UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 27, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _______________

Commission file number: 0-21154

CREE RESEARCH, INC.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (919) 361-5709

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

The number of shares outstanding of the registrant's common stock, par value $0.005 per share, as of October 20, 1998 was 12,777,138.

CREE RESEARCH, INC.
FORM 10-Q

For the Quarter Ended September 27, 1998

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PART 1- FINANCIAL INFORMATION
Item 1- Financial Statements

CREE RESEARCH, INC.
CONSOLIDATED BALANCE SHEETS
(in 000's except per share amounts)

	September 27, 1998	June 28, 1998
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$13,036	$17,680
Marketable securities	824	657
Accounts receivable, net	11,696	10,479
Inventories	3,249	2,543
Deferred income tax	1,951	1,952
Prepaid expenses and other current assets	754	1,347
Total current assets	31,510	34,658
Property and equipment, net	40,668	36,476
Patent and license rights, net	1,568	1,525
Other assets	64	65
Total assets	$73,810	$72,724
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$4,969	$5,595
Current maturities of long term debt	69	17
Accrued salaries and wages	718	391
Other accrued expenses	1,794	1,052
Total current liabilities	7,550	7,055
Long term liabilities:		
Long-term debt	9,931	8,650
Deferred income tax	2,153	2,154
Total long term liabilities	12,084	10,804
Shareholders' equity:		
Preferred stock, par value $0.01; 2,750 shares authorized; none issued and outstanding	-	-
Common stock, $0.005 par value; 14,500 shares authorized; shares issued and outstanding 12,776, and 12,989, at September 27, 1998, and June 28, 1998, respectively	64	65
Additional paid-in-capital	46,622	49,676
Retained earnings	7,490	5,124
Total shareholders' equity	54,176	54,865

Total liabilities and shareholders' equity	$73,810	$72,724

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

CREE RESEARCH, INC.
STATEMENTS OF INCOME
(in 000's except per share amounts)
(Unaudited)

	Three Months Ended	
	September 27, 1998	September 28, 1997
Revenue:		
Product revenue, net	$10,720	$8,206
Contract revenue, net	1,559	2,001
Total revenue	12,279	10,207
Cost of revenue:		
Product revenue	5,415	5,419
Contract revenue	1,207	1,653
Total cost of revenue	6,622	7,072
Gross margin	5,657	3,135
Operating expenses:		
Research and development	806	394
Sales, general and administrative	1,218	1,140
Other (income) expense	269	(6)
Income from operations	3,364	1,607
Interest income, net	115	164
Income before income taxes	3,479	1,771
Income tax expense	1,113	602
Net income	2,366	$1,169
Basic earnings per common share	$0.18	$0.09
Diluted earnings per common share	$0.18	$0.09

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

CREE RESEARCH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in 000's except per share amounts)
(Unaudited)

	Three Months Ended	
	September 27, 1998	September 28, 1997
Operating activities:		

Net income	$2,366	$1,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,140	1,017
Loss on disposal of property, equipment and patents	511	294
Amoritization of patent rights	28	25
Amortization and write off of goodwill	0	10
Purchase of marketable trading security	(234)	-
Loss on marketable trading security	67	-
Changes in assets and liablilties:		
Accounts receivable	(1,217)	(871)
Inventories	(706)	735
Prepaid expenses and other assets	595	48
Accounts payable, trade	(2,452)	(850)
Accrued expenses	1,119	890
Net cash provided by operating activities	1,217	2,467
Investing activities:		
Purchases of property and equipment	(4,006)	(775)
Proceeds from sale of property and equipment	10	35
Purchase of patent rights	(91)	(82)
Net cash used in investing activities	(4,087)	(822)
Financing activities:		
Proceeds from issuance of long-term debt	1,281	-
Net proceeds from issuance of common stock	159	826
Repurchase of common stock	(3,214)	-
Net cash (used in) provided by financing activities	(1,774)	826
Net (decrease) increase in cash and cash equivalents	(4,644)	2,471
Cash and cash equivalents:		
Beginning of period	17,680	10,448
End of period	$13,036	$12,919
Supplemental disclosure of cash flow information:		
Cash paid for interest, net amounts capitalized	$ 112	$ -
Cash paid for income taxes	$ 164	$ 81

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

Cree Research, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Basis of Presentation

The balance sheet as of September 27, 1998, the statements of income for the three month periods ended September 27, 1998 and September 28, 1997, and the statements of cash flows for the three months ended September 27, 1998 and September 28, 1997 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows at September 27, 1998, and all periods presented, have been made. The balance sheet at June 28, 1998 has been derived from the audited financial statements as of that date.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's fiscal 1998 Form 10-K. The results of operations for the period ended September 27, 1998 are not necessarily indicative of the operating results that may be attained for the entire fiscal year.

Accounting Policies

Fiscal Year

The Company's fiscal year is a 52 or 53 week period ending on the last

Sunday in the month of June. Accordingly, all quarterly reporting reflects a 13 week period in fiscal 1999. In fiscal 1998, the Company changed its fiscal year from the twelve months ending June 30, to the 52 week period ending on the last Sunday in the month of June. Accordingly, all quarterly reporting for that year reflected a 13 week period, except that the period ended September 28, 1997, which commenced July 1, 1997, reflected the results of twelve weeks and five days. The Company's current fiscal year will extend from June 29, 1998 to June 27, 1999.

Investments

Investments are accounted for in accordance with Statement of Financial Accounting Standards No. 115 (SFAS No. 115) "Accounting for Certain Investments in Debt and Equity Securities". This statement requires certain securities to be classified into three categories:

(a) Securities Held-to-Maturity- Debt securities that the entity has the positive intent and ability to hold to maturity are reported at amortized cost.

(b) Trading Securities- Debt and equity securities that are bought and held principally for the purpose of selling in the near term are reported at fair value, with unrealized gains and losses included in earnings.

(c) Securities Available-for-Sale- Debt and equity securities not classified as either securities held-to-maturity or trading securities are reported at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity.

The Company's short-term investments are comprised of equity securities that are classified as trading securities, which are carried at their fair value based upon quoted market prices of those investments at September 27, 1998, with net realized and unrealized gains and losses included in net earnings.

As of September 27, 1998, short-term investments consist of common stock holdings in C3, Inc. ("C3"), the majority of which were purchased in November 1997 and September 1998. The Company's president has, through a binding agreement, promised to indemnify the Company for losses of up to $450,000 for the net difference between the aggregate cash consideration paid by Cree for the shares of C3 common stock and the cash proceeds received by Cree upon the sale of C3 common shares. This indemnity covers losses that may result from the sale of shares purchased in November 1997 and September 1998 below the purchase price paid, offset by gains realized on shares acquired directly from C3 in January 1997 (see below). Payment of this obligation is due within ten days after receipt by the president of the Company's written demand made pursuant to a vote of the majority of the members of the Board of Directors other than the president. At September 27, 1998, the Company had recorded a $450,000 receivable from the president (included in net accounts receivable) based upon this agreement for the net realized and unrealized losses on this investment. Realized losses on shares of C3 stock sold by the Company during fiscal 1998 totaled $254,000, and net unrealized losses offset by the unrealized gain on shares acquired from C3 directly (see below) were $233,000 at September 27, 1998. Approximately $5,000 of losses on the investment in C3 stock is included in other income (expense) for fiscal 1999.

In addition to the shares of C3 purchased in November 1997 and September 1998, the Company acquired 24,601 shares of C3 common stock in January 1997. These shares

were issued pursuant to an option C3 granted to the Company in 1995. The option gave the Company the right to acquire, for an aggregate consideration of $500, one percent of the outstanding common stock of C3. C3 retained the right to waive the consideration and issue the stock at any time, which it elected to do in January 1997. The shares issued pursuant to the option are restricted securities within the meaning of Rule 144 under the Securities Act of 1933, which permits the sale of such securities without registration if certain conditions are met. The shares first become eligible for sale under Rule 144 in the third quarter of fiscal 1998.

Long Term Debt

The Company obtained a term loan from a commercial bank of up to $10,000,000 to finance the purchase and upfit of a production facility and service and warehouse buildings in November 1997. As of September 27, 1998 the entire $10,000,000 loan was outstanding, including a current portion of $69,000 and a long term amount of $9,931,000. The loan, which is collateralized by the purchased property, accrues interest at a fixed rate of 8% and carries customary covenants, including the maintenance of a minimum tangible net worth and other requirements. Accrued interest is due monthly until May 1999, at which time the outstanding principal balance will be amortized over twenty years until 2011, when the loan balance becomes due.

During the three months ended September 27, 1998, the Company capitalized interest on funds used to construct property, plant and equipment in connection with the facility. Interest capitalized for the three months ended September 27, 1998, was $84,000.

Inventories

Inventories are stated at the lower of cost or market, with cost determined under the first-in, first-out (FIFO) method. Inventories consist of the following:

	September 27, 1998 (in 000's)	June 28, 1998 (in 000's)
Raw materials	$1,190	$ 999
Work-in-progress	1,157	752
Finished goods	902	792
Total Inventory	$3,249	$2,543

Research and Development Accounting Policy

The U.S. Government provides funding for several of the Company's current research and development efforts. The contract funding may be based on a cost-plus or a cost-share arrangement. The amount of funding under each contract is determined based on cost estimates that include direct costs, plus an allocation for research and development, general and administrative and cost of capital expenses. Cost-plus funding is determined based on actual costs plus a set percentage margin. For cost-share contracts, the actual costs are divided between the U.S. Government and the Company based on the terms of the contract. The government's cost share is then paid to the Company. Activities performed under these arrangements include research regarding silicon carbide and gallium nitride materials. The contracts typically require submission of a written report to document the results of such research.

The revenue and expense classification for contract activity is determined based on the nature of the contract. For contracts where the Company anticipates that funding will exceed direct costs over the life of the contract, funding is reported as contract revenue and all direct costs are reported as costs of contract revenue. For contracts under which the Company anticipates that direct costs will exceed amounts to be funded over the life of the contract, costs are reported as research and development expenses and related funding as an offset of those expenses. The following table details information about contracts for which direct expenses exceed funding by period as included in research and development expenses:

	Three months ended (in 000's)	
	September 27, 1998	September 28, 1997
Net R&D costs	$ -	$ 120
Government funding	-	287
Total direct costs incurred	$ -	$ 407

As of September 27, 1998, all funding under contracts where the Company anticipates that direct costs will exceed amounts to be funded has been exhausted. Therefore, the Company anticipates that all future funding under existing contracts will be reflected as contract revenue while direct costs will be reported as contract cost of sales.

Significant Sales Contract

In September 1996, the Company entered into a Purchase Agreement with Siemens AG ("Siemens"), pursuant to which Siemens agreed to purchase LED chips made with the Company's gallium nitride-on-silicon carbide technology. In April 1997 and December 1997, contract amendments were executed that provided for enhanced product specifications requested by Siemens and larger volume requirements, respectively.

In September 1998, the Company and Siemens further amended the contract to extend the Purchase Agreement with respect to shipments to be made on or after June 29,

1998. The third amendment obligates the Company to ship, and Siemens to purchase, stipulated quantities of both the conductive buffer and the new high brightness LED chips and silicon carbide wafers through fiscal 1999. The agreement also limits Siemen's right to defer shipments to 30% of scheduled quantities for items to be shipped in more than 24 weeks after initial notice and 10% of scheduled quantities for items to be shipped in more than 12 weeks. In both cases, Siemens would be required to accept all product within 90 days of the original shipment date. Additionally, the amendment provides for higher per unit prices early in the contract with reductions in unit prices being available as the cumulative volume shipped increases. The higher prices were negotiated by the Company to offset higher per unit costs expected earlier in the contract.

Income Taxes

The Company has established an estimated tax provision based upon an effective rate of 32%. The estimated effective rate was based upon projections of income for the fiscal year and the Company's ability to utilize remaining net operating loss carryforwards and other tax credits. However, the actual effective rate may vary depending upon actual pre-tax book income for the year or other factors.

Earnings Per Share

The Company presents earnings per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share". SFAS No. 128 required the Company to change its method of computing, presenting and disclosing earnings per share information. All prior period data presented has been restated to conform to the provisions of SFAS No. 128.

The following computation reconciles the differences between the basic and diluted presentations:

	Three Months Ended September 27, 1998 (in 000's, except per share amounts)	Three Months Ended September 28, 1997 (in 000's, except per share amounts)
Net income	$2,366	$1,169
Weighted average common shares	12,920	12,609
Basic earnings per common share	$0.18	$0.09
Net income	$2,366	$1,169
Weighted average common shares:		
Common shares outstanding	12,920	12,609
Dilutive effect of stock options & warrants	329	799
Total weighted average common shares	13,249	13,408
Diluted earnings per common share	$0.18	$0.09

Potential common shares that would have the effect of increasing diluted income per share are considered to be antidilutive. In accordance with SFAS No. 128, these shares were not included in calculating diluted income per share. Accordingly, 1,040,000 and 300,000 shares for the three months ended September 27, 1998 and September 28, 1997, respectively, were not included in calculating diluted income per share for the periods presented.

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

Cautionary Statement Identifying Important Factors That Could Cause the Company's Actual Results to Differ From Those Projected in Forward Looking Statements

Pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, readers of this report are advised that this document contains both statements of historical facts and forward looking statements. Forward looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those indicated by the forward looking statements. Examples of forward looking statements include but are not limited to (i) projections of revenues, income or loss, earnings per share, capital expenditures, dividends, capital structure and other financial items, (ii) statements of the plans and objectives of the Company or its management or Board of Directors, including product enhancements, or estimates or predictions of actions by customers, suppliers or competitors, or regulatory authorities, (iii) statements of future economic performance, and (iv) statements of assumptions underlying other statements and statements about the Company and its business.

This report also identifies important factors which could cause actual results to differ materially from those indicated by the forward looking statements. These risks and uncertainties include the Company's ability to complete development of and successfully introduce new LED and microwave products, to lower LED and wafer costs, gain a larger customer base, and to increase product yields and wafer size, potential difficulties in manufacturing products repeatability due to the complexity of the Company's manufacturing processes, possible price competition, potential failure to obtain expected volume increases from existing customers, potential infringement claims by third parties, potential inability of the Company to enforce its intellectual property rights against others, availability and continuation of U.S. Government funded research contracts, possible delays in the introduction of other new products, and delays in customer acceptance of products and services and other factors discussed in the Company's report on Form 10-K for the year ended June 28, 1998.

Results of Operations

For the first quarter ended September 27, 1998, the Company reported record revenue and net income of $12,279,000 and $2,366,000 or $0.18 per share, respectively. These results reflect a 20% increase in revenue and a 102% rise in net income over the first quarter of fiscal 1998. Product revenue, which includes sales of light emitting diodes ("LEDs") and materials, increased 31% over the first quarter of fiscal 1998. Results for the first quarter of fiscal 1998 reflect the change to a 13-week quarterly period as discussed in the Notes to Consolidated Financial Statements.

Product Revenue

LED sales grew 25% in the first quarter of fiscal 1999 as compared to the same period in the prior year. Much of this growth was prompted by the 128% increase in LED volume shipped over the comparable period, which was driven by new sales in Asia and additional quantities delivered to Siemens A.G. ("Siemens") under an amendment to the parties' 1996 purchase agreement. The amendment, signed in September 1998, extends Siemens' purchase commitment through fiscal 1999 and obligates the Company to ship both the conductive buffer and the new high brightness LED chips and silicon carbide wafers. This amendment calls for up to a 44% increase in chip shipments over the previous agreement, with an estimated 5% reduction in the net average selling price over the duration of the contract period. The agreement also includes a change in the product mix to be delivered through June 1999 to include an increasing percentage of high brightness chips; however, the conductive buffer product may be substituted by Siemens at a lower price, if certain quantity requirements are not met by Cree or Siemen's customers are unable to qualify the new products. A substitution of conductive buffer products for high brightness chips may impact Cree's revenue for fiscal 1999 by up to $1,800,000 due to the lower pricing associated with the conductive buffer chip. The first high brightness chips were shipped in September 1998 on a limited basis and are expected to be delivered in greater volumes in the second and third quarters. However, there can be no assurance that these chips will be delivered or qualified by customers. The significant rise in LED volume over the year ago period has been partly offset by a 44% decline in the average sales price received. During fiscal 1999, average sales prices for LED products are expected to continue to decline as Cree moves to lower customer price points that are expected to stimulate greater volume.

While the Company has been successful in growing LED revenue by lowering prices and significantly raising volume, LED gross margin has increased 86% in the first quarter of fiscal 1999 as compared to the year ago quarter. This was accomplished mostly by the 58% decrease in LED costs per unit during the comparable period. This significant cost reduction was caused by a combination of technology breakthroughs in the manufacture of the LED product, which included a smaller sized chip on a larger wafer and the introduction of the conductive buffer chip in the fourth quarter of fiscal 1998. The conductive buffer product reduces the complexity of manufacturing steps necessary to produce the chip, thus lowering the cost. In addition, greater manufacturing throughput and improved yields have also contributed to the lower cost.

The manufacturing process for higher brightness blue and green LEDs is highly complex. Even though the Company shipped product to customers in the first quarter of fiscal 1999, there can be no assurance that refinement of such processes for higher yields and deliveries will be achieved in accordance with forecasts. A delay in this manufacturing ramp could cause the Company's results to fall below current expectations.

For the remainder of fiscal 1999, the Company will continue the strategy of seeking to lower LED costs and expects that the greatest cost saving benefits will be derived from increased volume and higher yield efficiency. If the Company is unable to continue to expand its LED volume and lower its production costs, its revenue and earnings growth may be adversely impacted. Management continues to believe that market growth for the LED product remains dependent on its ability to lower pricing. There can be no assurance that Cree will increase unit shipments, achieve lower costs or maintain similar margins, or that the high brightness product will be accepted by customers. In addition, the introduction of the high brightness product line could result in unexpected problems that could lower production during the transition period.

Material product sales continue to show the most dramatic increase in the recent quarter due to contributions made by the gemstone products and the overall improvements made to wafer quality. As a result, revenues for material products grew 50% over the same period in the prior year. Material sales have benefited from the added capacity available from the C3 supply agreement. During the fourth quarter of fiscal 1998, C3 requested that Cree more than double available capacity in order to meet their customer demand. Funding for the capital expansion was provided by C3. During the first quarter of 1999 approximately 66% of this added capacity was brought on line, with the remaining equipment scheduled for initial production in the second quarter. This added capacity was a primary contributor for the 73% increase in revenue recognized from C3 over amounts recorded in the first quarter of fiscal 1998. Wafer volume has also increased 32% as a result of the Company's success in offering wafer products with lower defect densities, which enable customers to conduct advanced research for microwave and power applications.

Revenue contributions from the display modules and moving messages sign products were 96% lower than the prior year as results for the first quarter of 1998 included a significant sale to a module customer in Korea. The Company continues to redirect current investment away from this area as it analyzes the future business plan for these products.

Contract Gross Margin

Research contract revenue and cost of contract revenue decreased 22% and 27%, respectively, during the first quarter of fiscal 1999 as compared to the prior year quarter, due to the completion of existing government funding commitments and the limitation of new funds available from the government for research. Some of this research is now being funded by the Company which resulted in a 104% increase in research and development expenses over the comparative period in the prior year.

Product Margin

The Company's gross margin was a record 46% for the three months ended September 27, 1998 as compared to 31% in the prior year. The overall growth in profitability stems from higher throughput and manufacturing yield on LED and materials products, thereby lowering the cost per unit. In addition, technology contributions from a smaller sized chip on a larger two inch wafer, plus the implementation of the lower cost conductive buffer process have contributed to this increase. Higher LED and material unit sales have also enhanced overall profitability.

Selling and General and Administrative Expenses

Sales, general and administrative expenses for the three month period ended September 27, 1998, increased by 7% over the same period in the prior year due to increased costs to support the growth of business. Overall as a percentage of revenue, S, G&A costs are 10% of revenue as compared to 11% experienced in the first quarter of fiscal 1998. These costs as a percentage of revenue are expected to remain comparable for the remainder of fiscal 1999.

Other Expenses

The Company has entered an agreement with C3 to sell equipment manufactured by the Company at cost plus a reasonable overhead allocation in order to increase capacity available under the supply agreement. The overhead allocation was recorded as "other operating income"; however, the amount was more than offset by leasehold write-offs associated with the move to the new facility.

Net interest income decreased by 30% over the first quarter of fiscal 1998 as interest expense associated the $10,000,000 loan commitment was recorded. Throughout fiscal 1998, much of the interest expense incurred with this commitment was capitalized as a part of the construction improvements made to the facility. When certain manufacturing operations were moved to the new site in the first quarter of fiscal 1999, portions of the interest associated with the completed work were expensed. For the first quarter of 1999 total interest incurred was $196,000 with only $84,000 being eligible for capitalization, therefore $112,000 was expensed. No interest expense was incurred in the first quarter of fiscal 1998.

Liquidity and Capital Resources

Net cash provided by operations was $1,217,000 for the three months ended September 27, 1998 compared with $2,467,000 generated during the comparative period in fiscal 1998. The decrease was primarily attributable to higher profitability, being offset by a significant decrease in accounts payable and accrued expenses.

The Company invested $4,087,000 in capital expenditures during the first three months of fiscal 1999 compared to $822,000 during the same period in the prior year. The majority of the increase in spending was due to the continued upfit of the new production facility near Research Triangle Park, North Carolina. The Company also increased manufacturing capacity by adding new equipment in the epitaxial and clean room departments.

The Company currently has a loan outstanding for $10,000,000 from a commercial bank to finance portions of the upfit of the facility. The final draw to this loan was made during the first quarter of 1999 for $1,281,000. The Company is presently reviewing capital requirements for fiscal 1999 and may look for additional financing alternatives. The Company also committed $3,214,000 during the quarter to repurchase Company stock.

Year 2000

The Company's products are of a nature that they are not subject to failure because of Year 2000 issues. The Company has assigned full-time information technology professionals to the task of identifying and resolving Year 2000 problems that may impact the Company's business and has adopted a phased Year 2000 compliance plan. During the first phase, which is scheduled to be completed in December 1998, the Company will inventory and collect documentation on all of its computers, computer related equipment and embedded processors. The Company will then contact critical vendors and suppliers to obtain assurances of their ability to ensure smooth delivery of products and services after December 1999. In the second and third phases, the Company will prioritize and implement necessary repairs or replacements to equipment in order to achieve Year 2000 compliance, which it expects to complete in the first quarter of calendar 1999. The final phase will consist of a testing program, scheduled for completion in the second quarter of calendar 1999. The Company has not prepared estimates of costs for the correction of Year 2000 problems. Based on information available at this time, including the Year 2000 compliance status of equipment that has been examined as well as the anticipated replacement schedule for equipment, the Company does not believe that the cost of remedial actions will have a material adverse effect on the Company's results of operations or financial condition. There can be no assurance that there will not be delay in, or increased costs associated with, the implementation of corrections as the Year 2000 compliance plan is performed. Failure to implement such changes could have an adverse effect on future results of operations. In addition, unexpected costs of correcting equipment that has not yet been fully evaluated could have an adverse effect on future results of operations.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.15 Third Amendment to Purchase Agreement between the Company and Siemens A.G. dated September 8, 1998 (1)

b) Reports on Form 8-K:

The Company filed a report on Form 8-K dated September 25, 1998 reporting in Item 4 the dismissal of PricewaterhouseCoopers LLP and the engagement of Ernst & Young LLP as the Company's independent accountant.

(1) Confidential treatment of portions of this document is being requested pursuant to Rule 24b-2 of the Securities and Exchange Commission.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CREE RESEARCH, INC.

Date: October 30, 1998

/s/F. Neal Hunter

F. Neal Hunter, President and
Chief Executive Officer

/s/ Cynthia B. Merrell

Cynthia B. Merrell, Chief Financial Officer

EXHIBIT 10.15

[*] -- Certain information omitted and filed separately with the Commission pursuant to a confidential treatment request under Rule 24b-2 of the Commission.

THIRD AMENDMENT
TO PURCHASE AGREEMENT

THIRD AMENDMENT (this "Amendment"), dated and effective as of the 8th day of September, 1998 (the "Effective Date"), to the PURCHASE AGREEMENT dated September 6, 1996 , as amended by the FIRST AMENDMENT dated April 22, 1997 and by the SECOND AMENDMENT dated December 9, 1997 (as thus amended, the "Purchase Agreement" or "Agreement"), between CREE RESEARCH, INC. ("Seller"), a corporation organized under the laws of the State of North Carolina, the United States of America, and SIEMENS AKTIENGESELLSCHAFT ("Purchaser"), a corporation organized under the laws of the Federal Republic of Germany. As used in this Amendment, capitalized terms not defined herein which are defined in the Purchase Agreement shall have the meaning defined in the Purchase Agreement.

In consideration of the mutual provisions below the parties hereby agree as follows:

1. The first "Whereas" clause of the Purchase Agreement is amended by adding the phrase "and silicon carbide (SiC) wafers" immediately after "LED's in die form". The second "Whereas" clause of the Purchase Agreement is amended by adding the phrase "and SiC wafers" immediately after "LED die products". The third "Whereas" clause of the Purchase Agreement is amended by adding the phrase "and wafers" immediately after "such LED's".

2. Section 1.2(d) of the Purchase Agreement is amended to read as follows: "'Products' mean LED chips and silicon carbide substrates which conform to the applicable Product Specifications. Products supplied under this Agreement will be 'GaN LEDs,' '[*] LEDs' and 'SiC Wafers' as described in Schedule 3. 'GaN LEDs' means LED die incorporating gallium nitride materials and a conductive buffer layer on SIC Wafers. '[*] LEDs' means LED die incorporating [*] and a conductive buffer layer on SIC Wafers. 'SiC Wafers' mean silicon carbide substrates."

3. The Purchase Agreement is amended by replacing First Amended Schedule 1 and Supplement No. 1 to Schedule 1 in their entirety with the Second Amended Schedule 1 annexed hereto.

4. The Purchase Agreement is amended by replacing First Amended Schedule 2 and Supplement No. 1 to Schedule 2 in their entirety with the Second Amended Schedule 2 annexed hereto.

5. The Purchase Agreement is amended by replacing the Second Amended Schedule 3 in its entirety with the Third Amended Schedule 3 annexed hereto.

6. Second Amended Schedule 1, Second Amended Schedule 2 and Third Amended Schedule 3 shall apply to all Products scheduled to be shipped on and after June 29, 1998 and, with respect to such products, supersedes the respective Schedules of the Purchase Agreement as previously amended. The Purchase Agreement, as previously amended, shall govern the prices and other terms applicable to Products scheduled to be shipped prior to June 29, 1998; such prices are final and no adjustment is made by this Amendment. The Purchase Agreement, as amended hereby, supersedes Article 7 of the Development, License and Supply Agreement between the parties dated October 25, 1995 with respect to all Products purchased or to be purchased under this Purchase Agreement.

7. Seller and Purchaser will continue to work to improve the ESD sensitivity of the LED Products with the goal developing a mutually acceptable improvement with a minimum RAET rating of [*] (as

measured using the RAET method described in the Product Specifications contained in Third Amended Schedule 3).

8. Except as amended hereby, the terms and conditions of the Purchase

Agreement shall continue in effect.

IN WITNESS WHEREOF, the parties, through their respective duly authorized officers, have executed this Amendment to be effective as of the Effective Date set out in the preamble hereto.

CREE RESEARCH, INC.	SIEMENS AKTIENGESELLSCHAFT
By /s/ F. Neal Hunter F. Neal Hunter, President	By /s/ R. Mueller R. Mueller, President, Opto Semiconductors
Date 9/8/98	Date 9/16/98
	By /s/ C. Hagen C. Hagen, Vice President-Finance & Admin.
	Date 9/16/98

SECOND AMENDED Schedule 1

Quantity and Shipment Schedule

A. Quantity Commitment.

1. During the period commencing [*] and ending [*] Purchaser will purchase from Seller the quantities of each Product type shown below:

GaN LEDs	[*]
[*] LEDs	[*]
SiC Wafers	[*]

Purchaser may submit orders for additional Product quantities to be delivered during such period. Subject to available capacity and mutual agreement as to the applicable terms and conditions, Seller will use all commercially reasonable efforts to supply such additional quantities.

2. If and to the extent the quantity of [*] LEDs Purchaser requires for the manufacture of LED products during the period from [*] through [*] is less than [*] and subject to Paragraph (B)(1) below, Purchaser may elect to purchase GaN LEDs in lieu of [*] LEDs, at the prices stated for GaN LEDs under this Agreement, provided that Purchaser gives Seller written notice of such election at least ninety (90) days in advance of the scheduled shipping date.

B. Shipment Schedule.

1. The shipment schedule for units to be shipped under this Schedule during the period ending [*] is as follows:

	Quarterly (13-Week) Period Ending			
Product*	[*]	[*]	[*]	[*]
GaN LED die (in K)	[*] **	[*]	[*]	[*]

[*] LED die (in K)	[*]	[*]	[*] ***	[*] ***
SiC Wafers	[*]	[*]	[*]	[*]

* As described in Third Amended Schedule 3.
** [*] was included in [*] shipments.
*** Seller acknowledges that Purchaser's customers have not yet qualified any [*] LEDs manufactured by Seller. Purchaser will use all reasonable efforts to obtain such qualification in order that its volume requirements for the periods noted equal or exceed the quantities listed above. In the event Purchaser is unable to obtain such qualification, it may elect to purchase GaN LEDs in lieu of [*] LEDs under the terms and conditions of Paragraph (A)(2).

2. Subject to the provisions of this Agreement, unless otherwise mutually agreed the quarterly amounts shown above will be shipped in three approximately equal shipments on the last day of the fourth, eighth and final week of each quarterly period, except that the [*] LEDs scheduled for delivery during the first quarterly period shall be shipped the last week of such period. Purchaser may without charge reschedule shipments of quantities of GaN LEDs shown above under the following terms:

(a) for quantities scheduled to be shipped more than twenty-four (24) weeks following Seller's receipt of written notice from Purchaser requesting rescheduling, Purchaser may reschedule up to thirty percent (30%) of such quantity for up to ninety (90) days after the originally scheduled shipment date but not later than [*]; and

(b) for quantities scheduled to be shipped more than twelve (12) weeks but within twenty-four (24) weeks following Seller's receipt of written notice from Purchaser requesting rescheduling, Purchaser may reschedule up to ten percent (10%) of such quantity for up to ninety (90) days after the originally scheduled shipment date but not later than [*].

In all other cases Purchaser may reschedule shipments only with Seller's mutual written agreement. Purchaser's notice requesting rescheduling must specify the quantity to be deferred and the date on which shipment is to be made. Subject to the foregoing, a shipment may be rescheduled any number of times under this paragraph.

C. Purchase Orders.

1. Purchaser will submit written purchase orders evidencing its commitment to purchase Products under this Schedule prior to each scheduled shipment date. Purchase orders will specify the particular quantity of each Product type to be shipped. Prior to or concurrently with the execution of the amendment to which this Schedule is annexed, Purchaser has delivered or will deliver its purchase order to Seller for the quantities to be shipped during the first quarterly period shown in Paragraph (B)(1) above. All other purchase orders must be received at least forty-five (45) days prior to the calendar quarter in which shipment is scheduled.

2. Such purchase orders may be submitted through Purchaser's offices in Regensburg, Germany, or through any other Siemens Semiconductor location authorized by Purchaser. In the event Purchaser requests delivery of shipments to a Siemens Semiconductor location other than Regensburg, Germany, Purchaser's personnel at such location shall be authorized to act on Purchaser's behalf with respect to scheduling and acceptance of shipments and other matters relating thereto. The terms and conditions of this Agreement shall govern the purchase of Products hereunder notwithstanding any contrary provisions of any purchase order, order acknowledgment or other similar document issued by either party. Purchase orders issued under this Agreement are intended as an administrative convenience and, in the case of

[*] Products, to specify the selection of such Products, but the obligation to purchase Products under this Agreement is not conditioned upon issuance of a purchase order.

SECOND AMENDED Schedule 2

Price and Payment Schedule

A. Prices.

1. Prices of Products purchased under Second Amended Schedule 1 shall be determined as follows, subject to Paragraph (A)(2) of this Schedule:

GaN LEDs:

Incremental Quantities	Unit Price (US$)
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]

[*] LEDs:

Incremental Quantities	Unit Price (US$)
[*]	[*]
[*]	[*]
[*]	[*]

SiC Wafers:

Incremental Quantities	Unit Price (US$)
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]

The reduction in per unit prices reflects Seller's expectation that it will improve manufacturing yields and reduce per unit cost

2. Purchaser and Seller will share the risk of currency exchange rate fluctuations, as provided in this paragraph, for units shipped pursuant to Second Amended Schedule 1. The unit price for such shipments shall be adjusted by the applicable percentage below according to the value of the "DM-Dollar Exchange Rate" on the shipment date. For purposes of this paragraph, the "DM-Dollar Exchange Rate" means the average of the foreign exchange selling rates for German Marks per U.S. Dollar, as published in the Wall Street Journal during the thirty (30) calendar days preceding the date of shipment, for rates quoted in New York the preceding business day for trading among banks in amounts of $1 million or more.

DM-Dollar Exchange rate	Percentage Price Adjustment
Equal to or greater than 2.0	
Equal to or greater than 1.9 and less than 2.0	[*]
Greater than 1.6 and less than 1.9	[*]
Equal to or less than 1.6 and greater	[*]
than 1.5	[*]
Equal to or less than 1.5	[*]

B. Payment Terms.

Products will be invoiced upon shipment. Invoices shall be due and payable within twenty (20) days from the invoice date.

THIRD AMENDED Schedule 3

Product Specifications

A. GaN LEDs.

Product Specifications for GaN LEDs purchased under this Agreement are set forth in Attachment A hereto.

B. [*] LEDs.

Product Specifications for [*] LEDs purchased under this Agreement shall be Seller's published specifications applicable to such Products as and when the same are made generally available to Seller's customers, except that for purposes of this Agreement the minimum specifications shall be as follows:

1. Brightness, forward voltage and dominant wavelength (measured in the same manner as specified for GaN LEDs in Attachment A):

Description	Brightness		Forward Voltage		Dominant Wavelength
	Typ.	Min.	Typ.	Max.	
Green	[*]	[*]	[*]	[*]	[*]

Blue	[*]	[*]	[*]	[*]	[*]
Signal Green	[*]	[*]	[*]	[*]	[*]
"GM" Blue	[*]	[*]	[*]	[*]	[*]

2. [*] LEDs shall have a minimum electrostatic discharge (ESD) threshold of [*] (HBM), as measured by the RAET method described in Note 2 to Attachment A. Seller shall use commercially reasonable efforts to improve the ESD resistivity of [*] LEDs to a target of [*] prior to [*] but gives no assurances such target will be achieved.

3. [*] LEDs shall have the same physical size as Seller's GaN LED Products as described in Attachment A. Except as provided above in paragraph (A)(2), [*] LEDs will meet or exceed Seller's GaN LED Products with respect to reliability.

4. Seller supplied engineering samples of [*] LEDs in July 1998 and will supply qualification samples of [*] LEDs in [*]. Such engineering samples are Confidential Information of Seller. Purchaser will use such samples solely for evaluation and will not disclose the samples to any third party without Seller's written consent.

5. Seller acknowledges that Purchaser has a need for improved specifications for the [*] LEDs to meet market requirements. Seller agrees, so long as this Agreement remains in effect, to use all commercially reasonable efforts to improve the specifications of the [*] LEDs to those specifications found necessary to meet such market demand. Seller further acknowledges that Purchaser's desired target specification to meet such market demand is as follows:

Description	Brightness		Forward Voltage		Dominant Wavelength
	Typ.	Min.	Typ.	Max.	
Green	[*]	[*]	[*]	[*]	[*]
Blue	[*]	[*]	[*]	[*]	[*]
Signal Green	[*]	[*]	[*]	[*]	[*]
"GM" Blue	[*]	[*]	[*]	[*]	[*]

C. SiC Wafers.

Product Specifications for SiC Wafers under this Agreement shall be those set forth in Attachment B to this Schedule, which are the specifications currently used by Seller for its own internal production of LED Products.

D. Inspection Procedures.

1. Seller will test and inspect all GaN LED and [*] LED Products in accordance with the quality assurance procedures described in Seller's document CPT-026 dated July 17, 1997 and will ship only units passing such procedures.

2. Seller will test and inspect all SiC Wafer Products in accordance with the quality assurance procedures described in Seller's document CSP-012 dated March 31, 1998 and will ship only units passing such procedures.

ATTACHMENT A

Information in attachment omitted in its entirety and filed separately with the Commission pursuant to a confidential treatment request under Rule 24b-2 of the Commission.

ATTACHMENT B

Information in attachment omitted in its entirety and filed separately with the Commission pursuant to a confidential treatment request under Rule 24b-2 of the Commission.

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