UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 28, 2010

or

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

For the transition period from ______ to ______

Commission file number 0-21154

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

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

(919) 313-5300
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock, par value $0.00125 per share, as of April 14, 2010, was 107,486,160.

CREE, INC.
FORM 10-Q

For the Quarterly Period Ended March 28, 2010

INDEX

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CREE, INC.
CONSOLIDATED BALANCE SHEETS

	March 28, 2010 (Unaudited)	June 28, 2009
	(Thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 346,956	$ 290,154
Short-term investments	640,901	127,499
Total cash, cash equivalents, and short-term investments	987,857	417,653
Accounts receivable, net	125,834	103,035
Income tax receivable	1,526	1,526
Inventories, net	107,019	78,841
Deferred income taxes	11,017	10,022
Prepaid expenses and other current assets	24,652	18,359
Total current assets	1,257,905	629,436
Property and equipment, net	400,378	320,110
Long-term investments	3,163	29,557
Intangible assets, net	108,299	113,328
Goodwill	313,564	304,791
Other assets	8,099	7,345
Total assets	$ 2,091,408	$ 1,404,567
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 71,071	$ 38,770
Accrued salaries and wages	25,772	16,732
Income taxes payable	9,164	8,139
Deferred income taxes	62	122
Other current liabilities	10,773	7,868
Contingent payment due related to COTCO acquisition	—	57,050
Total current liabilities	116,842	128,681
Long-term liabilities:		
Deferred income taxes	43,869	42,752
Other long-term liabilities	5,407	8,386
Total long-term liabilities	49,276	51,138
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, par value $0.01; 3,000 shares authorized at March 28, 2010 and June 28, 2009; none issued and outstanding	—	—
Common stock, par value $0.00125; 200,000 shares authorized at March 28, 2010 and June 28, 2009; 107,395 and 89,659 shares issued and outstanding at March 28, 2010 and June 28, 2009, respectively	134	112
Additional paid-in-capital	1,458,397	857,383
Accumulated other comprehensive income, net of taxes	11,300	11,236
Retained earnings	455,459	356,017
Total shareholders' equity	1,925,290	1,224,748
Total liabilities and shareholders' equity	$ 2,091,408	$ 1,404,567

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

Table of Contents

CREE, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
	(Thousands, except per share data)			
Revenue, net	$ 234,083	$ 131,144	$ 602,688	$ 419,145
Cost of revenue, net	121,877	83,793	322,634	265,935
Gross profit	112,206	47,351	280,054	153,210
Operating expenses:				
Research and development	20,366	17,071	59,865	52,787
Sales, general and administrative	28,954	21,043	78,108	65,804
Amortization of acquisition related intangibles	3,045	4,062	9,135	12,186
Loss on disposal or impairment of long-lived assets	3,286	2,255	3,689	3,305
Total operating expenses	55,651	44,431	150,797	134,082
Operating income	56,555	2,920	129,257	19,128
Non-operating income:				
Gain on sale of investments, net	—	13	1	78
Other non-operating (expense) income	44	13	134	(4)
Interest income, net	2,125	1,837	5,737	7,168
Income from operations before income taxes	58,724	4,783	135,129	26,370
Income tax expense	14,094	768	35,687	5,740
Net income	$ 44,630	$ 4,015	$ 99,442	$ 20,630
Earnings per share:				
Basic net income per share	$ 0.42	$ 0.05	$ 0.99	$ 0.23
Diluted net income per share	$ 0.41	$ 0.05	$ 0.97	$ 0.23
Shares used in per share calculation:				
Basic	106,367	88,243	100,706	88,050
Diluted	108,601	88,839	102,907	88,672

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

Table of Contents

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

	Nine Months Ended	
	March 28, 2010	March 29, 2009
	(Thousands)	
Cash flows from operating activities:		
Net income	$ 99,442	$ 20,630
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,873	72,505
Stock-based compensation	17,434	15,792
Excess tax benefit from share-based payment arrangements	(16,781)	(141)
Loss on disposal or impairment of long-lived assets	3,689	3,305
Provision for doubtful accounts	(153)	806
Deferred income taxes	—	24
Gain on sale of investment in securities	(1)	(78)
Amortization of premium/discount on investments	5,772	1,240
Changes in operating assets and liabilities:		
Accounts receivable	(22,643)	6,318
Inventories	(27,908)	2,295
Prepaid expenses and other assets	(4,304)	16,139
Accounts payable, trade	21,515	(2,261)
Accrued expenses and other liabilities	12,696	(1,961)
Net cash provided by operating activities	155,631	134,613
Cash flows from investing activities:		
Purchases of property and equipment	(127,838)	(40,594)
Payment of contingent consideration related to LLF acquisition	(8,773)	(4,386)
Payment of contingent consideration related to COTCO acquisition	(57,050)	(60,000)
Purchases of investments	(581,531)	(215,404)
Proceeds from maturities and sales of investments	88,878	166,273
Proceeds from sale of property and equipment	210	37
Purchases of patent and licensing rights	(7,374)	(6,281)
Net cash used in investing activities	(693,478)	(160,355)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	577,838	10,133
Excess tax benefit from share-based payment arrangements	16,781	141
Repurchases of common stock	—	(2,744)
Net cash provided by financing activities	594,619	7,530
Effects of foreign exchange changes on cash and cash equivalents	30	1,246
Net increase (decrease) in cash and cash equivalents	56,802	(16,966)
Cash and cash equivalents:		
Beginning of period	$ 290,154	$ 261,633
End of period	$ 346,956	$ 244,667

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

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

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

Description of Business

Cree, Inc. (the "Company") develops and manufactures semiconductor materials and devices primarily based on silicon carbide ("SiC"), gallium nitride ("GaN") and related compounds. The Company primarily focuses its expertise in SiC and GaN on light emitting diode ("LED") products. The Company also develops power and radio frequency ("RF") products, including power switching and RF devices. The Company's revenues are classified as follows:

- *LED products.* The Company derives the largest portion of its revenue from the sale of its LED products. These products consist of LED components, LED chips, LED lighting products and SiC and GaN wafers. Also included are revenues derived from government agencies to support the development of LED lighting.
- *Power and RF products.* These products include power switching devices made from SiC, which provide faster switching speeds than comparable silicon-based power devices, and also include RF devices made from SiC or GaN, which allow for higher power densities as compared to silicon or gallium arsenide. Also included are revenues derived from government agencies to support the development of primarily SiC and GaN based technology.

The majority of the Company's products are produced at its production facilities located in North Carolina and China. In some circumstances, the Company may also use contract manufacturers for certain aspects of product fabrication.

Basis of Presentation

The consolidated balance sheet at March 28, 2010 and the consolidated statements of income for the three and nine months ended March 28, 2010 and March 29, 2009, and the consolidated statements of cash flows for the nine months ended March 28, 2010 and March 29, 2009 have been prepared by the Company and have not been audited. In the opinion of management, all normal and recurring adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows at March 28, 2010, and for all periods presented, have been made. The consolidated balance sheet at June 28, 2009 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 accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 2009 ("fiscal 2009"). The results of operations for the period ended March 28, 2010 are not necessarily indicative of the operating results that may be attained for the entire fiscal year ending June 27, 2010 ("fiscal 2010").

Certain fiscal 2009 amounts in the accompanying consolidated financial statements have been reclassified to conform to the fiscal 2010 presentation. These reclassifications had no effect on previously reported consolidated net income or shareholders' equity.

Recent Accounting Pronouncements

Accounting for Business Combinations

The Company adopted new U.S. GAAP guidance related to business combinations beginning in its first quarter of fiscal 2010. Earlier adoption was prohibited. The adoption of the new guidance did not have an immediate significant impact on its consolidated financial statements, however it will impact the accounting for any future business combinations. Under the new guidance, an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred; that restructuring costs generally be expensed in periods subsequent to the acquisition date; and that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for income taxes. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life.

Noncontrolling Interests in Consolidated Financial Statements

The Company adopted new U.S. GAAP guidance related to noncontrolling interests in consolidated financial statements beginning in its first quarter of fiscal 2010. Earlier adoption was prohibited. The Company's adoption of this guidance did not have a significant impact on its consolidated financial statements. The guidance revises accounting and reporting standards for the noncontrolling interest in a subsidiary and the accounting for the deconsolidation of a subsidiary. It also clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. The gain or loss is measured using the fair value of the noncontrolling equity investment on the deconsolidation date. The guidance also requires expanded disclosures regarding the interest of the parent and the noncontrolling interest.

Determination of the Useful Life of Intangible Assets

The Company adopted new U.S. GAAP guidance concerning the determination of the useful life of intangible assets beginning in its first quarter of fiscal 2010. The Company's adoption of the new guidance did not have a significant impact on its consolidated financial statements. The new guidance amends the factors that are to be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The new guidance is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows originally used to measure the fair value of the intangible asset under U.S. GAAP.

International Financial Reporting Standards

In November 2008, the Securities & Exchange Commission ("SEC") released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. In February 2010, the SEC released a statement in support of the convergence of U.S. GAAP and IFRS and directed its staff to prepare a Work Plan to aid in the evaluation of the impact of adopting IFRS on U.S. companies and to assess the comments provided by constituents on the previously released roadmap. This statement did not modify the previously issued roadmap timeline under which the Company may be required in fiscal 2015 to prepare financial statements in accordance with IFRS. Additionally, the SEC reiterated that it will make a determination in 2011 regarding the mandatory adoption of IFRS. The Company is currently assessing the impact that this potential change would have on its consolidated financial statements, and it will continue to monitor the development of the potential implementation of IFRS.

Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board (the "FASB") issued new guidance concerning the transfer of financial assets. This guidance amends the criteria for a transfer of a financial asset to be accounted for as a sale, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, changes the initial measurement of a transferor's interest in transferred financial assets, eliminates the qualifying special-purpose entity concept and provides for new disclosures. This new guidance will be effective for the Company for transfers of financial assets beginning in its first quarter of fiscal 2011, with earlier adoption prohibited. The Company does not expect the impact of this guidance to be material to its consolidated financial statements.

Determining the Primary Beneficiary of a Variable Interest Entity

In June 2009, the FASB issued new guidance concerning the determination of the primary beneficiary of a variable interest entity ("VIE"). This new guidance amends current U.S. GAAP by: requiring ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE; amending the quantitative approach previously required for determining the primary beneficiary of the VIE; modifying the guidance used to determine whether an entity is a VIE; adding an additional reconsideration event (e.g. troubled debt restructurings) for determining whether an entity is a VIE; and requiring enhanced disclosures regarding an entity's involvement with a VIE.

This new guidance will be effective for the Company beginning in its first quarter of fiscal 2011, with earlier adoption prohibited. The Company does not expect the impact of this new guidance to be material to its consolidated financial statements.

FASB Accounting Standards Codification

In June 2009, the FASB issued new guidance concerning the organization of authoritative guidance under U.S. GAAP. This new guidance created the FASB Accounting Standards Codification ("Codification"). The Codification has become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The Codification became effective for the Company in its first quarter of fiscal 2010. As the Codification is not intended to change or alter existing U.S. GAAP, it did not have any impact on the Company's consolidated financial statements. On its effective date, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification became nonauthoritative.

Interactive Data Filing with the SEC

On January 30, 2009, the SEC released the final rules requiring all registered companies to use eXtensible Business Reporting Language ("XBRL") when submitting financial statements to the SEC. The new rules initially require interactive data reporting only by domestic and foreign large accelerated filers (those that prepare their financial statements in accordance with U.S. GAAP and have a worldwide public common equity float above $5.0 billion) for their first quarterly period ending after June 15, 2009 and all periods thereafter. As the Company did not originally meet this large accelerated filer requirement on the initial measurement date due to its market capitalization at that time, this reporting requirement will instead apply to its first quarterly filing period ending after June 15, 2010 and all periods thereafter. Therefore, the Company plans to file its first quarter fiscal 2011 financial statements with the SEC in XBRL in compliance with the new SEC rules.

Revenue Recognition with Multiple Deliverables

In October 2009, the FASB issued new standards for revenue recognition with multiple deliverables. These new standards impact the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. Additionally, these new standards modify the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. These new standards are effective for the Company beginning in the first quarter of fiscal 2011, however early adoption is permitted. The Company does not expect the impact of this new guidance to be material to its consolidated financial statements.

Measuring Liabilities at Fair Value

In August 2009, the FASB released new guidance concerning measuring liabilities at fair value. The new guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using certain valuation techniques. Additionally, it clarifies that a reporting entity is not required to adjust the fair value of a liability for the existence of a restriction that prevents the transfer of the liability. This new guidance is effective for the first reporting period after its issuance, however earlier application is permitted. The application of this new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

Fair Value Disclosures

In January 2010, the FASB issued amended standards requiring additional fair value disclosures. The amended standards require disclosures of transfers in and out of Levels 1 and 2 of the fair value hierarchy, as well as requiring gross basis disclosures for purchases, sales, issuances and settlements within the Level 3 reconciliation. Additionally, the update clarifies the requirement to determine the level of disaggregation for fair value measurement disclosures and to disclose valuation techniques and inputs used for both recurring and nonrecurring fair value measurements in either Level 2 or Level 3. The Company adopted the new guidance in the third quarter of fiscal 2010, except for the disclosures related to purchases, sales, issuance and settlements, which will be effective for the Company beginning in the first quarter of fiscal 2012. Because these new standards are related primarily to disclosures, their adoption has not had and is not expected to have a significant impact on the Company's consolidated financial statements.

Subsequent Events

In February 2010, the FASB issued amended guidance on subsequent events. SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately and the Company adopted these new requirements in the third quarter of fiscal 2010.

Note 2. Acquisitions

Acquisition of LED Lighting Fixtures, Inc.

On February 29, 2008 the Company acquired LED Lighting Fixtures, Inc. (now Cree LED Lighting Solutions, Inc.) ("LLF") through a wholly owned subsidiary. The Company acquired all of the outstanding share capital of LLF in exchange for total upfront consideration of $80.8 million, consisting of (1) $16.5 million in cash, (2) approximately 1.9 million shares of the Company's common stock valued at $58.8 million, (3) the assumption of fully vested LLF employee stock options valued at $4.5 million, and (4) transaction costs of $1.0 million consisting primarily of professional fees incurred relating to attorneys, accountants and valuation advisors. Under the acquisition terms, additional consideration of up to $26.4 million would become payable to the former shareholders of LLF if defined product development targets and key employee retention measures were achieved over the three calendar years following the acquisition.

LLF achieved the defined employee retention goals and product development targets for the calendar year ended December 31, 2008 and as a result, the Company made a cash payment in the amount of $4.4 million to the former shareholders of LLF in the third quarter of fiscal 2009, thus increasing goodwill in the Company's consolidated financial statements. LLF achieved the defined employee retention goals and product development targets for the calendar year ended December 31, 2009 and as a result, the Company made a cash payment in the amount of $8.8 million to the former shareholders of LLF in the third quarter of fiscal 2010, thus increasing goodwill in the Company's consolidated financial statements. If LLF meets the remaining defined employee retention goals and product development targets during the calendar year ending December 31, 2010, an additional contingent cash payment totaling up to $13.2 million would become payable to the former shareholders of LLF. If such contingent payment occurs, it will be considered as additional purchase price and result in an increase in goodwill.

The assets, liabilities, and operating results of LLF have been included in the Company's consolidated financial statements from the date of acquisition and are reflected in all periods presented in the accompanying financial statements.

Acquisition of COTCO Luminant Device Limited

On March 30, 2007, the Company acquired COTCO Luminant Device Limited, a Hong Kong company (now Cree Hong Kong Limited) ("COTCO"), from COTCO Holdings Limited, a Hong Kong company (now United Luminous International (Holdings) Limited) ("Holdings"). The Company acquired all of the outstanding share capital of COTCO in exchange for consideration consisting of approximately 7.6 million shares of the Company's common stock and $77.3 million cash. Under the acquisition terms, additional consideration 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. For fiscal 2008, the Company made a cash payment in the amount of $60.0 million. For fiscal 2009, the Company made a cash payment in the amount of $57.1 million.

The assets, liabilities, and operating results of COTCO have been included in the Company's consolidated financial statements from the date of acquisition and are reflected in all periods presented in the accompanying financial statements.

Note 3. Financial Statement Details

Accounts Receivable, net

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

	March 28, 2010	June 28, 2009
Billed trade receivables	$141,522	$113,085
Unbilled contract receivables	1,096	2,125
	142,618	115,210
Allowance for sales return	(15,859)	(9,644)
Allowance for bad debts	(925)	(2,531)
Total accounts receivable, net	$125,834	$103,035

Inventories, net

The following is a summary of the components of inventories, net (in thousands):

	March 28, 2010	June 28, 2009
Raw material	$ 24,967	$ 14,575
Work-in-progress	56,328	38,567
Finished goods	42,874	39,552
	124,169	92,694
Inventory reserve	(17,150)	(13,853)
Total inventories, net	$107,019	$ 78,841

Note 4. Investments

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

The following tables provide a summary of short-term and long-term investments (in thousands):

	March 28, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments	$636,913	$ 4,305	$ (317)	$640,901
Long-term investments	3,060	103	—	3,163
Total investments	$639,973	$ 4,408	$ (317)	$644,064

	June 28, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments	$124,472	$ 3,049	$ (22)	$127,499
Long-term investments	28,620	957	(20)	29,557
Total investments	$153,092	$ 4,006	$ (42)	$157,056

The following table provides a summary of marketable investments by type (in thousands):

	March 28, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	$ 9,042	$ 146	$ —	$ 9,188
U.S. agency securities	63,225	360	(107)	63,478
Municipal bonds	444,906	3,066	(176)	447,796
Corporate debt securities	122,799	837	(34)	123,602
	$639,972	$ 4,409	$ (317)	$644,064

	June 28, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	$ 15,054	$ 454	$ —	$ 15,508
U.S. agency securities	19,895	698	—	20,593
Municipal bonds	94,745	2,483	(6)	97,222
Corporate debt securities	23,398	371	(36)	23,733
	$153,092	$ 4,006	$ (42)	$157,056

The contractual maturities of marketable investments at March 28, 2010 were as follows (in thousands):

	Fiscal Years Ending						
	June 27, 2010	June 26, 2011	June 24, 2012	June 30, 2013	June 29, 2014	Thereafter	Total
U.S. government securities	$ 1,508	$ 7,680	$ —	$ —	$ —	$ —	$ 9,188
U.S. agency securities	9,887	32,872	20,720	—	—	—	63,479
Municipal bonds	27,624	167,275	115,498	77,434	39,473	20,491	447,795
Corporate debt securities	3,958	24,643	73,771	21,230	—	—	123,602
	$42,976	$232,470	$209,989	$98,665	$39,473	$20,491	$644,064

Note 5. Fair Value of Financial Instruments

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., “the exit price”) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including quoted market prices and discounted cash flows. U.S. GAAP also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are obtained from independent sources and can be validated by a third party, whereas, unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability. The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

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

The financial assets for which the Company performs recurring fair value remeasurements are cash equivalents, short-term investments and long-term investments. The financial assets for which the Company may be required to perform non-recurring fair value remeasurements (e.g., an impairment of assets) are any investments in privately-held companies. As of March 28, 2010, financial assets utilizing Level 1 inputs included money market funds and investments traded on active securities exchanges. Financial assets utilizing Level 2 inputs included corporate bonds, municipal bonds and variable rate demand notes, and U.S. agency securities. Level 2 assets are valued using a third-party pricing services consensus price which is a weighted average price based on multiple sources. These sources determine prices utilizing market income models which factor in, where applicable, transactions of similar assets in active markets, transactions of identical assets in infrequent markets, interest rates, bond or credit default swap spreads and volatility. The Company does not have any significant financial assets requiring the use of Level 3 inputs.

The following table sets forth financial instruments carried at fair value within the U.S. GAAP hierarchy and using the lowest level of input (in thousands):

	Financial Instruments Carried at Fair Value as of March 28, 2010			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash equivalents				
Money market funds	$ 23,264	$ —	$ —	$ 23,264
Municipal bonds	—	753	—	753
Corporate bonds	—	—	—	—
Municipal variable rate demand notes	—	—	—	—
U.S. agency securities	—	21,963	—	21,963
U.S. government securities	—	—	—	—
Total cash equivalents	23,264	22,716	—	45,980
Short-term investments				
Municipal bonds	—	429,647	—	429,647
Corporate bonds	—	121,500	—	121,500
Municipal variable rate demand notes	—	18,149	—	18,149
U.S. agency securities	—	62,417	—	62,417
U.S. government securities	9,188	—	—	9,188
Total short-term investments	9,188	631,713	—	640,901
Long-term investments				
Municipal bonds	—	—	—	—
Corporate bonds	—	2,102	—	2,102
Municipal variable rate demand notes	—	—	—	—
U.S. agency securities	—	1,061	—	1,061
U.S. government securities	—	—	—	—
Total long-term investments	—	3,163	—	3,163
Total assets	$ 32,452	$657,592	$ —	$690,044

Realized gains and losses from the sale of investments are included in “Gain on sale of investments, net” and unrealized gains and losses are included as a separate component of equity, net of tax, unless the loss is determined to be “other-than-temporary.”

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

Note 6. Intangible Assets and Goodwill

Intangible Assets, net

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

	March 28, 2010	June 28, 2009
Customer relationships	$ 52,620	$ 52,620
Developed technology	51,860	51,860
Patent and license rights	69,862	62,733
	$174,342	$167,213
Accumulated amortization	(66,043)	(53,885)
Intangible assets, net	$108,299	$113,328

Total amortization expense, including the amortization of acquisition related intangibles, patents and license rights, recognized during the three and nine months ended March 28, 2010 was $4.1 million and $12.2 million, respectively. For the three and nine months ended March 29, 2009, total amortization expense, including amortization of acquisition related intangibles, patents and license rights was $5.0 million and $14.9 million, respectively.

Goodwill

Goodwill increased during the nine months ended March 28, 2010 due to an $8.8 million contingent consideration payment related to the LLF acquisition that was considered additional purchase price and recorded as an increase to goodwill.

Note 7. Shareholders' Equity

In September 2009, the Company issued and sold 12.65 million shares of its common stock, with net proceeds of approximately $434.0 million.

As of March 28, 2010, there remained approximately 4.5 million shares of the Company's common stock approved for repurchase under a repurchase program authorized by the Board of Directors that extends through June 2010. During the nine months ended March 28, 2010, the Company did not repurchase any shares.

Note 8. Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
Basic:				
Net income	$ 44,630	$ 4,015	$ 99,442	$20,630
Weighted average common shares	106,367	88,243	100,706	88,050
Basic earnings per share	$ 0.42	$ 0.05	$ 0.99	$ 0.23
Diluted:				
Net income	$ 44,630	$ 4,015	$ 99,442	$20,630
Weighted average common shares - basic	106,367	88,243	100,706	88,050
Dilutive effect of stock options, unvested shares and ESPP purchase rights	2,234	596	2,201	622
Weighted average common shares - diluted	108,601	88,839	102,907	88,672
Diluted earnings per share	$ 0.41	$ 0.05	$ 0.97	$ 0.23

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be antidilutive. In accordance with U.S. GAAP, these shares were not included in calculating diluted earnings per share. For the three and nine months ended March 28, 2010 there were 0.3 million and 1.9 million shares, respectively, not included in calculating diluted earnings per share because their effect was antidilutive. For the three and nine months ended March 29, 2009 there were 8.2 million and 7.9 million shares, respectively, not included in calculating diluted earnings per share because their effect was antidilutive.

Note 9. Comprehensive Income, net

The following presents a summary of activity in comprehensive income, net (in thousands):

	Three Months Ended		Nine Months Ended	
	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
Net income	$44,630	$ 4,015	$99,442	$20,630
Other comprehensive income:				
Foreign currency translation adjustments	—	219	—	513
Net unrealized (loss) gain on available-for-sale securities, net of tax expense of $(395), $304, $63, and $1,063, respectively	(653)	510	64	1,781
Total other comprehensive income	(653)	729	64	2,294
Comprehensive income	$43,977	$ 4,744	$99,506	$22,924

Note 10. Stock-Based Compensation

The Company currently has one equity-based compensation plan from which stock-based compensation awards can be granted to employees and directors. In addition, the Company has plans that have been terminated as to future grants, but under which options are currently outstanding. The Company also has an Employee Stock Purchase Plan that provides employees with the opportunity to purchase the

Company's common stock at 85% of the fair market value of the common stock at two designated times each year.

Stock Option Awards

The following table summarizes outstanding option awards as of March 28, 2010, and changes during the nine months then ended (in thousands, except per share data):

	Number of Shares	Weighted-Average Exercise Price
Outstanding at June 28, 2009	8,978	$ 28.33
Granted	2,115	36.85
Exercised	(4,867)	28.02
Forfeited or expired	(121)	40.48
Outstanding at March 28, 2010	6,105	$ 31.28

Restricted Stock Awards

A summary of nonvested shares of restricted stock awards outstanding under the Company's 2004 Long-Term Incentive Compensation Plan as of March 28, 2010, and changes during the nine months then ended, follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested at June 28, 2009	369	$ 23.51
Granted	169	36.00
Vested	(120)	23.17
Forfeited	—	
Nonvested at March 28, 2010	418	$ 28.68

Stock-Based Compensation Valuation and Expense

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

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

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

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

Total stock-based compensation expense, net of amounts capitalized into inventory was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
Income Statement Classification	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
Cost of goods sold	$ 471	$ 1,013	$ 2,025	$ 3,198
Research and development	937	1,402	3,589	4,095
Sales, general and administrative	4,345	2,835	11,820	8,499
Total operating expenses	5,282	4,237	15,409	12,594
Total	$ 5,753	$ 5,250	$17,434	$15,792

Approximately $1.0 million and $0.7 million of stock-based compensation has been recorded in inventory in the Company's consolidated balance sheets as of March 28, 2010 and June 28, 2009, respectively.

Note 11. Income Taxes

The variation between the Company's effective tax rate and the U.S. statutory rate of 35 percent is primarily due to the consolidation of our foreign operations, which are subject to income taxes at lower statutory rates. A change in the mix of pretax income from these various tax jurisdictions can have a significant impact on the Company's periodic effective tax rate.

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

At June 28, 2009, the Company had recorded $10.9 million of unrecognized tax benefits. During the nine months ended March 28, 2010, there was a $2.8 million decrease to the amount of recognized tax benefits as a result of settlement of certain tax audits. As a result, the total amount of unrecognized tax benefits as of March 28, 2010 is $8.1 million. If any portion of this $8.1 million is recognized, the Company will then include that portion in the computation of its effective tax rate. Although the ultimate timing of the resolution and/or closure of audits is highly uncertain, the Company believes it is reasonably possible that approximately $0.6 million of gross unrecognized tax benefits will change in the next 12 months.

The Company’s policy is to include interest and penalties related to unrecognized tax benefits within the income tax expense line item in the consolidated statements of income. As of March 28, 2010, the Company had accrued $1.0 million of interest and penalties.

The Company files U.S. federal, U.S. state, and foreign tax returns. For U.S. federal purposes, the Company is generally no longer subject to tax examinations for fiscal years ended June 24, 2007 and prior. For foreign purposes, the Company is no longer subject to examination for tax periods 2002 and prior. For U.S. state tax returns the Company is generally no longer subject to tax examinations for fiscal years prior to 2004. Certain federal and state carryforward tax attributes generated in prior years remain subject to examination and adjustment. The Company is currently under examination by the Internal Revenue Service for fiscal year 2008. During the second quarter of fiscal 2009, the Company settled its examination with the North Carolina Department of Revenue for tax fiscal years 2004 through 2007.

During the third quarter of fiscal 2010, the Company was notified by the Internal Revenue Service that it had been allocated $39 million of federal tax credits as part of the American Recovery and Reinvestment Act of 2009 (Internal Revenue Code Section 48C). This $39 million allocation was based upon the Company projecting that it would put into service approximately $130 million of qualified equipment into its United States manufacturing locations over the next three years. The Company anticipates generating approximately $17 million of 48C credit for fiscal 2010. The tax benefit (net of related basis adjustments) will be amortized into income over the useful life (5 years) of the underlying equipment that was placed in service to generate these credits. In fiscal 2010, the Company anticipates it will recognize an income tax benefit of approximately $2.2 million related to these credits, of this amount, $1.8 million has been recorded in the third quarter.

Note 12. Commitments and Contingencies

Please refer to the section entitled “Litigation” under Note 13 – Commitments and Contingencies of the Notes to the Consolidated Financial Statements in Item 8 of the Company’s Annual Report on Form 10-K for the fiscal year ended June 28, 2009 for a description of material legal proceedings. The following is an update to the Company’s legal proceedings.

Neumark v. Cree, Inc.

On June 27, 2005, Gertrude Neumark Rothschild commenced a patent infringement lawsuit against the Company by filing a complaint in the U.S. District Court for the Southern District of New York. By an order dated January 19 2010, the case was transferred to the U.S. District Court for the District of Massachusetts. In her complaint, the plaintiff alleges that the Company is infringing U.S. Patent No. 4,904,618, entitled “Process for Doping Crystals of Wide Band Gap Semiconductors,” and U.S. Patent No. 5,252,499, entitled “Wide Band-Gap Semiconductors Having Low Bipolar Resistivity and Method of Formation” by manufacturing, importing, using, selling and/or offering for sale LEDs and/or laser diodes created using processes claimed in the patents. The complaint seeks damages in an unspecified amount, an injunction against infringements, attorneys’ fees and costs. The Company filed an answer and counterclaims in which it denies any infringement and asserts, among other defenses, that the patents are invalid and are unenforceable under the doctrine of inequitable conduct. The counterclaims seek a declaratory judgment that the Company has not infringed the patents and that the patents are invalid and unenforceable. The court has bifurcated the case into liability and damages phases. Discovery on liability has concluded. The Company has moved to dismiss the complaint for plaintiff’s lack of standing (ownership of the patents) and for summary judgment of no infringement and patent invalidity. Plaintiff has moved for partial summary judgment on some of the Company’s defenses and counterclaims. Subject to ruling on the pending motions, the court has scheduled a trial on liability for July 2010.

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

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

The following discussion is designed to provide a better understanding of our unaudited consolidated financial statements, including a brief discussion of our business and products, key factors that impacted our performance, and a summary of our operating results. The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended June 28, 2009. Historical results and percentage relationships among any amounts in the financial statements are not necessarily indicative of trends in operating results for any future periods.

Overview of our Business and Products

Cree, Inc. ("Cree," "we," "our," or "us,") develops and manufactures semiconductor materials and devices primarily based on silicon carbide (SiC), gallium nitride (GaN) and related compounds. We primarily focus our expertise in SiC and GaN on light emitting diode (LED) products. We also develop power and radio frequency (RF) products. Our revenues are classified as follows:

- *LED products.* We derive the largest portion of our revenue from the sale of our LED products. These products consist of LED components, LED chips, LED lighting products and SiC and GaN wafers. Also included are revenues derived from government agencies to support the development of LED lighting.
- *Power and RF products.* These products include power switching devices made from SiC, which provide faster switching speeds than comparable silicon-based power devices, and also include RF devices made from SiC or GaN, which allow for higher power densities as compared to silicon or gallium arsenide. Also included are revenues derived from government agencies to support the development of SiC and GaN based power and RF technology.

The majority of our products are manufactured at our production facilities located in North Carolina and China. We also use contract manufacturers for certain aspects of product fabrication.

Operating Segments

We currently operate our business as one reportable segment.

Industry Dynamics

Our business is primarily focused on selling our LED products. LEDs are currently used in a variety of applications, including energy-efficient indoor and outdoor lighting, liquid crystal display (LCD) backlighting, video screens, gaming, signals, automotive applications and mobile phones. As LED technology continues to develop and improve, we believe the potential market for LED lighting applications will continue to expand.

Select industry factors affecting our business include, among others:

- *Overall demand for products and applications using LEDs*. We have seen an increase in demand for LEDs for lighting products, automotive applications and backlighting in notebook and television applications. The pace of adoption of LED lighting technology in the general illumination market, automotive, backlighting and other markets will impact the demand for LEDs.
- *Intense and constantly evolving competitive environment*. Competition in the industry is intense. Product pricing pressures exist as market participants often undertake pricing strategies to gain or protect market share. To remain competitive, market participants generally must increase product performance and reduce costs to offset lower average sales prices. In addition to competing for customers, market participants must also compete for raw materials and other resources (such as specialized manufacturing equipment) to adequately meet demand, which may be in limited supply especially in times of rapid market growth.
- *Technological innovation and advancement.* Innovations and advancements in LED technology continue to expand the potential applications for LEDs. However, new technologies could emerge or improvements could be made in existing technologies that may reduce the demand for LEDs in certain markets.
- *Energy costs and regulatory actions concerning energy efficiency.* Government regulations and programs designed to encourage or mandate increased energy efficiency, even in some cases banning forms of incandescent lighting, are advancing the adoption of more energy efficient lighting solutions including LEDs as well as other technologies.
- *Intellectual property issues.* Market participants rely on patented and non-patented proprietary information relating to product development, manufacturing capabilities and other core competencies of their business. Protection of intellectual property is critical. As such, steps including patent applications, confidentiality and non-disclosure agreements, as well as other security measures are generally taken. To enforce or protect intellectual property rights, litigation or threatened litigation commonly occurs.

Highlights of the Third Quarter of Fiscal 2010

The following is a summary of our financial results for the three months ended March 28, 2010:

- Our year over year revenues increased 78% to $234.1 million;
- Our year over year gross margin percentage (gross profit as a percent of revenue) increased to 47.9% in the third quarter of fiscal 2010 from 36.1% in the third quarter of fiscal 2009;
- We achieved operating income of $56.6 million in the third quarter of fiscal 2010 compared to $2.9 million in the third quarter of fiscal 2009. Net income per diluted share was $0.41 compared to $0.05 for the third quarter of fiscal 2009;
- We spent $66.0 million on capital expenditures in the third quarter of fiscal 2010 compared to $9.3 million in the third quarter of fiscal 2009 as we continue to expand our manufacturing capacity; and
- Combined cash, cash equivalents and marketable investments increased to $991.0 million at March 28, 2010 compared to $447.2 million at June 28, 2009.

Results of Operations

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

(Dollars in Thousands, Except Per Share Data)	Three Months Ended March 28, 2010 Dollars	% of Revenue	Three Months Ended March 29, 2009 Dollars	% of Revenue
Revenue, net	**$234,083**	**100.0%**	**$131,144**	**100.0%**
Cost of revenue, net	121,877	52.1%	83,793	63.9%
Gross profit	**112,206**	**47.9%**	**47,351**	**36.1%**
Research and development	20,366	8.7%	17,071	13.0%
Sales, general and administrative	28,954	12.4%	21,043	16.0%
Amortization of acquisition related intangibles	3,045	1.3%	4,062	3.1%
Loss on disposal or impairment of long-lived assets	3,286	1.4%	2,255	1.7%
Operating income	**56,555**	**24.1%**	**2,920**	**2.3%**
Gain on sale of investments, net	—	0.0%	13	0.0%
Other non-operating income	44	0.0%	13	0.0%
Interest income, net	2,125	0.9%	1,837	1.4%
Income before income taxes	**58,724**	**25.0%**	**4,783**	**3.7%**
Income tax expense	14,094	6.0%	768	0.6%
Net income	**$ 44,630**	**19.0%**	**$ 4,015**	**3.1%**
Diluted earnings per share	**$ 0.41**		**$ 0.05**	

(Dollars in Thousands, Except Per Share Data)	Nine Months Ended March 28, 2010 Dollars	% of Revenue	Nine Months Ended March 29, 2009 Dollars	% of Revenue
Revenue, net	**$602,688**	**100.0%**	**$419,145**	**100.0%**
Cost of revenue, net	322,634	53.5%	265,935	63.4%
Gross profit	**280,054**	**46.5%**	**153,210**	**36.6%**
Research and development	59,865	9.9%	52,787	12.6%
Sales, general and administrative	78,108	13.0%	65,804	15.7%
Amortization of acquisition related intangibles	9,135	1.5%	12,186	2.9%
Loss on disposal or impairment of long-lived assets	3,689	0.6%	3,305	0.8%
Operating income	**129,257**	**21.5%**	**19,128**	**4.6%**
Gain on sale of investments, net	1	0.0%	78	0.0%
Other non-operating income (expense)	134	0.0%	(4)	0.0%
Interest income, net	5,737	1.0%	7,168	1.7%
Income before income taxes	**135,129**	**22.5%**	**26,370**	**6.3%**
Income tax expense	35,687	5.9%	5,740	1.4%
Net income	**$ 99,442**	**16.6%**	**$ 20,630**	**4.9%**
Diluted earnings per share	**$ 0.97**		**$ 0.23**	

Revenues

Revenues for the three and nine months ended March 28, 2010 and March 29, 2009 were comprised of the following (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 28, 2010	March 29, 2009	Change		March 28, 2010	March 29, 2009	Change	
LED products	$211,814	$118,999	$ 92,815	78%	$549,827	$387,620	$162,207	42%
Percent of total revenues	91%	91%			91%	93%		
Power and RF products	22,269	12,145	10,124	83%	52,861	31,525	21,336	68%
Percent of total revenues	9%	9%			9%	7%		
Total revenues	$234,083	$131,144	$102,939	78%	$602,688	$419,145	$183,543	44%

LED Products

We derive the largest portion of our revenue from the sale of our LED products which comprised approximately 91% of our total revenues for the third quarter of fiscal 2010 and fiscal 2009. For the nine months ended March 28, 2010 and March 29, 2009, revenue from the sale of our LED products comprised approximately 91% and 93% of our total revenues, respectively.

Revenue from LED products increased approximately 78% to $211.8 million in the third quarter of fiscal 2010 from $119.0 million in the third quarter of fiscal 2009. For the nine months ended March 28, 2010, revenue from our LED products increased approximately 42% to $549.8 million from $387.6 million for the nine months ended March 29, 2009. The continuing adoption of LEDs in general lighting in addition to an increase in demand for LEDs in automotive applications and backlighting applications for notebooks and televisions, drove year over year sales increases in our LED products. The blended average selling price (ASP) for our LED products increased by 15.5% in the third quarter of fiscal 2010 from the third quarter of fiscal 2009 due to growth in LED components and lighting products sales. Both LED component and lighting products have higher average selling prices than our LED chip products.

Power and RF Products

Revenue from power and RF increased approximately 83% to $22.3 million in the third quarter of fiscal 2010 from $12.1 million in the third fiscal quarter of 2009. For the nine months ended March 28, 2010, revenue from our power and RF products increased approximately 68% to $52.9 million from $31.5 million for the nine months ended March 29, 2009. The increase in our power and RF products revenue was primarily due to an increase in orders for SiC Schottky diodes and GaN RF devices. Revenues from our power and RF products comprised approximately 9% of our total revenues for the third quarter of fiscal 2010 and fiscal 2009. For the nine months ended March 28, 2010 and March 29, 2009, revenue from the sale of our power and RF products comprised approximately 9% and 7% of our total revenues, respectively. The blended ASP for our power and RF products decreased by 35.5% in the third quarter of fiscal 2010 from the third quarter of fiscal 2009 due to a change in product mix to a higher proportion of sales of products with lower selling prices.

Gross Profit

Cost of revenue includes materials, labor and overhead costs incurred internally or paid to contract manufacturers to produce our products. Gross profit and gross margin (gross profit as a percentage of revenue) were as follows (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 28, 2010	March 29, 2009	Change		March 28, 2010	March 29, 2009	Change	
Total gross profit	$112,206	$47,351	$64,855	137%	$280,054	$153,210	$126,844	83%
Total gross margin	47.9%	36.1%			46.5%	36.6%		

Gross profit in the third quarter of fiscal 2010 increased approximately 137% to $112.2 million from $47.4 million in the third quarter of fiscal 2009. For the nine months ended March 28, 2010 gross profit increased approximately 83% to $280.1 million from $153.2 million for the nine months ended March 29, 2009. For the three months ended March 28, 2010 our gross margin increased to 47.9% from 36.1% for the three months ended March 29, 2009. For the nine months ended March 28, 2010 our gross margin increased to 46.5% from 36.6% for the nine months ended March 29, 2009. Factors contributing to the increase in gross margin were changes in product mix to higher margin products, lower production costs across our product lines due to greater factory utilization and higher production yields.

Research and Development

Research and development (R&D) expenses include costs associated with the development of new products, enhancements of existing products and general technology research. These costs consist primarily of employee compensation and benefits, occupancy costs, consulting costs and the cost of development equipment and supplies.

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

	Three Months Ended				Nine Months Ended			
	March 28, 2010	March 29, 2009	Change		March 28, 2010	March 29, 2009	Change	
Research and development	$20,366	$17,071	$3,295	19%	$59,865	$52,787	$7,078	13%
Percent of total revenues	9%	13%			10%	13%		

Research and development expenses in the third quarter of fiscal 2010 increased 19% to $20.4 million from $17.1 million in the third quarter of fiscal 2009. For the nine months ended March 28, 2010 research and development expenses increased 13% to $59.9 million from $52.8 million for the nine months ended March 29, 2009. The increase was due to our continued research and development activities focusing on higher brightness LED chips, new and improved LED products, methods to produce larger wafers and power and RF initiatives. Our research and development expenses vary significantly from quarter to quarter based on a number of factors, including: the timing of new product introductions, timing of expenditures and the number and nature of our ongoing research and development activities. However, we anticipate that in general our research and development expenses will continue to increase over time as we consider these activities essential to future growth and ongoing profitability.

Sales, General and Administrative

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

	Three Months Ended				Nine Months Ended			
	March 28, 2010	March 29, 2009	Change		March 28, 2010	March 29, 2009	Change	
Sales, general and administrative	$28,954	$21,043	$7,911	38%	$78,108	$65,804	$12,304	19%
Percent of total revenues	12%	16%			13%	16%		

Sales, general and administrative expenses in the third quarter of fiscal 2010 increased 38% to $29.0 million from $21.0 million in the third quarter of fiscal 2009. For the nine months ended March 28, 2010, sales, general and administrative expenses increased 19% to $78.1 million from $65.8 million for the nine months ended March 29, 2009. The increase was due primarily to increased spending on sales and marketing as we continued to expand our sales channels and develop the Cree brand. Additionally, costs increased due to the general expansion of our business and increased employee compensation costs.

Amortization of Acquisition Related Intangibles

As a result of our acquisitions, we have recorded various intangible assets that require amortization, principally customer relationships and developed technologies. Amortization of intangible assets related to our acquisitions is as follows (in thousands):

	Three Months Ended			Nine Months Ended		
	March 28, 2010	March 29, 2009	Change	March 28, 2010	March 29, 2009	Change
INTRINSIC	$ 186	$ 186	$ —	$ 558	$ 558	$ —
COTCO	2,073	3,090	(1,017)	6,219	9,270	(3,051)
LLF	786	786	—	2,358	2,358	—
Total	$ 3,045	$ 4,062	$(1,017)	$ 9,135	$12,186	$(3,051)

Amortization of acquisition related intangibles was $3.0 million in the third quarter of fiscal 2010 compared to $4.1 million in the third quarter of fiscal 2009. For the nine months ended March 28, 2010 and March 29, 2009, amortization of acquisition related intangibles was approximately $9.1 million and $12.2 million, respectively. The year over year decline in amortization expense is attributable to lower amortization expense related to the intangibles acquired through the COTCO acquisition.

Loss on Disposal or Impairment of Long-Lived Assets

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

	Three Months Ended			Nine Months Ended		
	March 28, 2010	March 29, 2009	Change	March 28, 2010	March 29, 2009	Change
Loss on disposal or impairment of long-lived assets	$ 3,286	$ 2,255	$1,031	$ 3,689	$ 3,305	$ 384

We recorded a net loss of $3.3 million on the disposal of long-lived assets in the third quarter of fiscal 2010 compared to a net loss of $2.3 million in the third quarter of fiscal 2009. For the nine months ended March 28, 2010 we recorded a loss of $3.7 million compared to $3.3 million for the nine months ended March 29, 2009. These losses are due to the impairment or disposal of certain equipment due primarily to changes in and improvements to our manufacturing, fabrication, and other production processes and due to the impairment of certain capitalized patent costs.

Non-Operating Income

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

	Three Months Ended			Nine Months Ended		
	March 28, 2010	March 29, 2009	Change	March 28, 2010	March 29, 2009	Change
Gain on sale of investments, net	$ —	$ 13	$ (13)	$ 1	$ 78	$ (77)
Other non-operating (expense) income	$ 44	$ 13	$ 31	$ 134	$ (4)	$ 138
Interest income, net	$ 2,125	$ 1,837	$ 288	$ 5,737	$ 7,168	$(1,431)

For the three and nine months ended March 28, 2010 and March 29, 2009 we did not have any significant gains or losses realized from the sale of our investments.

We have historically invested portions of our available cash in fixed interest rate securities such as high-grade corporate debt, commercial paper, government securities, municipal bonds, and other fixed interest rate investments. The primary objective of our investments is to preserve principal while maximizing our yields.

Net interest income was $2.1 million compared to $1.8 million for the third quarter of fiscal 2010 and fiscal 2009, respectively. For the nine months ended March 28, 2010 net interest income was $5.7 million compared to $7.2 million for the nine months ended March 29, 2009. Year over year changes in interest income are due to a combination of fluctuations in interest rates on our cash and investments and differences between the periods in our average cash and investment balances.

Other non-operating income is comprised primarily of foreign exchange gains and losses.

Income Tax Expense

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

	Three Months Ended			Nine Months Ended		
	March 28, 2010	March 29, 2009	Change	March 28, 2010	March 29, 2009	Change
Income tax expense	$14,094	$ 768	$13,326	$35,687	$ 5,740	$29,947
Effective tax rate	24.0%	16.1%		26.4%	21.8%	

The variation between the Company's effective tax rate and the U.S. statutory rate of 35 percent is primarily due to the consolidation of our foreign operations, which are subject to income taxes at lower statutory rates. A change in the mix of pretax income from these various tax jurisdictions can have a material impact on our periodic effective tax rate.

We recorded income tax expense of $14.1 million for an effective tax rate of 24.0% in the third quarter of fiscal 2010 as compared to income tax expense of $0.8 million for an effective tax rate of 16.1% in the third quarter of fiscal 2009. For the nine months ended March 28, 2010 we recorded income tax expense of $35.7 million for an effective tax rate of 26.4% as compared to income tax expense of $5.7 million for an effective tax rate of 21.8% for the nine months ended March 29, 2009. The increase in our effective tax rate is primarily due to an increase in U.S. taxable profits at the higher U.S. tax rates.

Liquidity and Capital Resources

Overview

We require cash to fund our operating expenses and working capital requirements, including outlays for research and development, capital expenditures, strategic acquisitions and investments. Our principal sources of liquidity are cash on hand, marketable investments and cash generated from operations. Our ability to generate cash from operations has been one of our fundamental strengths and has provided us with substantial flexibility in meeting our operating, financing and investing needs. We have no debt or lines of credit and have minimal lease commitments. Based on past performance and current expectations, we believe our cash and cash equivalents, investments, and cash generated from operations, and our ability to access capital markets will satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, contractual obligations, commitments and other liquidity requirements associated with our operations through at least the next 12 months.

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

Financial Condition

Our liquidity and capital resources depend on our cash flows from operations and our working capital. Our working capital increased to $1.1 billion as of March 28, 2010 from $500.8 million at June 28, 2009, primarily due to our September 2009 public offering of 12.65 million common shares as well as positive cash flows from operations and cash generated through the exercise of employee stock options. The following table presents the components of our cash conversion cycle for our third fiscal quarter of 2010 and fourth fiscal quarter of 2009:

	March 28, 2010	June 28, 2009	Change
Days of sales outstanding (a)	48	63	(15)
Days of supply in inventory (b)	79	79	0
Days in accounts payable (c)	(52)	(39)	(13)
Cash conversion cycle	75	103	(28)

(a) Days of sales outstanding (DSO) calculates the average collection period of our accounts receivable. DSO is based on the ending net trade receivables and the most recent quarterly revenue for each period. DSO is calculated by dividing accounts receivable, net of allowance for doubtful accounts and revenue reserves, by average net revenue for the current quarter (90 days).

(b) Days of supply in inventory (DSI) measures the average number of days from procurement to sale of our product. DSI is based on net ending inventory and most recent quarterly cost of sales for each period. DSI is calculated by dividing net ending inventory by average cost of goods sold for the current quarter (90 days).

(c) Days in accounts payable (DPO) calculates the average number of days our payables remain outstanding before payment. DPO is based on ending accounts payable and most recent quarterly cost of sales for each period. DPO is calculated by dividing accounts payable by average cost of goods sold for the current quarter (90 days).

Overall our cash conversion cycle, or days to cash, improved by a net 28 days.

As of March 28, 2010, substantially all of our investments had investment grade ratings, and any such investments that were in an unrealized loss position at March 28, 2010 were in such position due to interest rate changes, sector credit rating changes or company-specific rating changes. As we intend and believe that we have the ability to hold such investments for a period of time that will be sufficient for anticipated recovery in market value, we currently expect to receive the full principal or recover our cost basis in these securities. When evaluating our investments for possible impairment, we review factors such as the length of time and extent to which fair value has been below our cost basis, the financial condition of the entity in which the investment is made, and our ability and intent to hold the investment for a period of time that may be sufficient for anticipated recovery in market value. The declines in value of the securities in our portfolio are considered to be temporary in nature and, accordingly, we do not believe these securities are impaired as of March 28, 2010.

We believe our current working capital and anticipated cash flows from operations will be adequate to meet our cash needs for our daily operations and capital expenditures for the remainder of fiscal 2010. We have and may continue to use a portion of our available cash and cash equivalents, or funds underlying our marketable securities, to repurchase shares of our common stock. With our strong working capital position, we believe that we have the ability to continue to invest in further development of our products and, when necessary or appropriate, make selective acquisitions or other strategic investments to strengthen our product portfolio, secure key intellectual properties, or expand our production capacity.

Cash Flows

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

	Nine Months Ended		
	March 28, 2010	March 29, 2009	Change
Cash provided by operating activities	$ 155,631	$ 134,613	$ 21,018
Cash used in investing activities	(693,478)	(160,355)	(533,123)
Cash provided by financing activities	594,619	7,530	587,089
Effects of foreign exchange changes	30	1,246	(1,216)
Net increase (decrease) in cash and cash equivalents	$ 56,802	$ (16,966)	$ 73,768

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

Cash Flows from Operating Activities

Net cash provided by operating activities was $155.6 million in the first nine months ended March 28, 2010 compared to $134.6 million for the nine months ended March 29, 2009. The increase in cash provided by operating activities during the first nine months of fiscal 2010 compared to the same period of the prior year is primarily due to year over year increases in our operating income offset in part by increases in working capital requirements (inventories and accounts receivable) to support the overall growth of the business.

Cash Flows from Investing Activities

Our investing activities primarily relate to transactions within our investments, strategic acquisitions, purchase of property, plant and equipment and purchase of patent and license rights. Net cash used in investing activities was $693.5 million for the nine months ended March 28, 2010 compared to $160.4 million for the nine months ended March 29, 2009. During the nine months ended March 28, 2010, we invested a portion of the funds raised through our follow-on public offering in available-for-sale securities and increased expenditures related to property and equipment to expand our production capacity. Cash used in investing activities also included a $57.1 million cash expenditure related to the second and final contingent consideration payment related to the COTCO acquisition (compared to the first contingent consideration payment of $60.0 million made in the first quarter of fiscal 2009) and an $8.8 million cash expenditure related to the second contingent consideration payment related to the LLF acquisition (compared to the first contingent consideration payment of $4.4 million made in the third quarter of fiscal 2009).

Cash Flows from Financing Activities

Net cash provided by financing activities was $594.6 million for the first nine months ended March 28, 2010 compared to $7.5 million for the nine months ended March 29, 2009. In the current year, cash provided by financing activities increased primarily from a year over year increase in net proceeds from the issuance of common stock. This year over year increase was due to our sale of 12.65 million shares of our common stock with net proceeds of approximately $434.0 million and current year increases in employee stock option exercises.

Off-Balance Sheet Arrangements

We do not use off-balance sheet arrangements with unconsolidated entities or related parties, nor do we use other forms of off-balance sheet arrangements. Accordingly, our liquidity and capital resources are not subject to off-balance sheet risks from unconsolidated entities. As of March 28, 2010, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

We have entered into operating leases primarily for certain of our facilities in the normal course of business. These arrangements are often referred to as a form of off-balance-sheet financing. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 28, 2009, in the section entitled "Contractual Obligations" for the future minimum lease payments due under our operating leases as of June 28, 2009.

Critical Accounting Policies and Estimates

For information about our other critical accounting policies and estimates, see the "Critical Accounting Policies and Estimates" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended June 28, 2009.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about our market risks, see Item 7A of our Annual Report on Form 10-K for the fiscal year ended June 28, 2009.

Item 4. Controls and Procedures

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

We routinely review our internal control over financial reporting and from time to time make changes intended to enhance the effectiveness of our internal control over financial reporting. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and will take action as appropriate. There have been no changes to our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the third quarter of fiscal 2010 that we believe materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 4T. Controls and Procedures

Not applicable.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this item is set forth under Note 12 of Notes to Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report, and is incorporated herein by reference.

Item 1A. *Risk Factors*

Described below are various risks and uncertainties that may affect our business. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in "Part I, Item IA. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 28, 2009. If any of the risks described below actually occurs, our business, financial condition or results of operations could be materially and adversely affected.

We face significant challenges managing our growth.

We have experienced a period of significant growth over the past few years that may challenge our management and other resources. We continue to transform our business to support a global LED components and LED lighting product customer base, while continuing to support our other businesses. In order to manage our growth and business strategy effectively, we must continue to:

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

While we intend to focus on managing our costs and expenses, over the long term we expect to invest substantially to support our growth and may have additional unexpected costs. For example, we recently purchased a 592,000-square-foot facility in Huizhou, Guangdong Province, China to support LED chip and future LED component production. However, such investments take time to become fully operational, and we may not be able to expand quickly enough to exploit targeted market opportunities. There are also inherent execution risks in starting up a new factory that could increase costs and reduce our operating results, including design and construction cost overruns, poor production process yields and reduced quality control during the start-up phase.

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

In connection with our efforts to cost-effectively manage our growth, we have increasingly relied on subcontractors for production capacity, logistics support and certain administrative functions, such as payroll processing. If these service providers do not perform effectively, we may not be able to achieve the expected cost savings and may incur additional costs to correct errors or fulfill customer demand.

Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies or the loss of or damage to intellectual property through security breach, or impact employee morale. Our operations may also be negatively impacted if any of these service providers do not have the financial capability to meet our growing needs.

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

As customer demand for our products changes, we must be able to ramp up or adjust our production capacity to meet demand. We are continually taking steps to address our manufacturing capacity needs for our products. For example, we purchased a 592,000-square-foot facility in Huizhou, Guangdong Province, China to support LED chip and future LED component production. If we are not able to increase our production capacity at our targeted rate, or if there are unforeseen costs associated with adjusting our capacity levels, we may not be able to achieve our financial targets.

Conversely, due to the proportionately high fixed cost nature of our business (such as facility expansion costs), if demand does not increase at the rate forecasted, we may not reach our targeted operating margins due to excess facilities and manufacturing capacity. Additionally, if demand decreases, we may not be able to reduce manufacturing expenses or overhead costs at the same rate as demand, which could also result in lower margins and adversely impact our business and results of operations.

Inventory management also continues to be an area of focus for our growing business. Due to recent rapid increases in demand for our products, we have seen some product lead time extensions. Longer quoted delivery lead times in the past have caused some customers to place the same order multiple times within our various sales channels and to seek to cancel the duplicative orders upon receipt of the product, or to place orders with other vendors with shorter quoted delivery lead times. Although we have not seen significant evidence of this behavior recently, if such multiple ordering (along with other factors) were to occur, the increased risk of order cancellation may cause difficulty in predicting future sales and, as a result, could impair our ability to manage our inventory levels effectively. In addition, our efforts to improve quoted delivery lead-time performance may result in corresponding reductions in order backlog. A decline in backlog levels could result in more variability and less predictability in our quarter-to-quarter net sales and operating results.

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

The markets for our products are highly competitive. In the LED market, we compete with companies that manufacture or sell LED chips as well as those that sell LED components. Competitors continue to offer new blue, green and white LEDs with aggressive pricing and improved performance. Competitive pricing pressures may accelerate the rate of decline of our average sales prices.

With the growth potential for LEDs, we may face increased competition in the future. For example, Samsung has entered the LED market and Taiwan Semiconductor Manufacturing Company has announced its intention to enter the LED market as well (in 2011). Additionally, new technologies could emerge or improvements could be made in existing technologies that may also reduce the demand for LEDs in certain markets.

As competition increases, in order to achieve our revenue growth objectives in the current fiscal year and beyond, we need to continue to develop new products that enable our customers to win new designs and increase market share. Additionally, we anticipate that increased competition for these designs will result in pressure to lower the selling prices of our products. Therefore, our ability to continually produce more efficient, higher brightness LEDs that meet the evolving needs of our customers at lower costs will be critical to our success. Competitors may also try to align with some of our strategic customers. This could mean lower prices for our products, reduced demand for our products and a corresponding reduction in our ability to recover development, engineering and manufacturing costs. Any of these developments could have an adverse effect on our business, results of operations or financial condition.

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

From time to time we evaluate strategic opportunities available to us for product, technology or business transactions, such as business acquisitions or divestitures. For example, in March 2007 we acquired COTCO and in February 2008 we acquired LLF. If we choose to enter into such transactions we face certain risks, such as, failure of an acquired business to meet our performance expectations, diversion of management attention, retention of existing customers of our current and acquired businesses, and difficulty in integrating an acquired business's operations, personnel and financial and operating systems into our current business. For example, through our acquisitions of COTCO and LLF we acquired certain customer relationships, some of which were considered related persons (see Note 16 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2009), that we may not be able to successfully retain on a long-term basis.

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

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

We have expanded into new business channels that are different from those that we have historically operated in as we grow our business and sell LED lighting products and more LED components versus LED chips. If we are unable to effectively penetrate these new distribution channels to ensure our products are reaching the appropriate customer base, our financial results may be adversely impacted. In addition, if we successfully penetrate these new distribution channels, we cannot guarantee that customers will accept our products or that we will be able to manufacture and deliver them in the timeline established by our customers.

A substantial portion of our products are sold through distributors. We typically recognize revenue on product sold to distributors when the item is shipped and title passes to the distributor (sell-in method). Distributors must balance the need of having enough products in stock in order to meet their customer's needs against the risk of potential inventory obsolescence. The risks of inventory obsolescence are especially true with technological products. If our distributors do not properly anticipate demand from their customers, this could lead to distributors seeking to cancel orders or placing fewer orders with us, or otherwise make it more difficult for us to forecast future product demand.

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

Global financial markets continue to reflect uncertainty about a sustained global economic recovery. Given these uncertainties, there could be future disruptions in the global economy, financial markets and consumer confidence. If economic conditions deteriorate unexpectedly, our business and results of operations could be materially and adversely affected. For example, our customers, or their customers, may continue to experience difficulty obtaining financing necessary to support historical or projected purchasing patterns, which could negatively affect our results of operations.

Although we believe we have adequate liquidity and capital resources to fund our operations internally, our inability to access the capital markets on favorable terms in the future, or at all, may adversely affect our financial performance. The inability to obtain adequate financing from debt or capital sources in the future could force us to self-fund strategic initiatives or even forego certain opportunities, which in turn could potentially harm our performance.

Our LED revenues are highly dependent on our customers' ability to produce, market and sell more integrated products using our LED products.

Because our customers generally integrate our LED products into the products that they produce, market and sell, our LED revenues depend on getting our LED products designed into a larger number of our customers' products and in turn, our customers' ability to produce, market and sell their LED products. For example, we have current and prospective customers that create, or plan to create, lighting systems using our LED components. However, the traditional lighting industry is still developing technical expertise with LED related designs, which may limit the success of our customers' products. Even if our customers are able to develop and produce LED lighting products, there can be no assurance that our customers will be successful in marketing and selling these products in the marketplace.

We also have current and prospective customers that create white LED components using our blue LEDs, in combination with phosphors. Sales of blue LED chips are highly dependent upon our customers' ability to procure efficient phosphors, develop high quality and highly efficient white LED components and gain access to the necessary intellectual property rights. Even if our customers are able to develop competitive white LED components using our blue LED chips, there can be no assurance that our customers will be successful in the marketplace.

As a result of our continued expansion in new markets, such as LED components and LED lighting products, our traditional customers may reduce orders.

Through acquisitions and organic growth, we continue to expand in new markets, such as LED components and LED lighting products. In these new markets, some of our current customers may now perceive us as a competitor. In response, our customers may reduce their orders for our products. This reduction in orders could occur faster than our sales growth in these new markets, which could adversely affect our business, results of operations or financial condition.

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

Our future success may depend on our ability to develop new and lower cost solutions for existing and new markets and for customers to accept those solutions. We must introduce new products in a timely and cost-effective manner, and we must secure production orders for those products from our customers. The development of new products is a highly complex process, and we historically have experienced delays in completing the development and introduction of new products. Our research and development efforts are aimed at solving increasingly complex problems, and we do not expect that all of our projects will be successful. The successful development and introduction of these new products depends on a number of factors, including the following:

- achievement of technology breakthroughs required to make commercially viable devices;
- the accuracy of our predictions for market requirements and evolving standards;
- acceptance of our new product designs;
- acceptance of new technology in certain markets;
- the availability of qualified research and development personnel;
- our timely completion of product designs and development;
- our ability to expand sales and influence key customers to adopt our products;
- our ability to develop repeatable processes to manufacture new products in sufficient quantities and at competitive costs for commercial sales;

- our ability to effectively transfer products and technology developed in one country to our manufacturing facilities in other countries;
- our customers' ability to develop competitive products incorporating our products; and
- acceptance of our customers' products by the market.

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

Variations in our production yields could impact our ability to reduce costs and could cause our margins to decline and our operating results to suffer.

All of our products are manufactured using technologies that are highly complex. The number of usable items, or yield, from our production processes may fluctuate as a result of many factors, including but not limited to the following:

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

In the past, we have experienced difficulties in achieving acceptable yields on new products, which has adversely affected our operating results. We may experience similar problems in the future, and we cannot predict when they may occur or their severity.

In addition, our ability to convert volume manufacturing to larger diameter substrates can be an important factor in allowing for a more cost effective manufacturing process. If we are unable to make this transition in a timely or cost effective manner, our results could be negatively impacted.

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

Litigation could adversely affect our operating results and financial condition.

We are often involved in patent infringement litigation as described in Note 13, "Commitments and Contingencies," to our consolidated financial statements included in Item 8 of our Annual Report on Form 10-K for the fiscal year ended June 28, 2009. Defending against existing and potential litigation will likely require significant attention and resources and, regardless of the outcome, result in significant legal expenses, which could adversely affect our results unless covered by insurance or recovered from third parties. If our defenses are ultimately unsuccessful, or if we are unable to achieve a favorable resolution, we could be liable for damage awards that could materially affect our results of operations and financial condition.

Where necessary, we may initiate litigation to enforce our patent or other intellectual property rights. Any such litigation may require us to spend a substantial amount of time and money and could distract management from our day-to-day operations. Moreover, there is no assurance that we will be successful in any such litigation.

Our business may be impaired by claims that we, or our customers, infringe intellectual property rights of others.

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

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

There can be no assurance that third parties will not attempt to assert infringement claims against us, or our customers, with respect to our products. In addition, our customers may face infringement claims directed to the customer's products that incorporate our products, and an adverse result could impair the customer's demand for our products. We have also promised certain of our customers that we will indemnify them in the event they are sued by our competitors for infringement claims directed to the products we supply. Under these indemnification obligations we may be responsible for future payments to resolve infringement claims against them. From time to time we receive correspondence asserting that our products or processes are or may be infringing patents or other intellectual property rights of others. If we believe the assertions may have merit or in other appropriate circumstances, we take steps to seek to obtain a license or to avoid the infringement. However, we cannot predict whether a license will be available; that we would find the terms of any license offered acceptable; or that we would be able to develop an alternative solution. Failure to obtain a necessary license or develop an alternative solution could cause us to incur substantial liabilities and costs and to suspend the manufacture of affected products.

There are limitations on our ability to protect our intellectual property.

Our intellectual property position is based in part on patents owned by us and patents exclusively licensed to us. We intend to continue to file patent applications in the future, where appropriate, and to pursue such applications with U.S. and foreign patent authorities.

However, our existing patents are subject to expiration and we cannot be sure that additional patents will be issued on any new applications around the covered technology or that our existing or future patents will not be successfully contested by third parties. Also, since issuance of a valid patent does not prevent other companies from using alternative, non-infringing technology, we cannot be sure that any of our patents, or patents issued to others and licensed to us, will provide significant commercial protection, especially as new competitors enter the market.

We also rely on trade secrets and other non-patented proprietary information relating to our product development and manufacturing activities. We try to protect this information through appropriate efforts to maintain its secrecy, including requiring employees and third parties to sign confidentiality agreements.

We cannot be sure that these efforts will be successful or that the confidentiality agreements will not be breached. We also cannot be sure that we would have adequate remedies for any breach of such agreements or other misappropriation of our trade secrets, or that our trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

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

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

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

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

We also may be the target of product liability lawsuits, and could suffer losses from a significant product liability judgment against us if the use of our products at issue is determined to have caused injury. A significant product recall or product liability case could also result in adverse publicity, damage to our reputation, and a loss of customer confidence in our products.

Our operations in foreign countries, including China and other Asian countries, expose us to certain risks inherent in doing business internationally, which may adversely affect our business, results of operations or financial condition.

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

- protection of intellectual property and trade secrets;
- tariffs, customs and other barriers to importing/exporting materials and products in a cost effective and timely manner;
- timing and availability of export licenses;
- rising labor costs;
- disruptions in or inadequate infrastructure of the foreign countries where we operate;
- difficulties in accounts receivable collections;

- difficulties in staffing and managing international operations;
- the burden of complying with foreign and international laws and treaties; and
- the burden of complying with and changes in international taxation policies.

In some instances, we have been provided and may continue to receive competing incentives from foreign governments to encourage our investment in certain countries, regions, or areas outside of the United States. In particular, we have received and may continue to receive such incentives in connection with our operations in China, as the Chinese national and local governments seek to encourage the development of the technology industry in China. Government incentives may include tax rebates, reduced tax rates, favorable lending policies and other measures, some or all of which may be available to us due to our foreign operations. Any of these incentives could be reduced or eliminated by governmental authorities at any time. Any reduction or elimination of incentives currently provided to our operations could adversely affect our business and results of operations. These same governments also may provide increased incentives to or require production processes that favor local companies, which could further negatively impact our business and results of operations.

Abrupt political change, terrorist activity and armed conflict pose a risk of general economic disruption in affected countries, which could also result in an adverse effect on our business and results of operations.

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

We expect that revenue from international sales will continue to represent the majority of our total revenue. In fiscal 2009, approximately 80% of our revenue was derived from sales to non-US customers, with approximately 38% of revenue from sales to customers in Hong Kong and China. As such, a significant slowdown in these foreign economies or lower investments in new infrastructure could have a negative impact on our sales. We also purchase a portion of the materials included in our products from overseas sources.

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

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

We have not entered into any foreign currency derivative financial instruments; however, we may choose to do so in the future in an effort to manage or hedge our foreign exchange rate risk.

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

We receive a significant amount of our revenues from a limited number of customers. For example, in fiscal 2009, two customers, Seoul Semiconductor Co., Ltd. and Arrow Electronics, Inc. individually accounted for more than 10% of our net revenue, for a combined total of 24% of our total net revenue. Sales to these and most of our other large customers are made on a purchase order basis, which does not generally require any long-term customer commitments. Therefore, these customers may alter their past purchasing behavior with little or no notice to us for various reasons, including: developing their own product solutions; choosing to purchase product from our competitors; or experiencing a reduction in their market share in the markets for which they purchase our products. If our customers alter their past (or expected) purchasing behavior, or if we encounter any problems collecting amounts due from them, our financial condition and results of operations could be negatively impacted.

We rely on a few key sole source and limited source suppliers, and are subject to high price volatility on certain commodity inputs.

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

We generally purchase these sole or limited source items with purchase orders, and we have limited guaranteed supply arrangements with such suppliers. We do not control the time and resources that these suppliers devote to our business, and we cannot be sure that these suppliers will perform their obligations to us. In the past, we have experienced decreases in our production yields when suppliers have varied from previously agreed upon specifications that have impacted our cost of sales.

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

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

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

Changes in our effective tax rate may have an adverse effect on our results of operations.

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

- changes in government administrations, such as the Presidency and Congress of the U.S. as well as in the states and countries in which we operate;

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

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

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

We may be subject to intellectual property theft or misuse through the Internet, which could harm our business and results of operations.

We may face attempts by others to gain unauthorized access through the Internet to our information technology systems. These attempts might be the results of industrial or other espionage, or actions by hackers seeking to harm us. We actively seek to prevent, detect and investigate any security incidents, but in some cases we might be unaware of an incident or its magnitude and effects. The theft and/or unauthorized use or publication of our trade secrets and other confidential business information as a result of such an incident could adversely affect our competitive position and the value of our investment in research and development, product development, and marketing could be reduced. Our business could be subject to significant disruption, and we could suffer monetary or other losses.

If government agencies discontinue or curtail their funding for our research and development programs, our business may suffer.

Changes in federal budget priorities could adversely affect our contract revenue. Historically, government agencies have funded a significant portion of our research and development activities. When the government changes budget priorities, such as in times of war or financial crisis, our funding has the risk of being redirected to other programs. Government contracts are also subject to the risk that the government agency may not appropriate and allocate all funding contemplated by the contract. In addition, our government contracts generally permit the contracting authority to terminate the contracts for the convenience of the government. The full value of the contracts would not be realized if they were prematurely terminated. Furthermore, we may be unable to incur sufficient allowable costs to generate the full estimated contract values and there is some risk that any technologies developed under these contracts may not have commercial value. If government funding is discontinued or reduced, our ability to develop or enhance products could be limited, and our business, results of operations and financial condition could be adversely affected.

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

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

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

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

Catastrophic events may disrupt our business.

A disruption or failure of our systems or operations in the event of a natural disaster, health pandemic, such as an influenza outbreak within our workforce, or man-made catastrophic event could cause delays in completing sales, continuing production or performing other critical functions of our business, especially in the case of our single site for SiC wafer and LED fabrication. A catastrophic event that results in the destruction or disruption to our supply chain or any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our operating results could be adversely affected.

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

In order to compete, we must attract, motivate and retain executives and other key employees, including those in managerial, technical, sales, marketing and support positions. Hiring and retaining qualified executives, scientists, engineers, technical staff and sales personnel are critical to our business, and competition for experienced employees in our industry can be intense. To help attract, motivate and retain key employees, we use stock-based compensation awards such as non-qualified stock options and restricted stock. If the value of such stock awards does not appreciate, as measured by the performance of the price of our common stock, or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate employees could be weakened, which could harm our business and results of operations.

Our stock price may be volatile.

Historically, our common stock has experienced substantial price volatility, particularly as a result of significant fluctuations in our revenue, earnings and margins over the past few years and variations between our actual financial results and the published expectations of analysts. If our future operating results or margins are below the expectations of stock market analysts or our investors, our stock price will likely decline.

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

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

We are required under generally accepted accounting principles to review our amortizable intangible assets and investments in equity interests for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets or goodwill may not be recoverable include a decline in stock price and market capitalization and slower growth rates in our industry. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our amortizable intangible assets or goodwill is determined to exist. This could adversely impact our results of operations.

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

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results of operations (see “Critical Accounting Policies and Estimates” in our Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 28, 2009). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

Likewise, our results of operations may be impacted due to changes in the accounting rules to be applied, such as the increased use of fair value measurement rules and the potential requirement that U.S. registrants prepare financial statements in accordance with International Financial Reporting Standards.

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

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

Table of Contents

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. (Removed and Reserved)

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

Exhibit No.	Description
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURE

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

CREE, INC.

Date: April 21, 2010

/s/ John T. Kurtzweil

John T. Kurtzweil
Executive Vice President, Chief Financial Officer and Treasurer
(Authorized Officer and Principal Financial and Chief Accounting Officer)

Table of Contents

EXHIBIT INDEX

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32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 31.1

Certification by Chief Executive Officer
pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as
adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Charles M. Swoboda, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cree, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 21, 2010

/s/ Charles M. Swoboda

Charles M. Swoboda
Chairman, President and Chief Executive Officer

Exhibit 31.2

Certification by Chief Financial Officer
pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as
adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John T. Kurtzweil, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cree, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 21, 2010

/s/ John T. Kurtzweil

John T. Kurtzweil
Executive Vice President, Chief Financial Officer and
Treasurer

Exhibit 32.1

Certification by Chief Executive Officer
pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Cree, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 28, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles M. Swoboda, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Charles M. Swoboda
Charles M. Swoboda
Chairman, Chief Executive Officer and President

April 21, 2010

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification by Chief Financial Officer
pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Cree, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 28, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John T. Kurtzweil, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John T. Kurtzweil
John T. Kurtzweil
Executive Vice President, Chief Financial Officer and Treasurer

April 21, 2010

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.