Includes 551,000 shares subject to options exercisable within sixty days of September 2, 2009. Also includes 99,000 shares held by Mr. Swoboda pursuant to restricted stock awards which had not vested as of September 2, 2009.
- (8) Includes 96,667 shares subject to options exercisable within sixty days of September 2, 2009. Also includes 22,400 shares held by Mr. Kurtzweil pursuant to restricted stock awards which had not vested as of September 2, 2009. The share amount reported for Mr. Kurtzweil includes 17,368 shares held jointly with his spouse and as to which he possesses shared voting and investment power.
- (9) Includes 26,667 shares subject to options exercisable within sixty days of September 2, 2009. Also includes 22,000 shares held by Mr. Kelley pursuant to restricted stock awards which had not vested as of September 2, 2009.
- (10) Includes 3,750 shares subject to options exercisable within sixty days of September 2, 2009. Also includes 5,000 shares held by Mr. Ingram pursuant to restricted stock awards which had not vested as of September 2, 2009. The share amount reported for Mr. Ingram includes 3,750 shares held jointly with his spouse and as to which he possesses shared voting and investment power.
- (11) Includes 43,000 shares subject to options exercisable within sixty days of September 2, 2009. Also includes 5,000 shares held by Mr. Wagner pursuant to a restricted stock award which had not vested as of September 2, 2009.
- (12) Includes 18,750 shares subject to options exercisable within sixty days of September 2, 2009. Also includes 5,000 shares held by Mr. Hosein pursuant to a restricted stock award which had not vested as of September 2, 2009.
- (13) Includes 17,500 shares subject to options exercisable within sixty days of September 2, 2009. Also includes 5,000 shares held by Mr. Werner pursuant to a restricted stock award which had not vested as of September 2, 2009. The share amount reported by Mr. Werner includes 2,000 shares held by a family trust.
- (14) Includes 8,750 shares subject to options exercisable within sixty days of September 2, 2009. Also includes 5,000 shares held by Mr. Plastina pursuant to a restricted stock award which had not vested as of September 2, 2009. The share amount reported for Mr. Plastina includes 8,750 shares held jointly with his spouse and as to which he possesses shared voting and investment power.
- (15) For all current executive officers and directors as a group, includes a total of 1,253,751 shares subject to options exercisable within sixty days of September 2, 2009 and 191,400 shares held pursuant to restricted stock awards which had not vested as of September 2, 2009. Also includes a total of 141,840 shares held in a margin account.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

The Compensation Committee of our Board of Directors has overall responsibility for executive officer compensation, including: defining the compensation philosophy, setting the elements of compensation and determining individual compensation decisions. The Committee is also responsible for overseeing administration of compensation and benefit plans and programs in which our executive officers are eligible to participate.

The following discussion and analysis describes the elements of our compensation programs with respect to the fiscal 2009 compensation of our named executive officers, including the purpose of each element and its relationship to the overall compensation philosophy of the Company. In addition, this discussion and analysis explains the decisions that were made in determining the fiscal 2009 compensation for each named executive officer.

During fiscal 2009, our named executive officers included our Chairman, Chief Executive Officer and President, Charles M. Swoboda, referred to as our CEO, our Executive Vice President Finance, Chief Financial Officer and Treasurer, John T. Kurtzweil, referred to as our CFO, and our Executive Vice President and Chief Operating Officer, Stephen D. Kelley, referred to as our COO. For fiscal 2009, our named executive officers also included Dr. John W. Palmour who served as our Executive Vice President Advanced Devices for a portion of fiscal 2009 but who was not an executive officer at the end of fiscal 2009.

This discussion and analysis should be read in connection with the accompanying tables and text disclosing the fiscal 2009 compensation awarded to, earned by or paid to the named executive officers included elsewhere in this proxy statement.

Compensation Philosophy and Objectives

The compensation program is designed to enhance shareholder value by providing compensation packages that will enable us to attract and retain talented executives, align the interests of our executives with the long-term interests of our shareholders and motivate executives to achieve business goals and objectives.

The Committee believes that the compensation packages provided to our executives, including the named executive officers, should include both cash and stock-based compensation and utilize incentive-based compensation to reward performance as measured against established business goals.

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To achieve its objectives in setting fiscal 2009 compensation for our executive officers, the Committee:

Emphasized variable, performance-based compensation to motivate executives to achieve the Company's business objectives and align pay with performance.

Increased the proportion of compensation that is performance-based and at-risk (i.e., cash incentive compensation and equity awards) for executives with greater responsibilities who are positioned to influence our ability to achieve strategic objectives.

Utilized equity compensation to create a culture of ownership and focus on long-term growth. Equity played a significant role in the pay mix of the executives to ensure alignment with shareholder interests.

The Committee considered a variety of factors in setting individual compensation levels, including individual and Company performance for fiscal 2008 based on established objectives, Company performance for fiscal 2008 as compared with a group of peer companies (including competitive pay practices), historical compensation levels, the relative levels of compensation among our executive officers, and retention risks.

The Committee engaged Radford to act as an independent compensation consultant. Radford provided competitive market analysis, guidance in selecting the peer group and advice on market trends. Radford does not perform other work for the Company.

Table of Contents*Elements of Executive Compensation*

The primary elements of the executive compensation program are described below:

Compensation Element	Purpose	Practice
Base salary	Annual cash compensation for services rendered during the fiscal year.	Competitive market ranges are established using the 50 th and 75 th percentile of the composite market as goal posts. Actual executive salary is based on a holistic assessment by the Committee of the scope of position, experience, overall contributions to the success of the Company and individual performance and may be outside of the goal posts.
Performance-based incentive compensation	Annual cash payments for achieving predetermined financial goals and quarterly cash payments (for all executive officers except the CEO) for achieving predetermined financial or performance goals.	Target incentives, as a percentage of an executive's base salary, are established based on competitive market data. Actual payout is linked directly to the achievement of specified individual and/or corporate goals.
Long-term equity incentive compensation	Combination of stock options and restricted stock designed to focus on long-term growth and increased shareholder value; to retain and motivate executives.	Equity award grants are based on an evaluation of competitive market data, corporate performance and retention risks. The levels vary among participants based on position and individual performance. Equity comprises a larger portion of the total direct compensation than the other pay elements.
Other benefits	To attract and retain executives and by providing market competitive benefits.	Executive officers are eligible to participate in health and welfare plans, life insurance, 401(k) and a stock purchase program. These plans are not unique to executive officers and are available to all regular, full-time employees. In addition, the Company has entered into a change in control agreement with each executive officer and, they are covered under a severance plan which provides for severance benefits in the event the executive officer is terminated without cause or resigns for good reason not in connection with a change in control.

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Determining Competitive Market Levels

The Committee uses competitive market data in setting individual compensation levels for our executive officers. This data is derived from two sources: (1) public company filings from a select peer group and (2) published survey data. The two data points were equally blended to create a market composite, which the Committee uses to derive competitive target compensation ranges (market range) for each element of compensation and the combined totals of the elements. The Committee believes that this approach provides the most meaningful market and accurate comparison.

The Committee, assisted by Radford, selects the peer group based on the following criteria:

Semiconductor or semiconductor-related business

Semiconductor device companies (as opposed to equipment companies)

Clean technology companies (those who offer products and services to reduce the use of natural resources)

Comparable revenue, market cap, and market cap as a multiple of revenue

Comparable number of employees

Companies that we compete against for executive talent

The companies comprising the compensation peer group used in determining fiscal 2009 executive compensation were:

Atheros Communications, Inc.	PMC-Sierra, Inc.*
II-VI Inc.	Rambus Inc.
Integrated Device Technology Inc.*	RF Micro Devices, Inc.*
Intersil Corp.*	Semtech Corp.*
Linear Technology Corp.	Silicon Laboratories Inc.*
Micrel, Inc.*	Skyworks Solutions, Inc.
Microchip Semiconductor Inc.	SunPower Corp.
Microsemi Corp.*	

* Denotes companies that were also part of the peer group for fiscal 2008.

For comparative purposes, our revenues for the preceding fiscal year (fiscal 2008) approximated the median annual revenues and market value of the compensation peer group companies listed above.

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The following companies were included in the fiscal 2008 peer group but were eliminated from the group in fiscal 2009 because they no longer met the criteria described above:

Anadigics, Inc.

Cypress Semiconductor Corp.

Fairchild Semiconductor International, Inc.

Omnivision Technologies, Inc.

Supertex, Inc.

Triquint Semiconductors, Inc.

The Committee used the peer group data to compare the Company's performance to performance of the peer group and reviewed each officer's compensation against the peer group proxy data for comparable positions (if listed). The Committee reviewed compensation of the individuals in the context of Company performance as a means to ensure there was a strong link between pay and performance.

Additionally, the Committee considered published Radford Executive High-Technology survey data as a source of competitive data to ascertain the broader competitive market. For positions such as Dr. Palmour's, where there was not a representative position within the peer group, the survey data provided the only market

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data points to consider in the assessment of appropriate pay and performance. The Committee targeted companies with annual revenue levels between \$200.0 million and \$599.9 million. A list of these companies can be found in Appendix B.

Factors considered in making individual pay decisions

It is not the Committee's objective that any element represent a specific percentage of overall compensation for any officer. However, consistent with our philosophy, for executives other than the CEO, over 65% of total direct compensation was allocated to at-risk pay. For the CEO, over 75% of his total direct compensation was allocated to at-risk pay.

The Committee then reviewed the total direct compensation relative to the composite market data. The Committee, as a guideline, seeks to confirm that each executive's total direct compensation is within a target range that is between the 50th percentile and the 75th percentile of competitive market compensation paid to similarly situated executives (determined as described above). In applying this guideline, the Committee values the total direct compensation as the sum of the base salary, the targeted value of the performance-based incentive compensation and the estimated fair value of the equity awards at the time the compensation is approved. The estimated fair value of stock options is calculated based on a Black-Scholes model. Restricted stock is valued based on a 30-day average closing market price. For fiscal 2009, the targeted total direct compensation of each of the named executive officers was within this 50th to 75th percentile guideline.

For fiscal 2009 executive pay decisions, the Committee also examined the Company's revenue growth, total shareholder return, net income growth and earnings per share relative to the Company's peer companies. The information was reviewed on one-year, three-year (compounded) and five-year (compounded) bases. While the Company's historical performance varied in comparison to peer performance by metric, the one-, three- and five-year total shareholder returns, and the five-year results on all four measures positioned the Company's performance ahead of the peer median in the third quartile. In particular, the five-year compounded revenue growth rate was greater than all of the peers while the other results noted were in the third quartile. The Committee considered this relative performance in determining that fiscal 2009 compensation was appropriately set in the same range relative to the peer group.

In determining total direct compensation for fiscal 2009, the Committee considered relevant experience level and scope of responsibilities in addition to the individual performance of each executive. In the case of the CEO, the Committee reviews proposed strategic goals at a meeting typically held in April or May and then approves strategic and corporate financial goals at the August meeting. Performance against these goals is monitored and discussed periodically during the year, and is assessed formally at the August meeting following the end of the fiscal year in conjunction with determining compensation adjustments based on performance. The Committee concluded that Mr. Swoboda had delivered strong financial results in fiscal 2008 and had effectively executed the key strategic initiatives, which included meeting integration and business plan revenue goals, growing LED sales, expanding manufacturing and developing global sales coverage. The Committee considered Mr. Kurtzweil's performance in completing the acquisition and integration of two companies and the significant improvement of key financial systems. In setting Dr. Palmour's compensation, the Committee considered his delivery of higher commercial product sales and the fact the Power/RF business increased operating profit.

Prior to the Committee's August meeting, our CEO reviews the performance of each executive officer (other than himself) and develops a performance summary and compensation recommendations based on the review for those executives. These recommendations are presented to the Committee and are one factor the Committee considers in making final compensation decisions.

The Committee also considered each individual officer's responsibilities, individual and Company performance during the prior fiscal year and future potential contributions. These factors affected where a particular executive's compensation fell within the market range. The Committee

also reviewed a three-year tally

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sheet before they finalized the fiscal 2009 compensation for the CEO. The tally sheet lists the individual elements of compensation and provides an arithmetic value and summary of the individual elements. This summary provides the Committee with a view of the value of the CEO compensation package and assists them in determining appropriate changes for the upcoming fiscal year. Consideration of these factors is necessarily subjective in nature and actual pay decisions involve the subjective discretion of the Committee.

To establish the compensation package for Mr. Kelley, the Committee considered an analysis of market data prepared by Radford for the chief operating officer position. The analysis included numbers that reflect a composite of COO and President positions as there was insufficient data for just the COO in the Company's size range to provide accurate new hire equity data. The market data consisted of semiconductor companies with annual revenue levels between \$200 million and \$1 billion and high technology companies with annual revenue levels between \$500 million and \$1 billion. The analysis included the 25th percentile, median and 75th percentile on salary, incentive, and new-hire equity. A list of these companies can be found in Appendix C.

Base Salary

We provide our named executive officers with base salary to compensate them for services rendered during the fiscal year. Base salary ranges are determined for each executive based on his position and responsibility using the target competitive range data.

In considering whether to set the base salaries of executives within this range or to vary from the target range, the Committee considers the Company's performance, the executive's experience, qualifications and scope of responsibilities, the goals and objectives established for the executive, the executive's performance, and competitive salary practices at peer companies.

Mr. Swoboda and Mr. Kurtzweil did not receive a fiscal 2009 base salary increase as their current salaries exceeded the 75th percentile of the peer companies. The Committee awarded Dr. Palmour a four percent base salary increase for fiscal 2009 after considering the factors above, including the fact that his base salary approximated the competitive market range 50th percentile.

A competitive range was established for the position of COO and Mr. Kelley was hired in August 2008 at a base salary of \$350,000, which was slightly above the 50th percentile of the competitive market range and was commensurate with his experience and skill set, including over 15 years of management experience in the semiconductor industry.

Performance-Based Incentive Compensation

At its August meeting each year, the Committee determines if there will be a performance-based incentive compensation plan in the coming fiscal year and establishes and approves the terms of the plan. In August 2008, the Committee approved the Fiscal 2009 Management Incentive Compensation Plan, or the 2009 Plan. The 2009 Plan provides guidelines for the calculation of cash incentive-based compensation relating to performance in fiscal 2009, subject to Committee oversight and modification.

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The participants in the 2009 Plan included the named executive officers (other than the CEO), other senior level managers who report directly to the CEO and other key managers identified by the CEO. Consistent with our compensation philosophy with respect to executive officers, the 2009 Plan is designed to motivate and reward superior performance, to attract and retain outstanding senior managers and to create a strong link between strategic and corporate operating plans and individual performance. Payment under the plan is based on attainment of specific goals, including corporate financial targets.

Target awards under the 2009 Plan were expressed as a percentage of salary and varied by position. The targets ranged from 40% of base salary to 85% of base salary for the participating named executive officers.

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Dr. Palmour's target opportunity of 40% of base salary approximated the market 50th percentile and remained unchanged between fiscal 2008 and fiscal 2009. Mr. Kurtzweil's target incentive for fiscal 2008 approximated the market 25th percentile and the Committee elected to increase his fiscal 2009 target to 60%, which approximated the 50th market percentile.

Although the CEO did not participate in the 2009 Plan, he received an economically equivalent opportunity in the form of a performance unit award under the Company's Long-Term Incentive Compensation Plan. Mr. Swoboda's target incentive under the LTIP for fiscal 2008 approximated the market 25th percentile and the Committee elected to increase his fiscal 2009 target from 80% to 85%, which approximated the 50th market percentile. The target award for our CEO under this performance unit award was based solely on the achievement of predetermined corporate financial goals for the fiscal year. The CEO's incentive is comprised solely of annual financial goals due to the Committee's belief that shareholders' interests are better served with a longer term focus at the CEO level. These goals were based on (1) meeting or exceeding revenue targets for the fiscal year and (2) meeting or exceeding earnings per share targets for the fiscal year.

Awards under the 2009 Plan have both annual and quarterly components. For our named executive officers other than the CEO, 60% of the award opportunity related to the achievement of corporate financial goals for the fiscal year. The remaining 40% of the award opportunity related to individual management by objectives, or MBO, goals established quarterly, which also includes quarterly corporate financial goals established by the CEO for the quarter.

Annual corporate goals under the 2009 Plan, which also serve as the corporate goals under the CEO's performance unit award, were based on (1) meeting or exceeding revenue targets for the fiscal year and (2) meeting or exceeding earnings per share targets for the fiscal year. The Committee sets the minimum, target and maximum levels such that the relative difficulty of achieving the target level is consistent from year to year.

The annual corporate goals, recommended by our CEO, were approved by the Committee in August 2008. The goals for each performance measure for fiscal 2009 were set with regard to minimum, target and maximum levels. All corporate goals for fiscal 2009 approved under the 2009 Plan exceeded fiscal 2008 actual results, including the minimum goals required before any payout could be made under the 2009 Plan. The Committee established a fiscal 2009 revenue target of \$601.8 million which represented a 22% increase over fiscal 2008 actual revenue. The Committee established a fiscal 2009 earnings per share, or EPS, target on a non-GAAP basis of \$0.66 which represented a 22% increase over fiscal 2008 actual earnings per share determined on the same basis. Additionally, in order to receive any payout based on the annual corporate financial goals, revenue for fiscal 2009 was required to be at least 7.4% higher than fiscal 2008 and EPS was required to be at least 5.5% higher than fiscal 2008. To receive the maximum payout based on the annual corporate financial goals, revenue for fiscal 2009 was required to be 8% higher than target (or 32% higher than actual fiscal 2008 revenue) and EPS was required to be 12% higher than target (or 37% higher than actual 2008 EPS).

At the beginning of each quarter, the CEO approved individual quarterly goals for the participating named executive officers. The individual goals are weighted in significance, totaling up to 100% of the individual award opportunity for the quarter. Quarterly goals for all participating executive officers include individual performance goals specific to such individual or his or her area of responsibility and a component based on corporate financial goals, in each case as established by the CEO. Dr. Palmour's quarterly goals included business revenue and research and development innovations. Mr. Kurtzweil's quarterly goals included revenue goals and departmental improvements such as improving financial systems and forecasting. The quarterly performance measures are assessed at the end of each quarter and any corresponding awards are paid to eligible participants following approval by the CEO. The actual awards paid to participants varied with the level of achievement of the corresponding quarterly goals but cannot exceed the level approved by the Committee for 100% achievement. In connection with Mr. Kelley's employment, which began in August 2008, we agreed as part of his employment offer that for the first two fiscal quarters of his participation in the 2009 Plan, or any follow-on plan, the individual component of the quarterly goals would be deemed to be 100% without regard to actual results. This agreement remained in effect through the second quarter of fiscal 2009.

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Payment of the annual portion of all awards under the 2009 Plan was dependent upon the achievement of the corporate financial goals for fiscal 2009. Named executive officers participating in the 2009 Plan could receive:

no payment for the annual corporate financial goals unless the minimum performance level for the fiscal year is achieved;

a payment of at least 30% but less than 100% of the target award opportunity for the annual corporate goals if we achieved or exceeded the minimum performance level but did not achieve the target performance level;

a payment of at least 100% but less than 150% of the target award opportunity for the corporate goals if we achieved or exceeded the target performance level but did not attain the maximum performance level; and

a payment of 150% of the target award opportunity for the corporate goals if we achieved or exceeded the maximum performance level.

Following completion of the fiscal year, the Committee assessed the Company's performance against annual corporate financial objectives of the 2009 Plan, comparing the actual fiscal year results to the pre-determined minimum, target and maximum levels for each objective, and a percentage amount for the corporate goals was calculated.

For fiscal 2009, the Company achieved 65.9% of the revenue target and 100% of the earnings per share target. This resulted in a payout to participating named executive officers of 65.9% of the target for the annual portion of the 2009 Plan award. As noted above, achievement of the earnings per share targets was determined on a non-GAAP basis and excluded amortization of acquired intangibles, stock-based compensation expense, tax refunds and expenses related to periods prior to fiscal 2009, gains on the sale of investments and gains related to discontinued operations.

Participating named executive officers, other than the CEO, also received quarterly incentive payouts under the 2009 Plan based on achievement of individual performance and corporate financial goals. These goals are jointly established each quarter by the executive and CEO and were designed to increase corporate performance by aligning short-term performance to key, measurable business goals. Mr. Kelley's individual MBO performance in fiscal 2009 accounted for 24% of his paid incentive; Mr. Kurtzweil's individual MBO performance accounted for 22% of his paid incentive and Dr. Palmour's individual MBO performance accounted for 19% of his paid incentive. Total amounts paid to named executive officers under the 2009 Plan are reflected in the Summary Compensation Table on page 34 under the Non-Equity Incentive Plan Compensation column.

Long-Term Equity Incentive Compensation (LTIP)

Equity compensation aligns the executive officers' performance with shareholder interests and provides an opportunity for these officers to increase their stake in the Company. Under the LTIP, the Committee has the authority to grant options, stock appreciation rights, restricted stock, restricted stock units and performance units. For fiscal 2009, the Committee granted options and restricted stock as long-term equity compensation.

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When allocating long-term incentives, the Committee, based on competitive market analyses and a desire to emphasize growth over retention, currently targets a greater proportion of the total value to consist of stock options with the remaining portion in the form of restricted stock grants. Stock options only have value to the option holder when the Company's stock price increases above the exercise price while the value of restricted shares fluctuates with the stock price.

All of the options granted to our named executive officers in fiscal 2009 vest ratably in annual increments over the first three years of the seven-year option term. Vesting ceases upon termination of employment and

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exercise rights cease 90 days thereafter, except in the case of death or disability. Vesting accelerates upon death or termination of employment due to disability, and the options may be exercised for a year after death or termination of employment due to disability unless they earlier expire. Prior to the exercise of an option, the holder has no rights as a shareholder with respect to the shares subject to the option, including voting rights and the right to receive dividends or dividend equivalents. Restricted stock awards granted to our named executive officers in fiscal 2009 vest ratably over five years from the grant date. Vesting ends upon termination of employment, and all unvested shares of restricted stock are forfeited; however, vesting accelerates upon death or termination of employment due to disability. Under the terms of executive change in control arrangements with Messrs. Swoboda, Kelley and Kurtzweil, vesting of options and restricted stock awarded to them is also accelerated in certain instances involving a change in control as discussed below.

Options are awarded at an exercise price equal to the closing price of our common stock on Nasdaq on the date of the grant. The Committee may not grant options with an exercise price that is less than the fair market value of our common stock on the grant date. At its August meeting, the Committee approves annual option grants to be made on the first business day of September with an exercise price equal to the closing price of our common stock on that day.

We award equity grants without regard to any scheduled or anticipated release of material information. We do not accelerate or delay equity grants in response to material information, nor do we delay the disclosure of information due to plans to make equity grants.

Grants to Mr. Swoboda, Mr. Kurtzweil and Dr. Palmour under the LTIP were determined at the Committee's regularly scheduled meeting in August 2008 and awarded on the first business day of September. These are reflected as compensation for fiscal 2009 in accordance with applicable reporting requirements in the Summary Compensation Table on page 34 under the Stock Awards and Option Awards columns and in the Grants of Plan-Based Awards table on page 35.

The Committee approved equity grants to Mr. Swoboda of an option grant for 120,000 shares and a restricted stock award for 35,000 shares, which reflected an increase of 45,000 stock options and 5,000 restricted stock shares. The Committee considered the longer-term (5-year compounded) Company performance levels compared to the peer group data when determining Mr. Swoboda's equity award and targeted the award closer to the 75th percentile of the competitive range, which was an average of peer group data and published survey data. The Committee considered the Company's current and historical performance to understand the historic performance trend and the Company's ability to sustain performance over time. The Committee also reviewed the Company's equity usage and assessed its practices against peer companies. Specifically, the Committee considered the Company's three-year average grant rate of 2.1% (measured as a percentage of outstanding shares), which trailed the peer 25th percentile. The Committee also took into consideration the fact that the potential dilution from outstanding equity awards approximated the peer group's 50th percentile and that the potential dilution from outstanding equity awards plus awards available for future issuance trailed the peer group's 25th percentile. The Committee also approved equity grants to Mr. Kurtzweil and Dr. Palmour consisting of an option grant for 30,000 shares and a restricted stock award for 6,000 shares, which reflected an increase of 5,000 stock options from fiscal 2008. The increase was based on the competitive data and the Company's philosophy to focus on long-term growth and increased shareholder value and to retain and motivate executives. The Committee also approved an initial sign-on grant for Mr. Kelley consisting of an option grant for 80,000 shares and a restricted stock award for 20,000 shares which was awarded September 2, 2008. In making this decision, the Committee considered the competitive market for this position along with the individual circumstances necessary to recruit Mr. Kelley.

As previously noted, Mr. Swoboda received a performance unit award under the Company's LTIP that was paid in cash.

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Other Benefits and Perquisites

Our named executive officers participate in our 401(k) retirement plan and receive matching contributions consistent with other participating employees.

Attributed costs of the personal benefits described above for the named executive officers for fiscal 2009 are included in the Summary Compensation Table on page 34 under the All Other Compensation column.

In addition, our named executive officers are eligible to participate in other benefit programs available to our employees generally, including health and welfare plans, group term life insurance and our employee stock purchase program.

In connection with recruiting Mr. Kelley as our COO, we agreed to provide him with a \$90,000 sign-on bonus which was grossed-up for income and withholding taxes (other than Social Security withholding taxes). In addition, the Company agreed to certain benefits relating to his relocation from Texas to North Carolina. These consisted of: (i) one house hunting trip up to five days for Mr. Kelley and his family, (ii) movement of family and household belongings from Plano, Texas to the Research Triangle Park area, (iii) temporary housing for up to twelve (12) months, (iv) reimbursement for reasonable and customary brokerage fees, seller paid closing costs, and/or any loss on sale in connection with the sale of the primary residence in Texas and reasonable and customary closing costs on the purchase of a primary residence in the Research Triangle Park area, up to a maximum of \$75,000 (excluding gross-up for taxes), and (v) reimbursement for the cost of round-trip, coach fare tickets for up to one trip to Plano, Texas every other week for the first year of employment or until the family residence has been moved to North Carolina.

Change in Control and Severance Arrangements

In August 2008, the Company entered into change in control agreements with Messrs. Swoboda, Kurtzweil and Kelley that provide for certain payments to each executive in the event his employment is terminated without cause or he resigns for good reason in connection with a change in control of the Company. In connection with entering into these new agreements, Messrs. Swoboda and Kurtzweil agreed to terminate their then-existing change in control agreements, which also provided for payment of severance benefits for involuntary termination not in connection with a change in control. Additionally, in August 2008, the Committee adopted a Severance Plan for Section 16 Officers, or the Severance Plan, which provides for severance benefits in the event an executive officer is terminated without cause or resigns for good reason not in connection with a change in control. The only Company officers currently eligible to participate in this severance plan are the CEO, COO and CFO. The Company desires to promote the stability and continuity of our senior management by providing its executive officers the security of severance benefits under the change in control agreements and the severance plan.

Payments to Messrs. Kurtzweil and Kelley under their respective change in control agreements include (i) continued payment of base salary for twelve (12) months following termination, (ii) a lump sum payment equal to twelve (12) multiplied by the monthly COBRA premium in effect at the time of termination for the type of medical, dental and vision coverage elected by the executive under the Cree medical plan, and (iii) accelerated vesting of all unvested stock options, time-vested restricted stock awards and any other equity awards that vest solely based on the passage of time. Payments for Mr. Swoboda under his change in control agreement include (i) continued payment of base salary for twenty-four (24) months following termination, (ii) a lump sum payment of an amount equal to eighty (80%) of his base salary prorated for the then-current fiscal year, (iii) a lump sum payment equal to the sum of his earned annual incentive for the two most recently completed fiscal years, (iv) a lump sum payment equal to twenty-four (24) multiplied by the monthly COBRA premium in effect at the time of termination for the type of medical, dental and vision coverage elected by Mr. Swoboda under the Cree medical plan, and (v) accelerated vesting of all unvested

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stock options, restricted stock awards, and other equity awards other than performance units used to pay Mr. Swoboda's annual incentive award. These change in control severance benefits are subject to applicable tax withholdings and statutorily imposed payment terms and require

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the executive to sign a release of claims. As a condition to receipt of severance benefits, Mr. Swoboda is also required to extend the duration of his non-compete obligation to twenty-four (24) months.

The Severance Plan is designed to supplement the executive change in control agreements by providing severance benefits in the event of termination without cause or resignation for good reason not in connection with a change in control. Only Company officers who are subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended, or Section 16 Officers, are eligible to participate in the severance plan. Currently, participation in the severance plan is limited to the Company's CEO, COO and CFO.

In the event of termination of the CEO's employment without cause or his resignation for good reason, the CEO shall be entitled to 18 months continuation of base salary and a lump sum payment equal to 18 months of COBRA premiums. All other Section 16 officers are entitled to 12 months continuation of base salary and a lump sum payment equal to 12 months of COBRA premiums. In addition, for any completed performance period, the Section 16 officer will be entitled to receive any amounts he has otherwise earned under his incentive compensation arrangement even though he is no longer employed on the date of payment.

The Severance Plan also provides that if the Section 16 officer becomes generally disabled and his employment is terminated before he becomes eligible for benefits under the Company's long-term disability program or if he elects to resign for good reason because the Company does not restore him to his prior position/level of authority after he returns from long-term disability leave, then he will be entitled to severance benefits under the plan. Severance benefits under the Severance Plan are subject to applicable tax withholdings and statutorily imposed payment terms and require the Section 16 officer to sign a release of claims. The CEO is not required to extend his non-compete period as a condition to receipt of benefits under this plan.

Section 162(m) Treatment Regarding Performance-Based Equity Awards

The Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, which provides that we may not be able to deduct compensation of more than \$1,000,000 that is paid to certain executive officers. Performance-based compensation, within the meaning of Section 162(m), is excluded from this limitation. We seek to structure the performance-based portion of the compensation of our executive officers in a manner that complies with Section 162(m) when we consider it to be in the Company's best interests, taking into account all relevant factors. However, the deductibility of compensation payable to our executive officers is only one among a variety of factors that the Committee may consider in determining appropriate levels or forms of compensation.

Compensation Committee Report

The Compensation Committee met on August 17, 2009 and reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement. It should be noted that Mr. Ingram was not a member of the Committee in August 2008 when the Committee approved executive officer compensation arrangements for fiscal 2009.

THE COMPENSATION COMMITTEE

Thomas H. Werner, Chairman

Dolph W. von Arx

Robert A. Ingram

Table of Contents**Summary of Cash and Certain Other Compensation**

The following table summarizes the compensation of the Company's chief executive officer and all other persons who served as named executive officers during fiscal 2009.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
		(\$)	(\$) (1)	(\$) (2)	(\$) (2)	(\$)	(\$) (3)	(\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(i)	(j)
Charles M. Swoboda Chairman, Chief Executive Officer and President (4)	2009	\$ 572,000		\$ 559,192	\$ 831,166	\$ 320,406	\$ 18,939	\$ 2,301,703
	2008	\$ 567,908		\$ 537,559	\$ 483,561	\$ 321,693	\$ 15,084	\$ 1,925,805
	2007	\$ 550,000	\$ 50,000	\$ 239,985	\$ 197,941		\$ 4,023	\$ 1,041,949
John T. Kurtzweil Executive Vice President Finance, Chief Financial Officer and Treasurer	2009	\$ 364,000		\$ 137,228	\$ 401,929	\$ 167,163	\$ 8,514	\$ 1,078,834
	2008	\$ 361,396		\$ 110,315	\$ 309,424	\$ 165,038	\$ 160,820	\$ 1,106,993
	2007	\$ 258,654	\$ 87,000	\$ 66,499	\$ 164,019	\$ 35,000	\$ 37,784	\$ 648,956
John W. Palmour, Ph.D. Chief Technology Officer Advanced Devices (Former Executive Vice President Advanced Devices) (5)	2009	\$ 232,417	\$ 10,000	\$ 108,074	\$ 255,511	\$ 68,538	\$ 8,255	\$ 682,795
	2008	\$ 223,343		\$ 80,056	\$ 188,776	\$ 79,792	\$ 5,630	\$ 577,597
	2007	\$ 215,106	\$ 25,000	\$ 47,997	\$ 130,573	\$ 9,009	\$ 2,746	\$ 430,431
Stephen D. Kelley Executive Vice President and Chief Operating Officer (6)	2009	\$ 301,923	\$ 90,000	\$ 75,288	\$ 210,363	\$ 164,934	\$ 182,190	\$ 1,024,698

- (1) Pursuant to Mr. Kelley's employment offer letter, he received a sign-on bonus of \$90,000. Dr. Palmour received a bonus of \$10,000 in recognition of his business development efforts.
- (2) Amounts listed in columns (e) (for restricted stock awards and performance units) and (f) (for options) do not reflect compensation actually received by the named executive officer. Instead, the amounts represent the amount of compensation cost recognized in each fiscal year in accordance with Statement of Financial Accounting Standards No. 123, as revised, Share-Based Payment, or FAS 123R, disregarding any adjustments for forfeiture assumptions. For a discussion of the assumptions used to value these awards, see Note 11 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2009.
- (3) Represents Company matching contributions to the 401(k) retirement plan, as well as payments totaling \$131,699 to Mr. Kelley for relocation expenses, which includes a tax gross-up of \$53,955 with respect to those expenses, and tax gross up of \$43,235 on the bonus paid to Mr. Kelley, as provided in his employment offer letter. Also, includes a payment of \$15,639 to Mr. Swoboda for legal fees and a

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payment to Mr. Kelley of \$352, grossed-up, to cover miscellaneous medical expenses. In fiscal 2009, the respective 401(k) matching contributions for the named executive officers were as follows: Mr. Swoboda, \$3,300; Mr. Kurtzweil, \$8,514; Dr. Palmour, \$8,255 and Mr. Kelley, \$6,682.

- (4) Pursuant to the terms of the performance units granted to Mr. Swoboda in August 2008, he received a payment of 65.9% of the target value based on the achievement of certain corporate financial goals in fiscal 2009. The performance units were payable in cash and are reflected in column (g) of this table.
- (5) Dr. Palmour was appointed to the position of Chief Technology Officer Advanced Devices effective September 28, 2008. He previously served as Executive Vice President Advanced Devices from August 2002 through September 27, 2008.
- (6) Pursuant to Mr. Kelley's employment offer letter, for the first two quarters of fiscal 2009 Mr. Kelley received the portion of his quarterly non-equity incentive award under the 2009 Plan that was based on achievement of his individual MBO goals (not including the corporate goal component) independent of actual results. Additionally, the first quarter payment and annual award was not reduced to reflect that he was employed for less than the full award period.

Table of Contents**Grants of Equity and Non-Equity Incentive Awards**

The following table provides information about stock options, restricted stock awards, performance units and non-equity incentive awards granted to the named executive officers during fiscal 2009. All stock options, restricted stock awards and performance units were granted under the LTIP, and the non-equity incentive awards were granted under the 2009 Plan.

Grants of Plan-Based Awards in Fiscal 2009

Name	Grant Date	Approval Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Possible Payouts Under Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stock or Units (#) (2)	All Other Option Awards: Number of Securities Underlying Options (#) (3)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
Charles M. Swoboda	8/18/2008	8/18/2008	145,860	486,200	729,300	41,184	137,280	205,920				
	9/2/2008	8/18/2008							35,000			801,500
	9/2/2008	8/18/2008								120,000	22.90	1,155,576
John T. Kurtzweil			39,312	218,400	283,920							
	9/2/2008	8/18/2008							6,000			137,400
	9/2/2008	8/18/2008								30,000	22.90	288,894
John W. Palmour, Ph.D.			58,800	210,000	273,000							
	9/2/2008	8/18/2008							6,000			137,400
	9/2/2008	8/18/2008								30,000	22.90	288,894
Stephen D. Kelley			16,844	93,580	121,654							
	9/2/2008	7/25/2008							20,000			458,000
	9/2/2008	7/25/2008								80,000	22.90	770,384

- (1) Non-equity incentive plan award amounts represent the threshold, target and maximum amounts payable under the 2008 Plan to Mr. Kurtzweil, Mr. Kelley and Dr. Palmour and under the performance units granted to Mr. Swoboda under the LTIP. The actual amounts earned are disclosed in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table. The threshold payment amounts assume a performance measurement of 0% with respect to the achievement of quarterly goals for Mr. Kurtzweil, Mr. Kelley and Dr. Palmour and a performance measurement of 30% with respect to the achievement of annual corporate goals. For Mr. Kelley, the threshold payment amount for the first two quarters of fiscal 2009 assumes a guaranteed performance measurement of 100% with respect to the achievement of quarterly goals that are based on individual MBO goals. The target payment amounts assume a performance measurement of 100% with respect to the achievement of quarterly goals for Mr. Kurtzweil, Mr. Kelley and Dr. Palmour and a performance measurement of 100% with respect to the achievement of annual corporate goals. The maximum payment amounts assume

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a performance measurement of 100% with respect to the achievement of quarterly goals for Mr. Kurtzweil, Mr. Kelley and Dr. Palmour and a performance measurement of 150% with respect to the achievement of annual corporate goals. The threshold, target and maximum payment amounts under Mr. Swoboda's performance units assume a performance measurement of 30%, 100% and 150%, respectively, with respect to the achievement of annual corporate goals only. For additional information regarding the 2009 Plan and Mr. Swoboda's performance units, see Compensation Discussion and Analysis above.

- (2) The restricted stock vests in five annual installments commencing on September 1, 2009, provided the recipient continues service as an employee of the Company or related Employer as defined in the LTIP or as a member of the Company's Board of Directors.
- (3) The nonqualified stock options vest in three annual installments commencing on September 2, 2009. All option grants have a term of seven years.

Table of Contents**Outstanding Equity Awards**

The following table provides information about outstanding equity awards held by the named executive officers as of June 28, 2009.

Outstanding Equity Awards at 2009 Fiscal Year-End

Name	Option Awards (1)				Stock Awards (2)	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$/Sh)	Option Expiration Date (10)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$ (15)
Charles M. Swoboda	60,000		\$ 41.97	1/3/2010	89,000(11)	\$ 2,662,880
	280,000		\$ 34.63	2/1/2011		
	50,000		\$ 31.24	10/1/2011		
	6,000		\$ 25.47	9/1/2012		
	40,000	25,000(3)	\$ 18.49	9/1/2013		
	25,000	50,000(4)	\$ 27.47	9/4/2014		
		120,000(5)	\$ 22.90	9/2/2015		
John T. Kurtzweil	46,667	23,333(6)	\$ 20.50	10/2/2013	22,800(12)	\$ 682,176
	8,334	16,666(7)	\$ 27.47	9/4/2014		
		30,000(8)	\$ 22.90	9/2/2015		
Stephen D. Kelley		80,000(9)	\$ 22.90	9/2/2015	20,000(13)	\$ 598,400
John W. Palmour, Ph.D.	100,000		\$ 41.97	1/3/2010	16,800(14)	\$ 502,656
	70,000		\$ 71.53	7/3/2010		
	150,000		\$ 34.63	2/1/2011		
	30,000		\$ 31.24	10/1/2011		
	10,000		\$ 25.47	9/1/2012		
	16,667	8,333(3)	\$ 18.49	9/1/2013		

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8,334	16,666(7)	\$ 27.47	9/4/2014
	30,000(8)	\$ 22.90	9/2/2015

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- (1) The options listed were granted under the LTIP and its predecessor plan, the Equity Compensation Plan.
 - (2) The restricted stock awards listed were granted under the LTIP.
 - (3) Vests on September 1, 2009.
 - (4) Vests as to 25,000 shares on each of September 4, 2009 and September 4, 2010.
 - (5) Vests as to 40,000 shares on each of September 2, 2009, September 2, 2010 and September 2, 2011.
 - (6) Vests on October 2, 2009.
 - (7) Vests as to 8,333 shares on each of September 4, 2009 and September 4, 2010.
 - (8) Vests as to 10,000 shares on each of September 2, 2009, September 2, 2010 and September 2, 2011.
 - (9) Vests as to 26,667 shares on each of September 2, 2009 and September 2, 2010 and as to 26,666 shares on September 2, 2011.
 - (10) Each option expires on the earlier of the expiration date shown or 90 days after termination of the recipient's employment, except in cases of death or termination due to a long-term disability. The option may be exercised to purchase vested shares only. Except as provided in Mr. Swoboda's employment agreement and Mr. Kurtzweil's severance agreement for grants prior to August 18, 2008, upon termination of employment the options and restricted stock are forfeited with respect to any shares not then vested, except in cases of death or termination due to a long-term disability and with respect to a change in control unless certain conditions are met.

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- (11) Awards vest as to 25,000 shares cumulatively on each of September 1, 2009 and September 1, 2010, as to 19,000 shares on September 1, 2011, as to 13,000 shares on September 1, 2012 and as to 7,000 shares on September 1, 2013.
- (12) Award vests as to 6,400 shares cumulatively on each of September 1, 2009, September 1, 2010, and September 1, 2011 and as to 2,400 on September 1, 2012 and as to 1,200 shares on September 1, 2013.
- (13) Awards vest as to 4,000 shares on each of September 1, 2009, September 1, 2010 and September 1, 2011, September 1, 2012 and September 1, 2013.
- (14) Awards vest as to 4,800 shares cumulatively on September 1, 2009 and September 10, 2010, as to 3,600 shares on September 1, 2011, as to 2,400 shares on September 1, 2012 and as to 1,200 shares on September 1, 2013.
- (15) Market value of shares that have not vested is based on \$29.92 per share (the closing price of our common stock as reported by Nasdaq on June 26, 2009).

Stock Option Exercises and Vesting of Restricted Stock

The following table provides information about option exercises and vesting of restricted stock and performance units held by the named executive officers during fiscal 2009.

Option Exercises and Stock Vested in Fiscal 2009

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise(#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (1)
Charles M. Swoboda			18,000	\$ 419,580
John T. Kurtzweil			5,200	\$ 121,212
John W. Palmour, Ph.D.	52,500	\$ 621,871	3,600	\$ 83,916
Stephen D. Kelley				

- (1) For restricted stock, the value realized on vesting is based on \$23.31 per share (the closing price of our common stock as reported by Nasdaq on August 29, 2008, the trading day preceding the date on which the shares vested).

Potential Payments upon Termination or Change in Control

We have arrangements with each of Messrs. Swoboda, Kurtzweil and Kelley that provide them with specified benefits if their employment is terminated under certain circumstances, as described below. In addition, our named executive officers participate in various benefit plans that may provide them with acceleration of equity awards or payments under certain circumstances, as described below. In determining the various

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circumstances that trigger payment or provision of severance benefits to the named executive officers and the payment and benefit levels associated with each circumstance (other than such payments and benefits that are generally available to all employees), the Compensation Committee reviewed severance benefits data derived from proxy materials filed by the Company's compensation peer group. The Compensation Committee utilized this competitive severance benefits data as a check to determine whether each of the proposed severance payments and benefits for the named executive officers was set at an appropriate level for the circumstance that triggers payment or provision of benefits in light of market conditions. The Compensation Committee generally seeks to confirm that the level of each severance payment or benefit for the named executive officers is at or slightly above the median level of comparable payments and benefits offered to similarly situated executives in the compensation peer group. In approving changes in the various circumstances that trigger payment or provision of severance benefits to the named executive officers and the payment and benefit levels associated with each circumstance in August 2008, the Compensation Committee also confirmed with an outside benefits consultant that the proposed severance payment and benefit levels for the named executive officers were consistent with competitive practices in a broader cross-section of the total market.

Table of Contents*Executive Change in Control Agreement with Mr. Swoboda**Payments Made Upon Termination Without Cause or Resignation**for Good Reason in Connection with a Change in Control*

If Mr. Swoboda's employment is terminated by the Company without cause, but not as a result of his death or long-term disability, or by Mr. Swoboda for good reason, and the termination is in connection with a change in control, then he will receive (i) continued payment of his base salary for 24 months, (ii) a lump sum payment of an amount equal to 80% of his base salary, prorated to the date of termination, (iii) a lump sum payment equal to the sum of Mr. Swoboda's earned annual incentives for the two completed fiscal years immediately preceding the termination date, (iv) a lump sum payment equal to 24 multiplied by the monthly COBRA premium in effect for the type of medical, dental and vision coverage then in effect for Mr. Swoboda and (v) full accelerated vesting with respect to Mr. Swoboda's then outstanding, unvested stock options, restricted stock and other equity awards, other than with respect to any performance units used to pay Mr. Swoboda's annual incentive award, and other than as provided below with respect to equity awards outstanding as of August 18, 2008, the effective date of the change in control agreement. In addition, if any payment or benefit Mr. Swoboda receives from the Company or any person whose actions result in a change in control would be considered a parachute payment under Section 280G of the Code and the aggregate present value of the parachute payment reduced by any excise tax imposed would be less than three times Mr. Swoboda's base amount as defined in Section 280G of the Code, then in lieu of that portion of the payments to which Mr. Swoboda would otherwise be entitled under (i) through (iv) above, Mr. Swoboda will receive a total amount (if any) such that the aggregate present value of the payments is equal to 2.99 times such base amount. This amount will be apportioned and substituted for the amounts that otherwise would have been payable under (i) through (iv) and paid on the same schedule as those amounts.

If Mr. Swoboda is generally disabled and the Company terminates his employment without cause in connection with a change in control prior to the date he is determined to have a long-term disability, then Mr. Swoboda will receive (i) continued payment of his base salary for 24 months and (ii) a lump sum payment equal to 24 multiplied by the monthly COBRA premium in effect for the type of medical, dental and vision coverage then in effect for Mr. Swoboda. If Mr. Swoboda ceases to be generally disabled before his employment is terminated due to a long-term disability, then he will have the right to resign for good reason (if in connection with a change in control) on account of any event or circumstances that occurred while he was generally disabled that would otherwise have constituted good reason (if not cured or consented to by Mr. Swoboda) and will receive these same benefits.

*Payments Made Upon Termination Without Cause or Resignation**for Good Reason Generally*

If Mr. Swoboda's employment is terminated by the Company without cause or by Mr. Swoboda for good reason, whether or not in connection with a change in control, Mr. Swoboda's right to accelerated vesting of each equity award outstanding as of August 18, 2008 will be determined by reference to the version of the employment agreement between Mr. Swoboda and the Company that was in effect on the grant date of each such award instead of the change in control agreement. One effect of this provision is to grandfather Mr. Swoboda's rights under his prior employment agreement to accelerated vesting of 50% of his unvested equity awards if his employment is terminated by the Company without cause or by Mr. Swoboda for good reason not in connection with a change in control, provided that accelerated vesting under these circumstances would only apply to awards that were outstanding as of August 18, 2008. In addition, if Mr. Swoboda's employment is terminated by the Company without cause or by Mr. Swoboda for good reason under circumstances that would entitle him to severance benefits in connection with a change in control under the change in control agreement but not under either version of his prior employment agreement, then only the equity awards granted on or after August 18, 2008 would be eligible for accelerated vesting as a result of such termination of employment.

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Conditions to Payments

Mr. Swoboda's severance benefits under his change in control agreement are subject to the following conditions: (i) signing and not revoking a release of claims, (ii) nondisparagement of the Company, its officers and directors for a period of 24 months after termination and (iii) compliance with the confidentiality and noncompete restrictions contained in his confidential information agreement, as amended by the change in control agreement, for two years following termination (or one year following termination if the termination relates to Mr. Swoboda being generally disabled as described above).

Definitions

The terms "cause," "good reason," "change in control" and "in connection with a change in control" are defined in Mr. Swoboda's change in control agreement as follows:

Cause means:

Mr. Swoboda's willful and continued failure to perform the duties and responsibilities of his position that is not corrected within a 30-day correction period that begins upon delivery to him of a written demand for performance from the Board of Directors that describes the basis for the Board of Directors' belief that he has not substantially performed his duties;