CREE INC
Form 10-K
August 21, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 24, 2012

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) 407-5300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.00125 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No ý

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 ý 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 ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	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 Act). Yes ¨ No ý

The aggregate market value of common stock held by non-affiliates of the registrant as of December 23, 2011, the last business day of the registrant’s most recently completed second fiscal quarter, was $2,472,345,957 (based on the closing sale price of $21.66 per share).

The number of shares of the registrant’s Common Stock, $0.00125 par value per share, outstanding as of August 14, 2012 was 115,953,015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held October 23, 2012 are incorporated by reference into Part III.

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Forward-Looking Information

Information set forth in this Annual Report on Form 10-K 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” an and other similar expressions constitute forward-looking statements. These forward-looking statements are subject to business, economic and other risks and uncertainties, both known and unknown, and actual results may differ materially from those contained in the forward-looking statements. Any forward-looking statements we make are as of the date made, and except as required under the U.S. federal securities laws and the rules and regulations of the Securities and Exchange Commission (SEC), we disclaim any obligation 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 Annual 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 Item 1A of this Annual Report.

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PART I

Item 1. Business

Overview

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

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

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

Our lighting products consist of both LED and traditional lighting systems. We design, manufacture and sell lighting systems for indoor and outdoor applications, with our primary focus on LED lighting systems for the commercial and industrial markets. We also use our LED systems expertise to accelerate LED lighting adoption and expand the market for our LED components.

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

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

Cree, Inc. is a North Carolina corporation established in 1987. For further information about our consolidated revenues and earnings, please see our consolidated financial statements included in Item 8 of this Annual Report.

Reportable Segments

As of June 24, 2012, we have three reportable segments:

- LED Products
- Lighting Products
- Power and RF Products

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

For financial results by reportable segment, please refer to Note 13, "Reportable Segments" in our consolidated financial statements included in Item 8 of this Annual Report.

Products by Reportable Segment

LED Products Segment

LED Products revenue represented 65%, 82% and 86% of revenue for the fiscal years ended June 24, 2012, June 26, 2011 and June 27, 2010, respectively. LED Products gross profit was $290.6 million, $375.4 million and $379.8 million and gross margin was 38%, 46%, and 51% for fiscal years 2012, 2011, and 2010, respectively.

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Our LED Products segment includes LED chips, LED components, and SiC wafers.

LED Chips

Our LED chip products include blue and green LED chips based on GaN and related materials. LED chips or die are solid state electronic components used in a number of applications and are currently available in a variety of brightness levels, wavelengths (color) and sizes. We use our LED chips in the manufacturing of our LED components. Some of our customers use our blue and green LED chips in a variety of applications including video screens, gaming displays such as pachinko, function indicator lights and automotive backlights. Other customers combine our blue LED chips with phosphors to create white LEDs, which are used in various applications for indoor and outdoor illumination and backlighting, full-color display screens, liquid crystal display (LCD) backlighting, white keypads and the camera flash function.

LED Components

Our LED components include a range of packaged LED products from our XLamp® LED components and LED modules for lighting applications to our high brightness LED components.

Our XLamp LED components and LED modules are lighting class packaged LED products designed to meet a broad range of market needs for lighting applications including general illumination (both indoor and outdoor applications), portable, architectural, signal and transportation lighting. We also use our XLamp LED components in our lighting products.

Our high brightness LED components consist of surface mount (SMD) and through-hole packaged LED products. Our SMD LED component products are available in a full range of colors designed to meet a broad range of market needs, including video, signage, general illumination, transportation, gaming and specialty lighting. Our through-hole packaged LED component products are available in a full range of colors primarily designed for the signage market and provide users with color and brightness consistency across a wide viewing area.

SiC Wafers

Our SiC wafers are targeted for customers who use the wafers to manufacture products for optoelectronics, RF, power switching and other applications. Corporate, government and university customers also buy SiC materials for research and development directed at optoelectronics, RF, and high power devices. We sell our wafers as a bare wafer or with epitaxial films of SiC or GaN materials.

Lighting Products Segment

Lighting Products revenue represented 29%, 8%, and 5% of our revenues for the fiscal years ended June 24, 2012, June 26, 2011 and June 27, 2010, respectively. Lighting Products gross profit was $103.4 million, $23.7 million and $12.0 million and gross margin was 31%, 29%, and 28% for fiscal years 2012, 2011, and 2010, respectively.

Our Lighting Products segment consists of both LED and traditional lighting systems. Our portfolio of lighting products is designed for use in such settings as office and retail space, restaurants and hospitality, schools and universities, manufacturing, healthcare, airports, municipal, residential, street lighting and parking structures, among other applications.

During fiscal 2012, we expanded into outdoor lighting through our acquisition of Ruud Lighting, Inc. ("Ruud Lighting"), a leader in outdoor LED lighting. Ruud Lighting added an extensive array of outdoor LED-lighting products to our existing portfolio, including the BetaLED® and LEDway® brands. As part of this acquisition, we also obtained traditional lighting brands, including Ruud Lighting® Direct, E-conolight®, Kramer Lighting®, Beta/Kramer® and Beta Lighting.™

Power and RF Products Segment

Power and RF Products revenue represented 6%, 10%, and 9% of our revenues for the fiscal years ended June 24, 2012, June 26, 2011 and June 27, 2010, respectively. Power and RF Products gross profit was $32.1 million, $49.8 million and $34.4 million and gross margin was 44%, 51%, and 44% for fiscal years 2012, 2011, and 2010, respectively.

Our Power and RF Products segment includes power devices and RF devices.

Power Devices

Our SiC-based power products include 600, 1,200 and 1,700-volt Schottky diodes as well as 1200-volt SiC metal semiconductor field-effect transistors (MOSFETs). Our customers purchase our power products for use in power factor correction circuits for power supplies used in computer servers, solar inverters and other applications. We are developing additional SiC-based power devices that could have a number of potential uses in applications for power conditioning, solar inverters, power supplies and motor controls.

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RF Devices

Our RF products include a variety of GaN high electron mobility transistors (HEMTs) and monolithic microwave integrated circuits (MMICs), which are optimized for either military or commercial applications. We also provide foundry services for wide bandgap MMICs. The MMIC foundry service allows a customer to design its own custom RF circuit to be fabricated in our MMIC foundry, or have us provide custom MMIC design for the customer and fabricate the chips.

Financial Information about Geographic Areas of Customers and Assets

We derive our revenue primarily from product sales to international customers. For information concerning geographical areas of our customers and geographic information concerning our long-lived assets, please see Note 17, “Geographic Information,” in our consolidated financial statements included in Item 8 of this Annual Report. International operations expose us to risks that are different from operating in the United States, including foreign currency translation and transaction risk, risk of changes in tax laws, application of import/export laws and regulations and other risks described further in Item 1A “Risk Factors” of this Annual Report.

Research and Development

We invest significant resources in research and development. Our research and development activity includes efforts to:

- increase the quality, performance and diameter of our substrate and epitaxial materials;
- continually improve our manufacturing processes;
- develop brighter, more efficient, and lower cost LED chip and component products;
- create new, and improve existing, LED components and LED lighting products; and
- develop higher power diodes/switches and higher power/higher linearity RF devices.

When our customers participate in funding our research and development programs, we record the amount funded as a reduction of research and development expenses to the extent that our customers’ funding does not exceed our respective research and development costs. For further information about these programs, see Note 2, “Basis of Presentation and Summary of Significant Accounting Policies,” in our consolidated financial statements included in Item 8 of this Annual Report. For further information about our research and development, see “Research and Development” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Sales and Marketing

We continue to make significant investments to expand our global sales, marketing, technical applications support, and distribution capabilities to sell our lighting products and further enable new and existing customers to implement LED and power technology into their products. We also continue to make investments to promote and build market awareness of the Cree brand. Our growing sales, marketing and technical applications teams include personnel throughout North America, Asia, and Europe.

Cree Thermal, Electrical, Mechanical, Photometric, and Optical (TEMPO) Services provide a comprehensive suite of performance tests to assist our customers in developing high quality LED lighting products. We currently provide TEMPO Services out of our Cree Technology Centers located in North Carolina, California, and Shenzhen and Shanghai, China.

Customers

We have historically had a few key customers who represented more than 10% of our consolidated revenues. In fiscal 2012, 2011, and 2010, revenues from two distribution customers, Arrow Electronics, Inc. (Arrow) and World Peace Industrial Co., Ltd. (World Peace), exceeded 10% of our total consolidated revenues. Sales to Arrow and World Peace represented 18% and 10% of our total consolidated revenues in fiscal 2012, respectively. In fiscal 2011, sales to Arrow and World Peace represented 20% and 10% of our total consolidated revenues, respectively. In fiscal 2010, sales to Arrow and World Peace represented 19% and 11% of our total consolidated revenues, respectively. Arrow and World Peace are customers of our LED Products segment and our Power and RF Products segment. For further discussion regarding customer concentration, please see Note 14, “Concentrations of Risk,” in our consolidated financial statements included in Item 8 of this Annual Report. The loss of any large customer could have a material adverse effect on our business and results of operations.

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Distribution

A substantial portion of our products are sold to distributors. Distributors stock inventory and sell our products to their own customer base, which may include: value added resellers, manufacturers who incorporate our products into their own manufactured goods, or ultimate end users of our products. We also utilize third-party sales representatives who generally do not maintain a product inventory; instead, their customers place orders directly with us or through distributors.

Seasonality

Our LED Products segment may experience seasonally lower sales during our third quarter due to the Chinese New Year holiday. During this period, our LED Products segment may experience disruption in normal customer purchasing volume. Our Lighting Products segment may experience seasonally lower sales due to winter weather, impacting our second and third quarters. Due to these seasonal factors, the Lighting Products segment may experience lower sales during these periods. Our Power and RF Products segment is not generally subject to seasonality.
Our sales also vary based on other factors such as customer demand and government regulation.
If anticipated sales or shipments do not occur when expected, our results of operations for that quarter, and potentially for future quarters, may be adversely affected.

Backlog

Our backlog at June 24, 2012, the last day of our 2012 fiscal year, was approximately $149.1 million, compared with a backlog of approximately $172.1 million at June 26, 2011, the last day of our 2011 fiscal year. Because of the generally short cycle time between order and shipment and occasional customer changes in delivery schedules or cancellation of orders (which at times may be made without significant penalty), we do not believe that our backlog, as of any particular date, is necessarily indicative of actual net sales for any future period. Additionally, our June 24, 2012 backlog figure contains $37.4 million of research contracts signed with the U.S. Government, for which approximately $27.6 million had not been appropriated as of the last day of fiscal 2012. Our June 26, 2011 backlog figure contains $55.4 million of research contracts signed with the U.S. Government, for which approximately $37.3 million were not appropriated as of the last day of fiscal 2011. Our backlog could be adversely affected if the U.S. Government exercises its rights to terminate our government contracts or does not appropriate and allocate all of the funding contemplated by the contracts.

Sources of Raw Materials

We depend on a number of suppliers for certain raw materials, components and equipment used in our products, including certain key materials and equipment used in our crystal growth, wafering, polishing, epitaxial deposition, device fabrication, component and lighting assembly processes. We generally purchase these limited source items pursuant to purchase orders and have limited guaranteed supply arrangements with our suppliers. Our suppliers, located around the world, can be subject to many constraints limiting supply that are beyond our control. We believe our current supply of essential materials is sufficient to meet our needs. However, shortages have occurred from time to time and could occur again.

Competition by Reportable Segment

Our success depends on our ability to keep pace with the evolving technology standards of the industries we serve. These industries are characterized by rapid technological change, frequent introduction of new products, short product life cycles, changes in end user and customer requirements, and a competitive pricing environment. The evolving nature of these industries may render our existing or future products obsolete, noncompetitive or unmarketable. Any of these developments could have an adverse effect on our business, results of operations and financial condition.

LED Products Segment

Our LED Products segment's primary competitors are Nichia Corporation (Nichia), OSRAM Semiconductor GmbH (OSRAM), Koninklijke Philips Electronics N.V. (Philips), and Samsung LED Company (Samsung).

LED Chips

The primary competition for our LED chip products comes from companies that manufacture and/or sell nitride-based LED chips. We consider Nichia to be a competitor because it sells LED chips to a select number of LED packaging companies and it sells packaged LEDs that most often compete directly with our chip customers. We believe, based on industry information, that Nichia currently has the largest market share for nitride-based LEDs.

There are many other LED chip producers who sell blue, green and white LED chip products, including OSRAM, Toyoda Gosei Co., Ltd., and Epistar Corporation. These competitors make products for a variety of applications in a range of performance levels that compete directly with our LED chip products.

Overall, we believe that performance, price and strength of intellectual property are the most significant factors to compete successfully in the nitride LED market. We believe our products are well positioned to meet the market performance requirements; however, there is significant pricing pressure from a number of competitors. We continually strive to improve our competitive position by developing brighter and higher performing LED chips while focusing on lowering costs.

LED Components

The market for lighting class LED components is concentrated primarily in indoor and outdoor commercial lighting; specialty lighting, including torch lamps (flashlights); color changing architectural lighting; signs and signals; and transportation. Nichia, OSRAM, Philips, and Samsung are the main competitors in these markets. These companies sell LED components that compete indirectly with our target customers for LED chips and compete directly with our XLamp LED components and LED modules. There are a large number of other companies, primarily based in Asia, that offer products designed to compete both directly and indirectly with our LED components in lighting and other applications. We are positioning our XLamp LED components and LED modules to compete in this market based on performance, price and usability.

Our high brightness LED components compete with a larger number of competitors around the world in a variety of applications including signage, video, transportation, gaming and specialty lighting. We are positioning our high brightness LED components to compete in this market based on performance, price, availability and usability.

SiC Wafers

We have continued to maintain our well-established leadership position in the sale of SiC wafer and SiC and GaN epitaxy products. We are seeing increased competition in this market.

Lighting Products Segment

Our Lighting Products segment currently faces competition from traditional lighting fixture companies, lamp manufacturers and from non-traditional companies focused on LED lighting systems including fixtures and lamps. Lighting companies such as Acuity Brands, Inc., Cooper Industries plc, General Electric Company, Hubbell Incorporated, Philips, and OSRAM are the main competitors in this market. However, increasingly, other companies (i.e., start-ups) are beginning to emerge in the LED lighting market in which we compete.

Our LED lighting products compete against traditional lighting products using incandescent, fluorescent, halogen, ceramic metal halide or other lighting technology. Our LED lighting products compete against traditional lighting products based upon superior energy savings, extended life, improved lighting quality and lower total cost of ownership. Also, our LED lighting products have a reduced impact on the environment as compared to fluorescent and compact fluorescent technologies that contain mercury.

We also compete with LED-based products from traditional and non-traditional lamp and fixture companies, some of which are customers for our LED chips and LED components. Our products compete on the basis of color quality and consistency, superior light output, reduced energy consumption, brand and lower total cost of ownership.

Power and RF Products Segment

Power Devices

Our SiC-based power devices compete with similar devices offered by Infineon Technologies AG, STMicroelectronics, Inc. and Rohm Co., Ltd. There are also a number of other companies developing SiC-based power devices. In addition, our products compete with existing silicon-based power devices offered by a variety of manufacturers.

RF Devices

Currently, Sumitomo Electric Device Innovations, Inc. is the main company offering products that compete directly with our GaN HEMT products, although several other companies such as RF Micro Devices Inc., Nitronex Corporation and Triquint Corporation have products that compete with us as well. Our products also face competition from existing silicon and GaAs-based products.

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Patents and Other Intellectual Property Rights

We believe it is important to protect our investment in technology by obtaining and enforcing intellectual property rights, including rights under patent, trademark, trade secret and copyright laws. We seek to protect inventions we consider significant by applying for patents in the United States and other countries when appropriate. We have also acquired, through license grants and assignments, rights to patents on inventions originally developed by others. As of June 24, 2012, we owned or held exclusive rights under 940 issued U.S. patents and approximately 1,850 foreign patents with various expiration dates extending up to 2037. We do not consider our business to be materially dependent upon any one patent, and we believe our business will not be materially adversely affected by the expiration of any one patent. For proprietary technology that is not patented, we generally seek to protect the technology and related know-how and information as trade secrets by keeping confidential the information that we believe provides us with a competitive advantage. We attempt to create strong brands for our products and promote our products through trademarks that distinguish them in the market. We may license our customers to use our trademarks in connection with the sale of our products, and we monitor for the proper and authorized use of our marks.

Licensing activities and lawsuits to enforce intellectual property rights, particularly patent rights, are a common feature of the semiconductor, LED and lighting industries, and we attempt to ensure respect for our intellectual property rights through appropriate actions. The breadth of our intellectual property rights and the extent to which they can be successfully enforced vary across jurisdictions. We both make and receive inquiries regarding possible patent infringements and possible violations of other intellectual property rights in the normal course of business. Depending on the circumstances, we may seek to negotiate a license or other acceptable resolution. If we are unable to achieve a resolution by agreement, we may seek to enforce our rights or defend our position through litigation. Patent litigation in particular is expensive and the outcome is often uncertain. We believe that the strength of our portfolio of patent rights is important in helping us resolve or avoid such disputes with other companies in our industry.

Environmental Regulation

We are subject to a variety of federal, state and local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. These include statutory and regulatory provisions under which we are responsible for the management of hazardous materials we use and the disposition of hazardous wastes resulting from our manufacturing processes. Failure to comply with such provisions could result in fines and other liabilities to the government or third parties, injunctions requiring us to suspend or curtail operations or other remedies, and could have a material adverse effect on our business.

Working Capital

For a discussion of our working capital practices, see “Liquidity and Capital Resources” in Item 7 of this Annual Report.

Employees

As of June 24, 2012, we employed 5,555 regular full and part-time employees. We also employ individuals on a temporary full-time basis and use the services of contractors as necessary. Certain of our employees in various countries outside of the United States are subject to laws providing representation rights. We consider relations with our employees to be good.

Available Information

Our website address is www.cree.com. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, including Interactive Data Files, and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. These reports may be accessed from our website by following the links under “Investors,” then “SEC Filings.” The information found on our website is not part of this or any other report we file with or furnish to the SEC. We assume no obligation to update or revise any forward-looking statements in this Annual Report or in other reports filed with the SEC, whether as a result of new information, future events or otherwise, unless we are required to do so by law. A copy of this Annual Report and our other reports is available without charge upon written request to Investor Relations, Cree, Inc., 4600 Silicon Drive, Durham, North Carolina 27703.

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Item 1A. Risk Factors
Described below are various risks and uncertainties that may affect our business. If any of the risks described below actually occurs, our business, financial condition or results of operations could be materially and adversely affected.

Our operating results are substantially dependent on the development and acceptance of new products.
Our future success may depend on our ability to develop new 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 beyond near term visibility;
- our ability to predict, influence, and/or react to evolving standards;
- acceptance of our new product designs;
- acceptance of new technology in certain markets;
- the availability of qualified research and development personnel;
- our timely completion of product designs and development;
- our ability to expand direct customer sales and influence key distribution customers to adopt our products;
- our ability to develop repeatable processes to manufacture new products in sufficient quantities, with the desired specifications and at competitive costs 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.

If we are unable to effectively develop, manage and expand our sales and distribution channels for our products, our operating results may suffer.
We have expanded into business channels that are different from those in which we have historically operated as we grow our business and sell more LED and lighting products. For example, in the third quarter of fiscal 2012, we consolidated the Cree and BetaLED lighting product lines sales agents for each major market in North America which resulted in a disruption in the project pipeline and lower than targeted sales for our indoor lighting products. Lighting sales agents may also choose to drop our product lines from their portfolio to avoid losing access to our competitors' lighting products. If we are unable to effectively penetrate these channels or develop alternate channels to ensure our products are reaching the appropriate customer base, our financial results may be adversely impacted. In addition, if we successfully penetrate or develop these channels, we cannot guarantee that customers will accept our products or that we will be able to manufacture and deliver them in the timeline established by our customers.
We sell a substantial portion of our products to distributors. We rely on distributors to develop and expand their customer base as well as anticipate demand from their customers. If they are not successful, our growth and profitability may be adversely impacted. Distributors must balance the need to have enough products in stock in order to meet their customers' needs against their internal target inventory levels and the risk of potential inventory obsolescence. The risks of inventory obsolescence are especially true with technological products. The distributors' internal target inventory levels vary depending on market cycles and a number of factors within each distributor over which we have very little, if any, control.

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

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

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

While we intend to focus on managing our costs and expenses, over the long term we expect to invest substantially to support our growth and may have additional unexpected costs. For example, in November 2011, we broke ground on a 208,000 square foot expansion to our Wisconsin manufacturing and warehouse facilities to support our LED lighting products production in fiscal 2013 and we are targeting to continue expanding our LED products manufacturing facilities in China. However, such investments take time to become fully operational, and we may not be able to expand quickly enough to exploit targeted market opportunities. There are also inherent execution risks in starting up a new factory or expanding production capacity that could increase costs and reduce our operating results, including design and construction cost overruns, poor production process yields and reduced quality control during the start-up phase.

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

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

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

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

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As competition increases, in order to continue to grow our business, we need to continue to develop new products that meet or exceed the needs of our customers. Therefore, our ability to continually produce more efficient, higher brightness and lower cost LEDs and lighting products that meet the evolving needs of our customers will be critical to our success. Competitors may also try to align with some of our strategic customers. This could mean lower prices for our products, reduced demand for our products and a corresponding reduction in our ability to recover development, engineering and manufacturing costs. Any of these developments could have an adverse effect on our business, results of operations or financial condition.

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

We rely on a number of key sole source and limited source suppliers, and are subject to high price volatility on certain commodity inputs, variations in parts quality, and raw material consistency and availability.
We depend on a number of sole source and limited source suppliers for certain raw materials, including rare earth elements, components, services and equipment used in manufacturing our products, including key materials and equipment used in critical stages of our manufacturing processes. Although alternative sources generally exist for these items, qualification of many of these alternative sources could take up to six months or longer. Where possible, we attempt to identify and qualify alternative sources for our sole and limited source suppliers.
We generally purchase these sole or limited source items with purchase orders, and we have limited guaranteed supply arrangements with such suppliers. Some of our sources can have variations in attributes and availability which can affect our ability to produce products in sufficient volume or quality. We do not control the time and resources that these suppliers devote to our business, and we cannot be sure that these suppliers will perform their obligations to us. Additionally, general shortages in the marketplace of certain raw materials or key components may adversely impact our business. In the past, we have experienced decreases in our production yields when suppliers have varied from previously agreed upon specifications that have impacted our cost of sales.
Additionally, the inability of our suppliers to access capital efficiently could cause disruptions in their businesses, thereby negatively impacting ours. This risk may increase if an economic downturn negatively affects key suppliers or a significant number of our other suppliers. Any delay in product delivery or other interruption or variation in supply from these suppliers could prevent us from meeting commercial demand for our products. If we were to lose key suppliers, our key suppliers were unable to support our demand for any reason, or we were unable to identify and qualify alternative suppliers, our manufacturing operations could be interrupted or hampered significantly.
We rely on arrangements with independent shipping companies for the delivery of our products from vendors and to customers in both the United States and abroad. The failure or inability of these shipping companies to deliver products, or the unavailability of their shipping services, even temporarily, could have a material adverse effect on our business. We may also be adversely affected by an increase in freight surcharges due to rising fuel costs and added security.
In our fabrication process we consume a number of precious metals and other commodities, which are subject to high price volatility. Our operating margins could be significantly affected if we are not able to pass along price increases to our customers. In addition, production could be disrupted by the unavailability of the resources used in production such as water, silicon, electricity and gases. Future environmental regulations could restrict supply or increase the cost of certain of those materials.

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

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

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

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

We receive a significant amount of our revenues from a limited number of customers, including distributors who represented our two largest customers in fiscal 2012. Most of our customer orders are made on a purchase order basis, which does not generally require any long-term customer commitments. Therefore, these customers may alter their past purchasing behavior with little or no notice to us for various reasons, including: developing, or, in the case of our distributors, their customers developing, their own product solutions; choosing to purchase product from our competitors; incorrectly forecasting end market demand for their products; or experiencing a reduction in their market share in the markets for which they purchase our products. If our customers alter their 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.

As a result of our continued expansion into new markets existing customers may reduce orders.

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

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

As customer demand for our products changes, we must be able to ramp up or adjust our production capacity to meet demand. We are continually taking steps to address our manufacturing capacity needs for our products. For example, in November of 2011, we broke ground on a 208,000 square foot expansion to our Wisconsin manufacturing and warehouse facilities to support our LED lighting products and we are targeting to continue expanding our LED product manufacturing facilities in China. If we are not able to increase our production capacity at our targeted rate, or if there are unforeseen costs associated with adjusting our capacity levels, we may not be able to achieve our financial targets.

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

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

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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, we acquired Ruud Lighting in August 2011. If we choose to enter into such transactions, we face certain risks, such as the failure of an acquired business to meet our performance expectations, diversion of management attention, identification of additional liabilities relating to the acquired business, retention of existing customers of our current and acquired businesses due to concerns that new product lines may be in competition with the customers of existing product lines or otherwise, and difficulty integrating an acquired business's operations, personnel and financial and operating systems into our current business. We may not be able to adequately address these risks or any other problems that arise from our recent or future acquisitions or divestitures. Any failure to successfully evaluate strategic opportunities and address risks or other problems that arise related to any such business transaction could adversely affect our business, results of operations or financial condition.

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

The adoption of or changes in government and/or industry policies, standards or regulations relating to the efficiency, performance or other aspects of LED lighting or changes in government and/or industry policies, standards or regulations that discourage the use of certain traditional lighting technologies, could impact the demand for our LED products.
The adoption of or changes in government and/or industry policies, standards or regulations relating to the efficiency, performance or other aspects of LED lighting may impact the demand for our LED products. For example, in 2010 the Chinese government delayed purchases of LED street and tunnel lighting while developing new standards for the required performance for such lighting products in China. The process resulted in reduced demand for those lighting applications and has continued to limit our ability to forecast demand for those applications.
Demand for our LED products may also be impacted by changes in government and/or industry policies, standards or regulations that discourage the use of certain traditional lighting technologies. These constraints may be eliminated or delayed by legislative action, which could have a negative impact on demand for our products.

If governments, their agencies or regulated utilities reduce their demand for our products or discontinue or curtail their funding, our business may suffer.
Changes in governmental budget priorities could adversely affect our business and results of operations. U.S. and foreign government agencies have purchased products directly from us and products from our customers, and U.S. government agencies have historically funded a portion of our research and development activities. When the government changes budget priorities, such as in times of war or financial crisis, our research and development funding and our product sales to government entities are at risk. For example, demand and payment for our products and our customers' products may be affected by public sector budgetary cycles, funding authorizations, or utility

rebates. Funding reductions or delays could negatively impact demand for our products. If government funding is discontinued or significantly reduced, our business and results of operations could be adversely affected.

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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;
- inventory shrinkage or human errors;
- defects in production processes (including system assembly) either within our facilities or at our contractors; and
- any transitions or changes in our production process, planned or unplanned.

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

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

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.

Catastrophic events may disrupt our business.

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

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

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

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

- costs associated with the removal, collection and destruction of the product recalled;
- payments made to replace recalled product;
- a rise in warranty expense and costs associated with customer support;
- the write down or destruction of existing inventory subject to the recall;

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- 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 expose us to certain risks inherent in doing business internationally, which may adversely affect our business, results of operations or financial condition.

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

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

In some instances, we have been provided and may continue to receive 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 Asia, as Asian national and local governments seek to encourage the development of the technology industry. Government incentives may include tax rebates, reduced tax rates, favorable lending policies and other measures, some or all of which may be available to us due to our foreign operations. Any of these incentives could be reduced or eliminated by governmental authorities at any time. Any reduction or elimination of incentives currently provided to our operations could adversely affect our business and results of operations. These same governments also may provide increased incentives to or require production processes that favor local companies, which could further negatively impact our business and results of operations.

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

Litigation could adversely affect our operating results and financial condition.

We are often involved in litigation, primarily patent litigation, as described in more detail in Note 12, "Commitments and Contingencies" to our consolidated financial statements included in Item 8 of this Annual Report. Defending against existing and potential litigation will likely require significant attention and resources and, regardless of the outcome, result in significant legal expenses, which could adversely affect our results unless covered by insurance or recovered from third parties. If our defenses are ultimately unsuccessful, or if we are unable to achieve a favorable resolution, we could be liable for damage awards that could materially affect our results of operations and financial condition.

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

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

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

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

There are limitations on our ability to protect our intellectual property.
Our intellectual property position is based in part on patents owned by us and patents licensed to us. We intend to continue to file patent applications in the future, where appropriate, and to pursue such applications with U.S. and foreign patent authorities.
However, our existing patents are subject to expiration and re-examination and we cannot be sure that additional patents will be issued on any new applications around the covered technology or that our existing or future patents will not be successfully contested by third parties. Also, since issuance of a valid patent does not prevent other companies from using alternative, non-infringing technology, we cannot be sure that any of our patents, or patents issued to others and licensed to us, will provide significant commercial protection, especially as new competitors enter the market.
We periodically discover products that are counterfeit reproductions of our products or that otherwise infringe on our intellectual property rights. The actions we take to establish and protect trademarks, patents, and other intellectual property rights may not be adequate to prevent imitation of our products by others, and therefore, may adversely affect our sales and our brand and result in the shift of customer preference away from our products. Further, the actions we take to establish and protect trademarks, patents and other intellectual property rights could result in significant legal expense and divert the efforts of our technical personnel and management, even if the litigation or other action results in a determination favorable to us.
We also rely on trade secrets and other non-patented proprietary information relating to our product development and manufacturing activities. We try to protect this information through appropriate efforts to maintain its secrecy, including requiring employees and third parties to sign confidentiality agreements. We cannot be sure that these efforts will be successful or that the confidentiality agreements will not be breached. We also cannot be sure that we would have adequate remedies for any breach of such agreements or other misappropriation of our trade secrets, or that our trade secrets and proprietary know-how will not otherwise become known or be independently discovered by

others.

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

Goodwill and purchased intangible assets with indefinite lives are not amortized, but are reviewed for impairment annually and more frequently when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We assess the recoverability of the unamortized balance of our definite-lived intangible assets when indicators of potential impairment are present. Factors that may indicate that the carrying value of our goodwill or other intangible assets may not be recoverable include a decline in 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 goodwill or other intangible assets is determined to exist, which could adversely impact our results of operations.

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

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

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

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

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

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

We have 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.

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

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

Although we believe we have adequate liquidity and capital resources to fund our operations internally, our inability to access the capital markets on favorable terms in the future, or at all, may adversely affect our financial performance. The inability to 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.

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New regulations related to conflict-free minerals may force us to incur additional expenses.
The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo (DRC) and adjoining countries. As a result, the SEC is required to establish new annual disclosure and reporting requirements for those companies who use “conflict” minerals mined from the DRC and adjoining countries in their products. When these new requirements are implemented, they could affect the sourcing and availability of minerals used in the manufacture of our products. As a result, we cannot ensure that we will be able to obtain minerals at competitive prices and there may be additional costs associated with complying with the new due diligence procedures as required by the SEC. In addition, as our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence procedures that we implement.

Changes in our effective tax rate may affect our results.
Our future effective tax rates may be affected by a number of factors including:
- the jurisdiction in which profits are determined to be earned and taxed;
- changes in government administrations, such as the Presidency and Congress of the U.S. as well as in the states and countries in which we operate;
- changes in tax laws or interpretation of such tax laws and changes in generally accepted accounting principles;
- the resolution of issues arising from tax audits with various authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
- the recognition and measurement of uncertain tax positions;
- the lack of sufficient excess tax benefits (credits) in our additional paid in capital (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, proposals have been made by various U.S. governmental bodies to change the U.S. tax laws that include, among other things, limiting U.S. tax deductions for expenses related to un-repatriated foreign-source income and modifying the U.S. foreign tax credit rules. Although the scope of the proposed changes is unclear, it is possible that these or other changes in U.S. tax laws could increase our U.S. income tax liability and adversely affect our profitability. At this time, we cannot determine the timing that the proposed changes, if enacted, would become effective.
Any significant increase or decrease in our future effective tax rates could impact net income for future periods. In addition, the determination of our income tax provision requires complex estimations, significant judgments and significant knowledge and experience concerning the applicable tax laws. To the extent our income tax liability materially differs from our income tax provisions 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 affected.

In order to compete, we must attract, motivate and retain key employees, and our failure to do so could harm our results of operations.
Hiring and retaining qualified executives, scientists, engineers, technical staff and sales personnel is critical to our business, and competition for experienced employees in our industry can be intense. As a global company, this issue is not limited to the United States, but includes our other locations such as Europe and China. For example, there is

substantial competition in China for qualified and capable personnel, particularly experienced engineers and technical personnel, which

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may make it difficult for us to recruit and retain qualified employees. Also, within Huizhou, China, there are other large companies building manufacturing plants that will likely attract qualified employees. If we are unable to staff sufficient and adequate personnel at our China facilities, we may experience lower revenues or increased manufacturing costs, which would adversely affect our results of operations.

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

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

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

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

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

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

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

Likewise, our results may be impacted due to changes in the accounting rules to be applied, such as the increased use of fair value measurement rules, proposed changes in revenue recognition requirements, 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 inherent interest rate risk related to our investment portfolio. We have historically invested portions of our available cash in fixed interest rate securities such as high-grade corporate debt, commercial paper, government securities and other fixed interest rate investments. The primary objective of our investment policy is preservation of principal. However, our investments are generally not FDIC insured and may lose value and/or become illiquid regardless of their credit rating.

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Our stock price may be volatile.
Historically, our common stock has experienced substantial price volatility, particularly as a result of significant fluctuations in our revenue, earnings and margins over the past few years, and variations between our actual financial results and the published expectations of analysts. For example, the closing price per share of our common stock on the NASDAQ Global Select Market ranged from a low of $20.32 in fiscal 2012 to a high of $37.11 in the same fiscal year. 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 a dramatic effect on our stock price, especially as various government agencies announce their planned investments in energy efficient technology, including lighting.

Item 1B. Unresolved Staff Comments
Not applicable.

Item 2. Properties
The table below sets forth information with respect to our significant owned and leased facilities as of June 24, 2012. The sizes of the locations represent the approximate gross square footage of each site's buildings.

		Size (approximate square footage)				
Location	Segment Utilization[1]	Total	Production	Facility Services and Warehousing	Administrative Function	Housing / Other
Owned Facilities						
Durham, NC	All	808,600	500,720	106,000	201,880	—
Research Triangle Park, NC	1,3	147,500	57,000	56,000	34,500	—
Racine, WI	2	440,000	160,000	210,000	70,000	—
Huizhou, China	1	760,739	356,600	40,000	40,200	323,939
Total owned		2,156,839	1,074,320	412,000	346,580	323,939
Leased Facilities						
Morrisville, NC	2	27,050	—	—	27,050	—
Goleta, CA	All	25,623	—	1,882	23,741	—
Yorkville, WI	2	79,016	—	77,316	1,700	—
Florence, Italy	1,2	32,776	4,628	19,095	9,053	—
Hong Kong	All	37,890	—	—	29,955	7,935
Huizhou, China	1	371,840	260,014	—	—	111,826
Shanghai, China	1,3	28,976	—	—	28,976	—
Miscellaneous sales and support offices	All	38,392	—	7,735	28,060	2,597
Leased Land						
Huizhou, China	1	414,952	194,512	21,818	21,927	176,695
Total leased		1,056,515	459,154	127,846	170,462	299,053
Total		3,213,354	1,533,474	539,846	517,042	622,992

[1] Segments listed in the "Segment Utilization" column above are identified as follows: 1) LED Products; 2) Lighting Products; 3) Power and RF Products.

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In the United States, our corporate headquarters as well as our primary research and development and manufacturing operations are located at the Durham, North Carolina facilities that we own. Our Durham facilities sit on approximately 141 acres of land that we own. Our power and RF products are primarily produced at our owned manufacturing facility located in Research Triangle Park, North Carolina. This facility sits on approximately 55 acres of land that we own.

Through our acquisition of Ruud Lighting in August 2011, we added an additional 440,000 square feet of administrative and manufacturing space in Racine, Wisconsin. The Racine facilities sit on approximately 30 acres of land that we own. In addition, we announced in November 2011 the start of a 208,000 square foot expansion to our manufacturing facility in Wisconsin.

We also own a 760,739-square-foot facility in Huizhou, Guangdong Province, China. This building sits on land which is leased from the Chinese government through two leases. One lease for 327,440 square feet expires in June 2057. The other lease for 87,512 square feet expires in November 2060. At the end of the lease terms, new terms for our land leases will need to be renegotiated.

We maintain sales and support offices, through our subsidiaries, in leased office premises in North America, Asia, and Europe. In addition, we lease a facility in Goleta, California that is used for research and development and administrative functions.

Item 3. Legal Proceedings

The information required by this item is set forth under Note 12, “Commitments and Contingencies,” of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report, and is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Market Information

Our common stock is traded on the NASDAQ Global Select Market and is quoted under the symbol CREE. There were 500 holders of record of our common stock as of August 14, 2012. The following table sets forth, for the quarters indicated, the high and low closing sales prices as reported by NASDAQ.

	Fiscal 2012		Fiscal 2011	
	High	Low	High	Low
First Quarter	$37.11	$26.65	$75.63	$48.72
Second Quarter	31.00	20.32	72.05	48.74
Third Quarter	32.21	21.41	69.20	42.90
Fourth Quarter	32.88	22.91	46.72	33.15

We have never paid cash dividends on our common stock and do not anticipate that we will do so in the foreseeable future. There are no contractual restrictions in place that currently materially limit, or are likely in the future to materially limit us from paying dividends on our common stock, but applicable state law may limit the payment of dividends. Our present policy is to retain earnings, if any, to provide funds for the operation and expansion of our business.

Stock Performance Graph

The following information in this Item 5 of this Annual Report on Form 10-K is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Exchange Act or to the liabilities of

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of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent we specifically incorporate it by reference into such filing.
The following graph compares the cumulative total return on our common stock with the cumulative total returns of The NASDAQ Composite Index and The NASDAQ Electronic Components Index for the five-year period commencing June 24, 2007. The stock price performance shown on the graph below is not necessarily indicative of future price performance.

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Comparison of Five-Year Cumulative Total Return*
Among Cree, Inc., The NASDAQ Composite Index
And The NASDAQ Electronic Components Index

* Assumes (1) $100 invested on June 24, 2007 in Cree, Inc. Common Stock, The NASDAQ Composite Index and The NASDAQ Electronic Components Index and (2) the immediate reinvestment of all dividends.

	6/24/2007	6/29/2008	6/28/2009	6/27/2010	6/26/2011	6/24/2012
Cree, Inc.	$100.00	$86.39	$109.16	$237.36	$123.90	$89.20
NASDAQ Composite Index	100.00	90.20	72.35	88.34	106.49	117.44
NASDAQ Electronic Components Index	100.00	89.95	68.21	84.07	83.63	86.19

Sale of Unregistered Securities
Other than in connection with our previously disclosed acquisition of Ruud Lighting, there were no unregistered securities sold during fiscal 2012.
The following table summarizes stock repurchase activity for the fourth quarter of fiscal 2012 (in thousands except price per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs[3]
Shares repurchased outside our Stock Repurchase Program[1]				
March 26, 2012 to April 22, 2012	—	$—	—	$200,000
April 23, 2012 to May 20, 2012	—	—	—	200,000
May 21, 2012 to June 24, 2012	5	40.85	—	200,000
Total	5	$40.85	—	$200,000
Shares repurchased under our Stock Repurchase Program[2]				
March 26, 2012 to April 22, 2012	—	$—	—	$200,000
April 23, 2012 to May 20, 2012	—	—	—	200,000
May 21, 2012 to June 24, 2012	500	23.98	500	188,009
Total	500	$23.98	500	$188,009

(1) Represents shares of our common stock returned to us in connection with the exercise of our indemnification rights under the stock purchase agreement pursuant to which we acquired Ruud Lighting. The shares were returned from escrow during the fourth quarter of fiscal 2012. The average price per share represents the deemed value of the shares as specified in such stock purchase agreement.
(2) During the three months ended June 24, 2012, we repurchased 500,000 shares under the repurchase program.
(3) We were authorized to repurchase shares of our common stock having an aggregate purchase price not exceeding $200 million as authorized by our Board of Directors from June 16, 2011 through the expiration of the program on June 24, 2012. After the repurchase of 500,000 shares during the fourth quarter of fiscal 2012, there was $188.0 million remaining in the June 16, 2011 Board authorization.

There were no other repurchases of our common stock during fiscal 2012. Since the inception of our stock repurchase program in January 2001, we have repurchased 10.3 million shares of our common stock at an average price of $19.95 per share with an aggregate value of $205.4 million.
As of June 24, 2012, pursuant to an extension of our stock repurchase program authorized by our Board of Directors, we are authorized to repurchase shares of our common stock having an aggregate purchase price not exceeding $200 million for all purchases from June 14, 2012 through the expiration of the program in June 30, 2013. The repurchase program can be implemented through open market or privately negotiated transactions at the discretion of our management.

Item 6. Selected Financial Data

The consolidated statement of income data set forth below with respect to the fiscal years ended June 24, 2012, June 26, 2011, and June 27, 2010 and the consolidated balance sheet data at June 24, 2012 and June 26, 2011 are derived from, and are qualified by reference to, the audited consolidated financial statements included in Item 8 of this Annual Report and should be read in conjunction with those financial statements and notes thereto. The consolidated statement of income data for the fiscal years ended June 28, 2009 and June 29, 2008 and the consolidated balance sheet data at June 27, 2010, June 28, 2009, and June 29, 2008 are derived from audited consolidated financial statements not included herein. Certain fiscal 2011, fiscal 2010, fiscal 2009, and fiscal 2008 amounts have been reclassified to conform to fiscal 2012 classifications. These reclassifications had no effect on previously reported income from operations or shareholders’ equity.

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Selected Consolidated Financial Data
(Thousands, except per share data)

	Years Ended June 24, 2012	June 26, 2011	June 27, 2010	June 28, 2009	June 29, 2008
Statement of Income Data[1, 2]					
Revenue, net	$1,164,658	$987,615	$867,287	$567,255	$493,296
Operating income	$39,258	$168,706	$197,778	$30,590	$12,041
Net income from continuing operations	$44,412	$146,500	$152,290	$30,650	$31,812
Net income from continuing operations per share, basic	$0.39	$1.35	$1.49	$0.35	$0.37
Net income from continuing operations per share, diluted	$0.39	$1.33	$1.45	$0.34	$0.36
Weighted Average Shares Outstanding					
Basic	114,693	108,522	102,371	88,263	86,366
Diluted	115,225	110,035	104,698	89,081	88,077

	Years Ended June 24, 2012	June 26, 2011	June 27, 2010	June 28, 2009	June 29, 2008
Balance Sheet Data[1,2]					
Cash, cash equivalents and short-term investments	$744,513	$1,085,797	$1,066,405	$447,210	$371,032
Working capital	1,015,104	1,316,579	1,235,072	500,755	408,293
Total assets	2,747,498	2,446,722	2,199,176	1,404,567	1,313,407
Long term obligations	38,430	44,842	51,037	51,138	42,992
Shareholders’ equity	2,559,891	2,261,564	2,028,048	1,224,748	1,145,740

[1] Consolidated statement of income data and balance sheet data for fiscal years 2009 and 2008 exclude Cree Microwave as it was accounted for as a discontinued operation during fiscal year 2006.
[2] Consolidated statement of income data and balance sheet data for fiscal year 2012 include Ruud Lighting from the date of its acquisition in the first quarter of fiscal 2012. See Note 3, "Acquisitions," in our consolidated financial statements included in Item 8 of this annual report for more information about the impact of the acquisition on our consolidated financial statements.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

The following discussion is designed to provide a better understanding of our audited consolidated financial statements and notes thereto, 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 our consolidated financial statements included in Item 8 of this Annual Report. 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.

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Overview

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

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

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

Our lighting products consist of both LED and traditional lighting systems. We design, manufacture and sell lighting systems for indoor and outdoor applications, with our primary focus on LED lighting systems for the commercial and industrial markets. We also use our LED systems expertise to accelerate LED lighting adoption and expand the market for our LED components.

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

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

Cree, Inc. is a North Carolina corporation established in 1987. For further information about our consolidated revenues and earnings, please see our consolidated financial statements included in Item 8 of this Annual Report.

Reportable Segments

As of June 24, 2012, we have three reportable segments:

- LED Products
- Lighting Products
- Power and RF Products

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

For financial results by reportable segment, please refer to Note 13, "Reportable Segments" in our consolidated financial statements included in Item 8 of this Annual Report.

Industry Dynamics and Trends

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

- Overall Demand for Products and Applications using LEDs. Our potential for growth depends significantly on the adoption of LEDs within the general lighting market and our ability to affect this rate of adoption. Although LED lighting has grown in recent years, adoption of LEDs for general lighting is relatively new, still limited, and faces significant challenges before widespread adoption. Demand also fluctuates based on various market cycles, a continuously evolving LED industry supply chain, and demand dynamics in the market. These uncertainties make demand difficult to forecast for us and our customers.
- Intense and Constantly Evolving Competitive Environment. Competition in the LED and lighting industry is intense. Many companies have made significant investments in LED development and production equipment. Traditional lighting companies and new entrants are investing in LED based lighting products as LED adoption has gained

momentum. Product pricing pressures exist as market participants often undertake pricing strategies to

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gain or protect market share, increase the utilization of their production capacity and open new applications to LED based solutions. To remain competitive, market participants must continuously increase product performance and reduce costs. To address these competitive pressures, we have invested in R&D activities to support new product development to deliver higher levels of performance and lower costs to differentiate our products in the market.

- Technological Innovation and Advancement. Innovations and advancements in LED technology continue to expand the potential commercial application of LEDs particularly in the general illumination market. However, new technologies or standards could emerge, or improvements could be made in existing technologies, that could reduce or limit the demand for LEDs in certain markets.
- Regulatory Actions Concerning Energy Efficiency. Many countries have already instituted or have announced plans to institute government regulations and programs designed to encourage or mandate increased energy efficiency, even in some cases banning forms of incandescent lighting, which are advancing the adoption of more energy efficient lighting solutions such as LEDs. While this trend is generally positive, these regulations are affected by changing political priorities which can modify or limit the effectiveness of these new regulations.
- Intellectual Property Issues. Market participants rely on patented and non-patented proprietary information relating to product development, manufacturing capabilities and other core competencies of their business. Protection of intellectual property is critical. Therefore, steps such as additional patent applications, confidentiality and non-disclosure agreements, as well as other security measures are generally taken. To enforce or protect intellectual property rights, litigation or threatened litigation commonly occurs.

Fiscal 2012 Overview

The following is a summary of our financial results for the year ended June 24, 2012:

- Our year over year revenues increased 18% to $1.2 billion.
- Gross margin percentage declined from 44% in fiscal 2011 to 35% in fiscal 2012. Gross profit decreased by $26.3 million.
- Operating income was $39.3 million in fiscal 2012 compared to $168.7 million in fiscal 2011. Net income per diluted share was $0.39 compared to $1.33 for fiscal 2011.
- Combined cash, cash equivalents and short-term investments decreased to $744.5 million at June 24, 2012 compared to $1.1 billion at June 26, 2011 primarily due to the cash outlay to acquire Ruud Lighting. Cash provided by operating activities was $242.3 million for the year.
- Inventory increased to $188.8 million at June 24, 2012 compared to $176.5 million at June 26, 2011.
- We spent $95.0 million on purchases of property and equipment in fiscal 2012 compared to $237.1 million in fiscal 2011.

Business Outlook

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

- Accelerate adoption of LED lighting. We continue to work on developing new LED lighting systems to increase the lumens per dollar, which brings LED lighting closer to price parity with conventional technology and reduces the payback time for the customer. We are focused on delivering best-in-class products for key lighting categories and expanding our sales channels to build the Cree brand and access more customers.
- Grow LED component sales through product innovation. We are working to leverage our SC^3 Technology™ next generation LED platform into a range of new LED component products that are targeted to deliver more lumens per dollar to the customer. We are also developing component and module products targeted to simplify our customers' product designs and reduce their time to market.

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- Leverage technology leadership in Power and RF to open new applications for these products. In the power product line, we are working with our customers to combine our SiC MOSFET and Schottky diodes technology to enable power modules for solar, uninterruptable power supplies (UPS) and motor control applications. In the RF product line, we are developing GaN based products to access new military applications and some commercial platforms.

- Translate product innovation into revenue and profit growth. We target incremental improvement from factory cost reductions, process improvements and lower cost new product designs.

Results of Operations

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

	2012			2011			2010		
(in thousands, except per share amounts and percentages)	Dollars	% of Revenue		Dollars	% of Revenue		Dollars	% of Revenue	
Revenue, net	$1,164,658	100	%	$987,615	100	%	$867,287	100	%
Cost of revenue, net	755,196	65	%	551,842	56	%	456,180	53	%
Gross profit	409,462	35	%	435,773	44	%	411,107	47	%
Research and development	143,357	12	%	115,035	12	%	81,407	9	%
Sales, general and administrative	197,092	17	%	139,304	14	%	115,601	13	%
Amortization of acquisition related intangibles	26,274	2	%	10,776	1	%	12,180	1	%
Loss on disposal or impairment of long-lived assets	3,481	0	%	1,952	—	%	4,141	1	%
Operating income	39,258	3	%	168,706	17	%	197,778	23	%
Other non-operating income	932	—	%	993	—	%	294	—	%
Interest income, net	7,457	1	%	8,528	1	%	7,400	1	%
Income before income taxes	47,647	4	%	178,227	18	%	205,472	24	%
Income tax expense	3,235	—	%	31,727	3	%	53,182	6	%
Net income	$44,412	4	%	$146,500	15	%	$152,290	18	%
Diluted earnings per share	$0.39			$1.33			$1.45		

Revenues

Revenues for fiscal 2012, 2011 and 2010 were comprised of the following (in thousands, except percentages):

	Fiscal Years Ended						Year-Over-Year Change						
	June 24, 2012		June 26, 2011		June 27, 2010		2011 to 2012				2010 to 2011		
LED Products	$756,924		$808,207		$747,431		($51,283	)	(6	)%	$60,776	8	%
% of Revenue	65	%	82	%	86	%							
Lighting Products	334,704		81,784		42,516		252,920		309	%	39,268	92	%
% of Revenue	29	%	8	%	5	%							
Power and RF Products	73,030		97,624		77,340		(24,594	)	(25	)%	20,284	26	%
% of Revenue	6	%	10	%	9	%							
Total revenue	$1,164,658		$987,615		$867,287		$177,043		18	%	$120,328	14	%

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Our consolidated revenue increased 18% to $1.2 billion in fiscal 2012 from $987.6 million in fiscal 2011. This year over year increase is due to the 309% increase in Lighting Products revenue from sales of products acquired from Ruud Lighting and an increase in the sales of our existing products. The increase in Lighting Products revenue offset the 6% decrease in LED Products revenues year over year and the 25% decrease in Power and RF Products revenue over the same period.

Our consolidated revenue increased 14% to $987.6 million in fiscal 2011 from $867.3 million in fiscal 2010. This year over year increase was due to an increase of 8% in LED Products Revenue driven by increased sales of LED components, 92% in Lighting Products revenue driven by growth in the general illumination market and new product introductions, and 26% in Power and RF Products revenue due to increased orders for SiC Schottky diodes and GaN MMICs.

LED Products Segment Revenue

LED Products revenue represents the largest portion of our revenue with approximately 65%, 82%, and 86% of our total revenues for fiscal 2012, 2011, and 2010, respectively. LED Products revenue was $756.9 million, $808.2 million, and $747.4 million for fiscal 2012, 2011, and 2010, respectively.

LED Products revenue decreased approximately 6% to $756.9 million in fiscal 2012 from $808.2 million in fiscal 2011. This decrease was primarily due to generally weaker demand and downward pricing pressure for our LED chips and components. LED products overall blended average selling price, or ASP increased by 8% in fiscal 2012 compared to fiscal 2011 due primarily to changes in product mix.

LED Products revenue increased 8% to $808.2 million in fiscal 2011 as compared to $747.4 million in fiscal 2010. This increase was driven by increased sales of LED components partially offset by lower demand for LED chips and a more competitive pricing environment. LED Products overall blended ASP increased approximately 51% in fiscal 2011 as compared to fiscal 2010. This increase was due to a shift in product mix to a higher proportion of revenues generated from sales of our LED components versus our LED chips.

Lighting Products Segment Revenue

Lighting Products revenues represented approximately 29%, 8%, and 5% of our total revenues for fiscal 2012, 2011 and 2010 respectively. Lighting Products revenue was $334.7 million, $81.8 million, and $42.5 million for fiscal 2012, 2011, and 2010 respectively.

Lighting Products revenue increased approximately 309% to $334.7 million in fiscal 2012 from $81.8 million in fiscal 2011. The increase in our Lighting Products revenue was primarily due to sales of products acquired from Ruud Lighting and an increase in the sales of our existing products. Including the Ruud Lighting products acquired, which have a higher overall ASP than our existing products, the Lighting Products overall blended ASP increased by approximately 34% in fiscal 2012 compared to fiscal 2011.

Lighting Products revenue increased 92% to $81.8 million in fiscal 2011 as compared to $42.5 million in fiscal 2010. This increase was due to higher sales resulting from growth in the LED general illumination market and new product introductions. Lighting Products overall blended ASP decreased approximately 29% in fiscal 2011 compared to fiscal 2010 due to the expansion of lower price product offerings.

Power and RF Products Segment Revenue

Power and RF Products revenue represented approximately 6%, 10%, and 9% of our total revenues for fiscal 2012, 2011, and 2010, respectively. Power and RF Products revenue was $73.0 million, $97.6 million, and $77.3 million for fiscal 2012, 2011, and 2010, respectively.

Power and RF Products revenue decreased approximately 25% to $73.0 million in fiscal 2012 from $97.6 million in fiscal 2011. The decrease in revenue was primarily due to a lower demand in the solar inverter market and the delay of RF orders related to military programs. Power and RF Products overall blended ASP decreased by 11% in fiscal 2012 compared to fiscal 2011 due to change in product mix.

Power and RF Products revenue increased $20.3 million or 26% in fiscal 2011 as compared to fiscal 2010. This increase was primarily due to increased orders for SiC Schottky diodes and GaN MMICs. The Power and RF Products overall blended ASP decreased by 4% in fiscal 2011 compared to fiscal 2010 due to change in product mix.

Unallocated Revenue

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

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Gross Profit and Gross Margin

Gross profit and gross margin for fiscal 2012, 2011 and 2010 were as follows (in thousands, except percentages):

	Fiscal Years Ended			Year-Over-Year Change			
	June 24, 2012	June 26, 2011	June 27, 2010	2011 to 2012		2010 to 2011	
LED Products gross profit	$290,642	$375,424	$379,806	($84,782)	(23)%	($4,382)	(1)%
LED Products gross margin	38%	46%	51%				
Lighting Products gross profit	103,396	23,686	12,041	79,710	337%	11,645	97%
Lighting Products gross margin	31%	29%	28%				
Power and RF Products gross profit	32,051	49,828	34,358	(17,777)	(36)%	15,470	45%
Power and RF Products gross margin	44%	51%	44%				
Unallocated costs	(16,627)	(13,165)	(15,098)	(3,462)	26%	1,933	(13)%
Consolidated gross profit	409,462	435,773	411,107	(26,311)	(6)%	24,666	6%
Consolidated gross margin	35%	44%	47%				

Our consolidated gross profit decreased 6% to $409.5 million in fiscal 2012 from $435.8 million in fiscal 2011. Our consolidated gross margin decreased to 35% in fiscal 2012 from 44% in fiscal 2011. These year over year consolidated gross profit and gross margin decreases are due to the decrease in LED Products and Power and RF Products gross profit, offset by an increase in Lighting Products gross profit. The 23% decrease in LED Products gross profit was due to a competitive pricing environment and lower factory utilization. The 36% decrease in Power and RF Products gross profit was due to reduced solar demand that resulted in lower factory utilization. The 337% increase in Lighting Products gross profit was due to increased sales volume due to the Ruud Lighting acquisition, manufacturing cost reductions and lower cost new product designs.

Our consolidated gross profit increased 6% to $435.8 million in fiscal 2011 from $411.1 million in fiscal 2010. However, consolidated gross margin decreased to 44% in fiscal 2011 from 47% in fiscal 2010. Factors contributing to the increase in gross profit included a 97% increase in Lighting Products gross profit due to increased sales and a 45% increase in Power and RF Products gross profit due to increased sales and lower costs. These gross profit increases were partially offset by a 1% decrease in LED Products gross profit due to significant pricing pressure. The consolidated gross margin decrease is due to a more competitive pricing environment and lower factory utilization for LED Products and Power and RF Products, as well as an increase in sales of Lighting Products and a decline in gross profit on our LED Products.

LED Products Segment Gross Profit and Gross Margin

Our LED Products gross profit was $290.6 million, $375.4 million, and $379.8 million for fiscal 2012, 2011, and 2010, respectively. LED Products gross margin was 38%, 46%, and 51% for fiscal 2012, 2011, and 2010 respectively. LED Products gross profit decreased approximately 23% to $290.6 million in fiscal 2012 from $375.4 million in fiscal 2011 and LED Products gross margin decreased to 38% in fiscal 2012 from 46% in fiscal 2011. LED Products gross profit and gross margin fell during fiscal 2012 due to a competitive pricing environment for LED chips and components and lower factory utilization.

LED products gross profit decreased approximately 1% to $375.4 million in fiscal 2011 from $379.8 million in fiscal 2010. LED Products gross margin decreased to 46% in fiscal 2011 from 51% in fiscal 2010. LED products gross profit and gross margin fell in fiscal 2011 due to a more competitive pricing environment.

Lighting Products Segment Gross Profit and Gross Margin

Lighting Products gross profit was $103.4 million, $23.7 million, and $12.0 million for fiscal 2012, 2011, and 2010, respectively. Lighting Products gross margin was 31%, 29%, and 28% for fiscal 2012, 2011, and 2010 respectively. Lighting Products gross profit increased approximately 337% to $103.4 million in fiscal 2012 from $23.7 million in fiscal 2011. During fiscal 2012, Lighting Products gross margin increased to 31% from 29% in fiscal 2011. Lighting

Products gross profit and gross margin increased during fiscal 2012 due to a combination of increased sales volumes due to the Ruud Lighting acquisition, manufacturing cost reductions and lower cost new product designs.
Lighting Products gross profit increased approximately 97% to $23.7 million in fiscal 2011 from $12.0 million in fiscal 2010. Lighting Products gross margin increased to 29% in fiscal 2011 from 28% in fiscal 2010. Lighting Products gross profit and gross margin increased in fiscal 2011 due to increased sales.

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Power and RF Products Segment Gross Profit and Gross Margin

Power and RF Products gross profit was $32.1 million, $49.8 million, and $34.4 million for fiscal 2012, 2011, and 2010, respectively. Power and RF Products gross margin was 44%, 51%, and 44% for fiscal 2012, 2011, and 2010 respectively.

Power and RF Products gross profit decreased approximately 36% to $32.1 million in fiscal 2012 from $49.8 million in fiscal 2011. For fiscal 2012, Power and RF Products gross margin decreased to 44% from 51% in 2011. Power and RF Products gross profit and gross margin decreased during fiscal 2012 due to lower revenue, primarily from reduced solar demand which resulted in lower factory utilization.

Power and RF Products gross profit increased approximately 45% to $49.8 million in fiscal 2011 from $34.4 million in fiscal 2010. Power and RF Products gross margin increased to 51% in fiscal 2011 from 44% in fiscal 2010. Power and RF Products gross profit and gross margin increased during fiscal 2011 due to increased product sales and lower manufacturing costs.

Unallocated Costs

Total gross profit and gross margin by segment reconcile to consolidated gross profit and gross margin through a subtraction of $16.6 million, $13.2 million, and $15.1 million of unallocated variable compensation costs for manufacturing employees, consisting primarily of stock-based compensation, expenses for profit sharing and quarterly or annual incentive plans, matching contributions under our 401(k) plan and acquisition related costs. These costs are not allocated to the reportable segments' gross profit because our Chief Executive Officer does not review them regularly when evaluating segment performance and allocating resources. For further information on the allocation of costs to segment gross profit, refer to Note 13, "Reportable Segments," in our consolidated financial statements included in Item 8 of this Annual Report.

Research and Development

Research and development expenses include costs associated with the development of new products, enhancements of existing products and general technology research. These costs consist primarily of employee salaries and related compensation costs, 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):

	Fiscal Years Ended			Year-Over-Year Change					
	June 24, 2012	June 26, 2011	June 27, 2010	2011 to 2012			2010 to 2011		
Research and development	$143,357	$115,035	$81,407	$28,322	25	%	$33,628	41	%
Percent of revenue	12 %	12 %	9 %						

Research and development expenses in fiscal 2012 increased 25% to $143.4 million from $115.0 million in fiscal 2011. The increase was primarily due to increased spending on new LED chips, LED components, LED lighting products, power products, including associated manufacturing process improvement initiatives, and incremental research and development expense incurred from the acquisition of Ruud Lighting.

Research and development expenses increased 41% in fiscal 2011 to $115.0 million compared to $81.4 million in fiscal 2010. The increase was primarily due to increased spending to support the transition to 150mm wafer capabilities as well as continued research and development activities focused on new LED chips, LED components, LED lighting products, and power products.

Our research and development expenses vary significantly from year to year 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 to support future growth.

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Sales, General and Administrative

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

	Fiscal Years Ended			Year-Over-Year Change					
	June 24, 2012	June 26, 2011	June 27, 2010	2011 to 2012			2010 to 2011		
Sales, general and administrative	$197,092	$139,304	$115,601	$57,788	41	%	$23,703	21	%
Percent of revenue	17 %	14 %	13 %						

Sales, general and administrative expenses in fiscal 2012 increased 41% to $197.1 million from $139.3 million in fiscal 2011. This increase is primarily due to an increase in spending on sales and marketing for lighting products as we continue to expand our direct sales resources and channels and invest in building and promoting the Cree brands. The increase is also due to incremental sales, general and administrative expenses from Ruud Lighting, the legal transaction costs associated with the Ruud Lighting acquisition and patent litigation expenses.

Sales, general and administrative expenses increased 21% in fiscal 2011 to $139.3 million compared to $115.6 million in fiscal 2010. The increase in costs in fiscal 2011 is primarily due to an increase in spending on sales and marketing as we expanded our direct sales resources and channels and invested in building the Cree brand. Additionally, costs increased due to higher patent litigation expenses.

Amortization of Acquisition Related Intangibles

As a result of our acquisitions, we have recorded various intangible assets, including customer relationships and developed technologies. During fiscal 2012, we acquired Ruud Lighting, resulting in $206.0 million of amortizable intangible assets, principally composed of developed technology, customer relationships and trade names. In fiscal 2008, we acquired LED Lighting Fixtures, Inc. (LLF), resulting in an additional $41.2 million of amortizable intangible assets. These intangible assets are principally composed of developed technology that specifically relates to technologies underlying the development of LED lighting products for the general illumination market. During fiscal 2007, we acquired INTRINSIC Semiconductor Corporation and COTCO Luminant Device Limited (COTCO), resulting in $63.7 million of amortizable intangible assets principally composed of customer relationships and developed technology.

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

	Fiscal Years Ended			Year-Over-Year Change							
	June 24, 2012	June 26, 2011	June 27, 2010	2011 to 2012				2010 to 2011			
Ruud Lighting	$17,473	$—	$—	$17,473		100	%	$—		0	%
COTCO	5,058	6,932	8,290	(1,874	)	(27	)%	(1,358	)	(16	)%
LLF	2,998	3,099	3,145	(101	)	(3	)%	(46	)	(1	)%
INTRINSIC	745	745	745	—		0	%	—		0	%
Total	$26,274	$10,776	$12,180	$15,498		144	%	($1,404	)	(12	)%

Amortization of acquisition related intangibles is not allocated to our reportable segments because our Chief Executive Officer reviews this expense on a consolidated basis.

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Loss on Disposal or Impairment of Long-Lived Assets

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

	Fiscal Years Ended			Year-Over-Year Change			
	June 24, 2012	June 26, 2011	June 27, 2010	2011 to 2012		2010 to 2011	
Loss on disposal or impairment of long-lived assets, net	$3,481	$1,952	$4,141	$1,529	78%	($2,189)	(53)%

We recorded a net loss of $3.5 million, $2.0 million, and $4.1 million on the disposal of long-lived assets in fiscal years 2012, 2011, and 2010 respectively. These net losses were primarily the result of disposals of equipment due to changes in various manufacturing processes and the impairment of certain capitalized patent costs as a result of technological obsolescence.

Non-Operating Income

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

	Fiscal Years Ended			Year-Over-Year Change			
	June 24, 2012	June 26, 2011	June 27, 2010	2011 to 2012		2010 to 2011	
Other non-operating income, net	$932	$993	$294	($61)	(6)%	$699	238%
Interest income, net	7,457	8,528	7,400	(1,071)	(13)%	1,128	15%
Total	$8,389	$9,521	$7,694	($1,132)	(12)%	$1,827	24%

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

Other non-operating income, net is comprised primarily of gains on sales of investments and foreign exchange gains and losses. Other non-operating income, net for fiscal 2012 of $0.9 million is primarily due to gains on sales of investments liquidated in order to fund our acquisition of Ruud Lighting. The increase in other non-operating income, net for fiscal 2011 to $1.0 million from $0.3 million in fiscal 2010 is primarily due to foreign exchange gains recorded during fiscal 2011.

Net interest income declined to $7.5 million in fiscal 2012 from $8.5 million in fiscal 2011. This decline was primarily due to the cash outlay associated with the Ruud Lighting acquisition in the first quarter of fiscal 2012, which reduced our average cash and investment balances in fiscal year 2012 as compared to fiscal 2011.

Net interest income was $8.5 million and $7.4 million in fiscal 2011 and fiscal 2010, respectively. This $1.1 million year over year increase was due to a combination of fluctuations in interest rates on our cash, cash equivalents and investments and differences between the periods in our average cash and investment balances.

Income Tax Expense

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

	Fiscal Years Ended			Year-Over-Year Change			
	June 24, 2012	June 26, 2011	June 27, 2010	2011 to 2012		2010 to 2011	
Income tax expense	$3,235	$31,727	$53,182	($28,492)	(90)%	($21,455)	(40%)
Effective tax rate	7%	18%	26%				

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We recorded income tax expense of $3.2 million in fiscal 2012 as compared to income tax expense of $31.7 million in fiscal 2011. The decrease in the effective tax rate from 18% in fiscal 2011 to 7% in fiscal 2012 is due to the increased impact of net tax benefits related to prior year audit settlements, statute expirations, and tax credits relative to lower year over year pre-tax income. The decrease in the effective tax rate from 26% in fiscal 2010 to 18% in fiscal 2011 was primarily due to a change in the mix of pre-tax income from various tax jurisdictions, primarily mainland China and Hong Kong, and the new tax holiday in Malaysia effective in fiscal 2011 with respect to our subcontract manufacturing and distribution operations. For further discussion of changes in our effective tax rate, please refer to Note 11, “Income Taxes,” in our consolidated financial statements included in Item 8 of this Annual Report.
The variation between our effective tax rate and the U.S. statutory rate of 35% is primarily due to the consolidation of our foreign operations, which are generally subject to income taxes at lower statutory rates as well as the net tax benefit related to prior year audit settlements and statute expirations recorded during fiscal 2012. A change in the mix of pretax income from these various tax jurisdictions can have a significant impact on our periodic effective tax rate.
In addition, our effective tax rate may be negatively impacted by the lack of sufficient excess tax benefits (credits) that accumulate in our equity as additional paid-in-capital (APIC) and referred to as the “APIC pool” of credits. 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, which accumulate in the APIC pool, U.S. GAAP requires that we record the difference as an increase to income tax expense.

Liquidity and Capital Resources

Overview

We require cash to fund our operating expenses and working capital requirements, including outlays for research and development, capital expenditures, strategic acquisitions and investments. Our principal sources of liquidity are cash on hand, marketable investments and cash generated from operations. Our ability to generate cash from operations has been one of our fundamental strengths and has provided us with substantial flexibility in meeting our operating, financing and investing needs. We have no debt or active lines of credit and have minimal lease commitments.
On August 17, 2011, we acquired all of the outstanding share capital of Ruud Lighting in exchange for consideration consisting of 6.1 million shares of our common stock and $372.2 million in cash, subject to certain post-closing adjustments. These post-closing adjustments are described in detail in Note 3, "Acquisitions," in Item 8 of this Annual Report. Prior to the completion of our acquisition of Ruud Lighting, Ruud Lighting completed the re-acquisition of its e-conolight business by purchasing all of the membership interests of E-conolight LLC. Ruud Lighting previously sold its e-conolight business in March 2010 and had been providing operational services to E-conolight since that date. In connection with the stock purchase transaction, we funded Ruud Lighting's re-acquisition of E-conolight and paid off Ruud Lighting's outstanding debt in the aggregate amount of approximately $85.0 million. The cash consideration and debt payoff were funded from cash on hand, which reduced our available cash to fund our operating expenses and working capital by approximately $457.2 million.
Based on past performance and current expectations, we believe our cash and cash equivalents, investments, cash generated from operations and our ability to access capital markets will satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, contractual obligations, commitments and other liquidity requirements associated with our operations through at least the next 12 months.
From time to time, we evaluate strategic opportunities, including potential acquisitions, divestitures or investments in complementary businesses and we anticipate continuing to make such evaluations. We may also access capital markets through the issuance of debt or additional shares of common stock in connection with the acquisition of complementary businesses or other significant assets or for other strategic opportunities.

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Contractual Obligations

At June 24, 2012, payments to be made pursuant to significant contractual obligations are as follows (in thousands):

		Payments due by period			
	Total	Less than One Year	One to Three Years	Three to Five Years	More Than Five Years
Long-term debt obligations	$—	$—	$—	$—	$—
Capital lease obligations	—	—	—	—	—
Operating lease obligations	12,736	3,239	5,752	3,588	157
Purchase obligations	192,723	178,037	8,048	3,622	3,016
Other long-term liabilities[1]	—	—	—	—	—
Total	$205,459	$181,276	$13,800	$7,210	$3,173

[1] Other long-term liabilities as of June 24, 2012 include long-term tax contingencies, other tax liabilities and deferrals of $18.9 million and other long-term contingent liabilities (i.e., warranties) of $3.8 million. These liabilities are not included in the table above as they will either not be settled in cash and/or the timing of any payments is uncertain.

Operating leases include rental amounts due on leases of certain office and manufacturing space under the terms of non-cancellable operating leases. These leases expire at various times through November 2017. All of the lease agreements provide for rental adjustments for increases in base rent, property taxes and general property maintenance that would be recorded as rent expense, if applicable.

Purchase obligations represent purchase commitments, including open purchase orders and contracts, and are generally related to the purchase of goods and services in the ordinary course of business such as raw materials, supplies and capital equipment.

Financial Condition

The following table sets forth our cash, cash equivalents and investments (in thousands):

	June 24, 2012	June 26, 2011	Change
Cash and cash equivalents	$178,885	$390,598	($211,713)
Short-term investments	565,628	695,199	(129,571)
Total cash, cash equivalents, and short-term investments	$744,513	$1,085,797	($341,284)

Our liquidity and capital resources depend on our cash flows from operations and our working capital. Our working capital decreased to $1,015.1 million as of June 24, 2012 from $1,316.6 million at June 26, 2011, primarily due to the use of cash to fund our acquisition of Ruud Lighting in the first quarter of fiscal 2012. The following table presents the components of our cash conversion cycle:

	June 24, 2012	June 26, 2011	Change
Days of sales outstanding (a)	45	44	1
Days of supply in inventory (b)	85	106	(21)
Days in accounts payable (c)	(36)	(46)	10
Cash conversion cycle	94	104	(10)

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

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

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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 cost of goods sold for the quarter then ended. DPO is calculated by dividing accounts payable by the average cost of goods sold per day for the respective quarter.

Overall our cash conversion cycle, or days to cash, decreased primarily due to a decrease in inventory on hand in relation to current sales volumes.

As of June 24, 2012, we had unrealized losses on our investments of $0.2 million. All of our investments had investment grade ratings, and any such investments that were in an unrealized loss position at June 24, 2012 were in such position due to interest rate changes, sector credit rating changes or company-specific rating changes. As we intend and believe that we have the ability to hold such investments for a period of time that will be sufficient for anticipated recovery in market value, we currently expect to receive the full principal or recover our cost basis in these securities. The declines in value of the securities in our portfolio are considered to be temporary in nature and, accordingly, we do not believe these securities are impaired as of June 24, 2012.

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 at least the next 12 months. 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):

	Fiscal Years Ended			Year-Over-Year Change	
	June 24, 2012	June 26, 2011	June 27, 2010	2011 to 2012	2010 to 2011
Cash provided by operating activities	$242,280	$251,380	$250,569	($9,100)	$811
Cash used in investing activities	(448,141)	(303,234)	(763,387)	(144,907)	460,153
Cash (used) provided by financing activities	(6,692)	44,546	619,799	(51,238)	(575,253)
Effect of foreign exchange changes	840	475	296	365	179
Net (decrease) increase in cash and cash equivalents	($211,713)	($6,833)	$107,277	($204,880)	($114,110)

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

Cash provided by operating activities decreased slightly to $242.3 million in fiscal 2012 from $251.4 million in fiscal 2011. The change was due primarily to lower net income partially offset by an increase in various non-cash charges and decreases in inventory, excluding inventory acquired. Cash provided by operating activities was relatively unchanged from $250.6 million in fiscal 2010 to $251.4 million in fiscal 2011.

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 $448.1 million for fiscal 2012 compared to $303.2 million for fiscal 2011. This year over year increase was primarily the result of the $457.2 million in cash used to acquire Ruud Lighting in the first quarter of fiscal 2012, partially offset by a decrease in purchases of property and equipment and an increase in our proceeds from the sale and maturity of investments, some of which were liquidated to pay for the acquisition.

Net cash used in investing activities was $303.2 million for fiscal 2011 compared to $763.4 million for fiscal 2010. This year over year decrease was primarily due to an overall net decrease in short term investment purchase activity and payment of contingent consideration related to our COTCO acquisition. This decrease was partially offset by an increase in purchases of property and equipment to expand our global production capacity and proceeds from maturities of investments.

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

Cash Flows from Financing Activities

In fiscal 2012, net cash used by financing activities was $6.7 million compared to net cash provided by financing activities of $44.5 million in fiscal 2011. This year over year change was primarily related to the repurchase of 0.5 million shares of common stock worth approximately $12.0 million during the fourth quarter of fiscal 2012 and a reduction in option exercises during fiscal 2012 as compared to fiscal 2011. There were no common stock repurchases during fiscal 2011.

Net cash provided by financing activities was $44.5 million for fiscal 2011 compared to $619.8 million for fiscal 2010. This year over year decrease was primarily due to our sale of 12.65 million shares of our common stock in a follow-on public offering during fiscal 2010, which provided net proceeds of approximately $434 million.

As of June 24, 2012, up to $200 million of our common stock is approved for repurchase under the repurchase program authorized by our Board of Directors beginning June 14, 2012 through June 30, 2013. Since the inception of our stock repurchase program in 2001, we have repurchased approximately 10.3 million shares of our common stock at an average price of $19.95 per share with an aggregate value of $205.4 million.

At the discretion of our management, the repurchase program can be implemented through open market or privately negotiated transactions. We will determine the time and extent of repurchases based on our evaluation of market conditions and other factors.

Fair Value

Under accounting principles generally accepted in the United States (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. 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 we are 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 we perform recurring fair value remeasurements are cash equivalents and short-term investments. The financial assets for which we 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 June 24, 2012, financial assets utilizing Level 1 inputs included money market funds. Financial assets utilizing Level 2 inputs included corporate bonds, municipal bonds, certificates of deposit, variable rate demand notes, non-U.S. government securities, commercial paper, 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. We do not have any significant financial assets requiring the use of Level 3 inputs. Please refer to Note 6, “Fair Value of Financial Instruments” to the consolidated financial statements included in Item 8 of this Annual Report for further information.

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Financial and Market Risks

We are exposed to financial and market risks, including changes in interest rates, currency exchange rates and commodities risk. We currently do not use derivative financial instruments to mitigate any of these risks; however, we may choose to do so in the future. All of the potential changes noted below are based on sensitivity analyses performed on our financial positions at June 24, 2012 and June 26, 2011. Actual results may differ materially.

Interest Rates

We maintain an investment portfolio principally composed of high-grade corporate debt, commercial paper, government securities, and other investments at fixed interest rates that vary by security. In order to minimize risk, our cash management policy permits us to acquire investments rated “AA” grade or better. The potential loss in fair value resulting from a hypothetical 10% decrease in quoted market price of our investments was approximately $56.6 million at June 24, 2012 and $69.5 million at June 26, 2011.

Currency Exchange Rates

As we operate internationally and have transactions denominated in foreign currencies, including the Euro, among others, we are exposed to currency exchange rate risks. As a result, fluctuations in exchange rates may adversely affect our expenses and results of operations as well as the value of our assets and liabilities. Our primary exposures relate to the exchange rates between the U.S. Dollar and the Chinese Renminbi (CNY). The potential loss in fair value resulting from a hypothetical 10% increase in the value of the U.S. Dollar compared to the Chinese Renminbi was approximately $3.8 million at June 24, 2012 and $2.6 million at June 26, 2011.

Commodities

We utilize significant amounts of precious metals, gases and other commodities in our manufacturing processes. General economic conditions, market specific changes or other factors outside of our control may affect the pricing of these commodities. We do not use financial instruments to hedge commodity prices.

Off-Balance Sheet Arrangements

We do not use off-balance sheet arrangements with unconsolidated entities or related parties, nor do we use any 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 June 24, 2012, 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 U.S. and international facilities in the normal course of business. These arrangements are often referred to as a form of off-balance-sheet financing. Future minimum lease payments under our operating leases as of June 24, 2012 are detailed above in “Liquidity and Capital Resources” in the section entitled “Contractual Obligations.”

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. In the application of U.S. GAAP, we are required to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities in our consolidated financial statements. Changes in the accounting estimates from period to period are reasonably likely to occur. Accordingly, actual results could differ significantly from the estimates made by management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation of our financial condition or results of operations may be affected.

On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, valuation of stock based compensation, valuation of long-lived assets, tax related contingencies, valuation of inventories, warranties, other contingencies and litigation, among others. We base our estimates on historical experience and on various other assumptions, including expected trends, that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

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In addition to making critical accounting estimates, we must ensure that our financial statements are properly stated in accordance with U.S. GAAP. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require a high degree of management judgment in its application, while in other cases, management's judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions.

Our significant accounting policies are discussed in Note 2, "Basis of Presentation and Summary of Significant Accounting Policies," to the consolidated financial statements included in Item 8 of this Annual Report. We believe that the following are our most critical accounting policies and estimates, each of which is critical to the portrayal of our financial condition and results of operations and requires our most difficult, subjective and complex judgments. Our management has reviewed our critical accounting policies and the related disclosures with the Audit Committee of our Board of Directors.

Revenue Recognition

We recognize product revenue when the earnings process is complete, as evidenced by persuasive evidence of an arrangement, typically in the form of a purchase order, when the sales price is fixed or determinable, collection of revenue is reasonably assured, and title and risk of loss have passed to the customer.

For the year ended June 24, 2012, 40% of our product sales were made to distributors. Distributors stock inventory and sell our products to their own customer base, which may include: value added resellers; manufacturers who incorporate our products into their own manufactured goods; or ultimate end users of our products. We recognize revenue upon shipment of our products to our distributors. This arrangement is often referred to as a "sell-in" or "point-of-purchase" model as opposed to a "sell-through" or "point-of-sale" model, where revenue is deferred and not recognized until the distributor sells the product through to their customer.

Our distributors may be provided limited rights that allow them to return a portion of inventory (Product Exchange Rights or Stock Rotation Rights) and receive credits for changes in selling prices (Price Protection Rights) or other targeted sales incentives. When determining our net revenue, we make significant judgments and estimates corresponding with product shipments. We record a reserve for estimated future returns, changes in selling prices, and other targeted sales incentives when product ships. We also record an asset for the estimated value of product returns that we believe will be returned to inventory in the future and resold, and these estimates are based upon historical data, current economic trends, distributor inventory levels and other related factors. Our financial condition and operating results are dependent upon our ability to make reliable estimates. Actual results may vary and could have a significant impact on our operating results.

Warranties

Product warranties are estimated and recorded at the time we recognize revenue. The warranty periods range from ninety days to ten years. We estimate these warranty liabilities as a percentage of revenue, based on historical knowledge of warranty costs and expected future warranty costs. We evaluate our warranty reserve on a quarterly basis. If actual product failure rates materially differ from our estimates, revisions to the estimated warranty liability are recorded in the period in which they are determined.

Inventories

We write-down our inventory for estimated obsolescence equal to the difference between the cost of inventory and its estimated market value based upon an aging analysis of the inventory on hand, specifically known inventory-related risks (such as technological obsolescence), and assumptions about future demand. We also analyze sales levels by product type, including historical and estimated future customer demand for those products to determine if any additional reserves are appropriate. For example, we adjust for items that are considered obsolete based upon changes in customer demand, manufacturing process changes or new product introductions that may eliminate demand for the product. Any adjustment to our inventory as a result of an estimated obsolescence or net realizable condition is reflected as a component of our cost of sales. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and any subsequent improvements in facts and circumstances do not result in the restoration or increase in that newly established cost basis. We recorded charges for write-downs in inventory of $14.7 million, $14.6 million and $16.2 million, for fiscal 2012, 2011 and 2010, respectively.

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In order to determine what costs can be included in the valuation of inventory, we determine normal capacity for our manufacturing facilities based on historical patterns. If our estimates regarding customer demand are inaccurate, or market conditions or technology change in ways that are less favorable than those projected by management, we may be required to take excess capacity charges in accordance with U.S. GAAP, which could have an adverse effect on our consolidated financial results.

Deferred Tax Asset Valuation Allowances

In assessing the adequacy of a recorded valuation allowance, we consider all positive and negative evidence and a variety of factors including historical and projected future taxable income and prudent and feasible tax planning strategies. When we establish or increase a valuation allowance, our income tax expense increases in the period such determination is made. If we decrease a valuation allowance, our income tax expense decreases in the period such a determination is made.

Tax Contingencies

We are subject to periodic audits of our income tax returns by federal, state and local agencies. The audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740, “Income Taxes” (ASC 740), we regularly evaluate the exposures associated with our various tax filing positions. ASC 740 states that a tax benefit should not be recognized for financial statement purposes for an uncertain tax filing position where it is not more likely than not (likelihood of greater than 50%) for being sustained by the taxing authorities based on the technical merits of the position.

In accordance with the provisions of ASC 740, we have recorded unrecognized tax benefits (as a reduction to the deferred tax asset or as an increase to other liabilities) to remove some or all of the tax benefit of any of our tax positions at the time we determine that the positions become uncertain based upon one of the following: (1) the tax position is not “more likely than not” to be sustained, (2) the tax position is “more likely than not” to be sustained, but for a lesser amount, (3) the tax position is “more likely than not” to be sustained, but not in the financial period in which the tax position was originally taken. For purposes of evaluating whether or not a tax position is uncertain, (1) we presume the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information, (2) the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position, and (3) each tax position is evaluated without considerations of the possibility of offset or aggregation with other tax positions taken. We adjust these unrecognized tax benefits, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as the progress of a tax audit.

A number of years may elapse before a particular matter for which we have established an unrecognized tax benefit is audited and fully resolved. To the extent we prevail in matters for which we have recorded an unrecognized benefit or are required to pay amounts in excess of what we have recorded our effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement might require use of our cash and/or result in an increase in our effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the year of resolution.

Accounting for Stock-Based Compensation

We account for awards of stock-based compensation under our employee stock-based compensation plans using the fair value method. Accordingly, we estimate the grant date fair value of our stock-based awards and amortize this fair value to compensation expense over the requisite service period or vesting term. We currently use the Black-Scholes option-pricing model to estimate the fair value of our stock option and ESPP awards. The determination of the fair value of stock-based awards on the date of grant using an option-pricing model is affected by our then current 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, the 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 our financial statements. For restricted stock and stock unit awards, grant date fair value is based upon the market price of our 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.

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We estimate expected forfeitures at the time of grant and revise this estimate, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Our determination of an estimated forfeiture rate is primarily based upon a review of historical experience but may also include consideration of other facts and circumstances we believe are indicative of future activity. The assessment of an estimated forfeiture rate will not alter the total compensation expense to be recognized, only the timing of this recognition as compensation expense is adjusted to reflect instruments that actually vest.

If actual results are not consistent with our assumptions and judgments used in estimating key assumptions, we may be required to adjust compensation expense, which could be material to our results of operations.

Recoverability of Long-Lived Assets

Our assessment of the recoverability of long-lived assets involves significant judgment and estimation. These assessments reflect our assumptions, which, we believe, are consistent with the assumptions hypothetical marketplace participants use. Factors that we must estimate when performing recoverability and impairment tests include, among others, the economic life of the asset, sales volumes, prices, cost of capital, tax rates, and capital spending. These factors are often interdependent and therefore do not change in isolation.

We evaluate long-lived assets such as property, equipment and definite lived intangible assets, such as patents, for impairment whenever events or circumstances indicate that the carrying value of the assets recorded in our financial statements may not be recoverable. Factors that we consider include whether there has been a significant decrease in the market value of an asset, a significant change in the way an asset is being used, or a significant change, delay or departure in our strategy for that asset. If impairment is indicated, we first determine if the total estimated future cash flows on an undiscounted basis are less than the carrying amounts of the asset or assets. If so, an impairment loss is measured and recorded.

After an impairment loss is recognized, a new, lower cost basis for that long-lived asset is established. Subsequent changes in facts and circumstances do not result in the reversal of a previously recognized impairment loss.

Our impairment loss calculations require that we apply judgment in estimating future cash flows and asset fair values, including estimating useful lives of the assets. To make these judgments, we may use internal discounted cash flow estimates, quoted market prices when available and independent appraisals as appropriate to determine fair value.

If actual results are not consistent with our assumptions and judgments used in estimating future cash flows and asset fair values, we may be required to record additional impairment losses which could be material to our results of operations.

Goodwill

We test goodwill for impairment at least annually in the fiscal fourth quarter, or when indications of potential impairment exist. We monitor for the existence of potential impairment indicators throughout the fiscal year. We conduct impairment testing for goodwill at the reporting unit level. Reporting units as defined by ASC 350 may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. We have determined that our reporting units for fiscal 2012 are our three operating and reportable segments.

We may initiate goodwill impairment testing by considering qualitative factors to determine whether it is more likely than not that a reporting unit's carrying value is greater than its fair value. Such factors may include the following, among others: a significant decline in the reporting unit's expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate, unanticipated competition; and slower growth rates; as well as changes in management, key personnel, strategy, and/or customers. If our qualitative assessment reveals that goodwill impairment is more likely than not, we perform the two-step impairment test. Alternatively, we may bypass the qualitative test and initiate goodwill impairment testing with the first step of the two-step goodwill impairment test.

During the first step of the goodwill impairment test, we compare the fair value of the reporting unit to its carrying value, including goodwill. We derive a reporting unit's fair value through a combination of the market approach (a guideline transaction method) and the income approach (a discounted cash flow analysis). The income method cash flow analysis utilizes a discount rate from the capital asset pricing model. If all reporting units are analyzed during step 1 of the goodwill impairment test, their respective fair values are reconciled back to the Company's consolidated market capitalization.

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If the fair value of a reporting unit exceeds its carrying value, then we conclude that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, we perform the second step of the goodwill impairment test to measure possible goodwill impairment loss. During the second step, we hypothetically value the reporting unit's tangible and intangible assets and liabilities as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying value of its goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying value of the reporting unit's goodwill. Once an impairment loss is recognized, the adjusted carrying value of the goodwill becomes the new accounting basis of the goodwill for the reporting unit.

Indefinite Lived Intangible Assets

We test indefinite lived intangible assets for impairment at least annually in the fiscal fourth quarter, or when indications of potential impairment exist. We monitor for the existence of potential impairment indicators throughout the fiscal year. Our impairment test may begin with a qualitative test to determine whether it is more likely than not that an indefinite lived intangible asset's carrying value is greater than its fair value. If our qualitative assessment reveals that asset impairment is more likely than not, we perform a quantitative impairment test by comparing the fair value of the indefinite lived intangible asset to its carrying value. Alternatively, we may bypass the qualitative test and initiate impairment testing with the quantitative impairment test.

Determining the fair value of indefinite-lived intangible assets entails significant estimates and assumptions including, but not limited to, determining the timing and expected costs to complete development projects, estimating future cash flows from product sales, developing appropriate discount rates, estimating probability rates for the successful completion of development projects, continuation of customer relationships and renewal of customer contracts, and approximating the useful lives of the intangible assets acquired.

If the fair value of the indefinite lived intangible asset exceeds its carrying value, we conclude that no indefinite lived intangible asset impairment has occurred. If the carrying value of the indefinite lived intangible asset exceeds its fair value, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying value. Once an impairment loss is recognized, the adjusted carrying value becomes the new accounting basis of the indefinite lived intangible asset.

Contingent Liabilities

We provide for contingent liabilities in accordance with U.S. GAAP. In accordance with U.S. GAAP, a loss contingency is charged to income when (1) it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, and (2) the amount of the loss can be reasonably estimated. Periodically, we review the status of each significant matter to assess the potential financial exposure. If a potential loss is considered probable and the amount can be reasonably estimated, we reflect the estimated loss in our results of operations. Significant judgment is required to determine the probability that a liability has been incurred or an asset impaired and whether such loss is reasonably estimable. Because of uncertainties related to these matters, accruals are based on the best information available at the time. Further, estimates of this nature are highly subjective, and the final outcome of these matters could vary significantly from the amounts that may have been included in the accompanying consolidated financial statements. In determining the probability of an unfavorable outcome of a particular contingent liability and whether such liability is reasonably estimable, we consider the individual facts and circumstances related to the liability, opinions of legal counsel and recent legal rulings by the appropriate regulatory bodies, among other factors. As additional information becomes available, we reassesses the potential liability related to our pending claims and litigation and may revise our estimates accordingly. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position. See also a discussion of specific contingencies in Note 12, “Commitments and Contingencies,” to our consolidated financial statements in Item 8 of this Annual Report.

Recent Accounting Pronouncements

See Note 2, “Basis of Presentation and Summary of Significant Accounting Policies,” to our consolidated financial statements in Item 8 of this Annual 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 7A. Quantitative and Qualitative Disclosures About Market Risk

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See the section entitled “Financial and Market Risks” included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Annual Report.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Cree, Inc.

We have audited the accompanying consolidated balance sheets of Cree, Inc. as of June 24, 2012 and June 26, 2011, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended June 24, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cree, Inc. at June 24, 2012 and June 26, 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 24, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cree, Inc.'s internal control over financial reporting as of June 24, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 21, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Raleigh, North Carolina
August 21, 2012

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CREE, INC.
CONSOLIDATED BALANCE SHEETS

	June 24, 2012	June 26, 2011
	(Thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$178,885	$390,598
Short-term investments	565,628	695,199
Total cash, cash equivalents, and short-term investments	744,513	1,085,797
Accounts receivable, net	152,258	118,469
Income tax receivable	—	6,796
Inventories	188,849	176,482
Deferred income taxes	21,744	17,857
Prepaid expenses and other current assets	56,917	51,494
Total current assets	1,164,281	1,456,895
Property and equipment, net	582,461	555,929
Intangible assets, net	376,075	102,860
Goodwill	616,345	326,178
Other assets	8,336	4,860
Total assets	$2,747,498	$2,446,722
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$78,873	$76,593
Accrued salaries and wages	29,837	18,491
Income taxes payable	3,834	15,493
Other current liabilities	36,633	29,739
Total current liabilities	149,177	140,316
Long-term liabilities:		
Deferred income taxes	15,735	21,902
Other long-term liabilities	22,695	22,940
Total long-term liabilities	38,430	44,842
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, par value $0.01; 3,000 shares authorized at June 24, 2012 and June 26, 2011; none issued and outstanding	—	—
Common stock, par value $0.00125; 200,000 shares authorized at June 24, 2012 and June 26, 2011; 115,906 and 109,607 shares issued and outstanding at June 24, 2012 and June 26, 2011, respectively	144	136
Additional paid-in-capital	1,861,502	1,593,530
Accumulated other comprehensive income, net of taxes	11,007	13,091
Retained earnings	687,238	654,807
Total shareholders' equity	2,559,891	2,261,564
Total liabilities and shareholders' equity	$2,747,498	$2,446,722

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

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CREE, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Years Ended		
	June 24, 2012	June 26, 2011	June 27, 2010
	(Thousands, except per share data)		
Revenue, net	$1,164,658	$987,615	$867,287
Cost of revenue, net	755,196	551,842	456,180
Gross profit	409,462	435,773	411,107
Operating expenses:			
Research and development	143,357	115,035	81,407
Sales, general and administrative	197,092	139,304	115,601
Amortization of acquisition related intangibles	26,274	10,776	12,180
Loss on disposal or impairment of long-lived assets	3,481	1,952	4,141
Total operating expenses	370,204	267,067	213,329
Operating income	39,258	168,706	197,778
Non-operating income:			
Other non-operating income, net	932	993	294
Interest income, net	7,457	8,528	7,400
Income before income taxes	47,647	178,227	205,472
Income tax expense	3,235	31,727	53,182
Net income	$44,412	$146,500	$152,290
Earnings per share:			
Basic	$0.39	$1.35	$1.49
Diluted	$0.39	$1.33	$1.45
Shares used in per share calculation:			
Basic	114,693	108,522	102,371
Diluted	115,225	110,035	104,698

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

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CREE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended June 24, 2012	June 26, 2011	June 27, 2010
	(In thousands)		
Cash flows from operating activities:			
Net income	$44,412	$146,500	$152,290
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	142,709	108,605	90,424
Stock-based compensation	46,393	38,240	24,067
Excess tax benefit from share-based payment arrangements	(277)	(10,141)	(21,722)
Loss on disposal or impairment of long-lived assets	3,481	1,952	4,141
Amortization of premium/discount on investments, net	8,330	15,696	9,502
Deferred income taxes	(6,425)	(16,308)	(11,046)
Changes in operating assets and liabilities:			
Accounts receivable	(9,365)	(963)	(14,555)
Inventories	26,904	(63,450)	(33,129)
Prepaid expenses and other assets	(931)	(17,090)	(18,084)
Accounts payable, trade	(10,105)	18,442	15,717
Accrued salaries and wages and other liabilities	(2,846)	29,897	52,964
Net cash provided by operating activities	242,280	251,380	250,569
Cash flows from investing activities:			
Purchases of property and equipment	(95,015)	(237,085)	(168,624)
Payment of COTCO contingent consideration	—	—	(57,050)
Payment of LLF contingent consideration	—	(13,159)	(8,773)
Purchases of investments	(345,457)	(382,520)	(660,823)
Proceeds from maturities of investments	186,425	252,603	121,808
Proceeds from sale of property and equipment	252	205	228
Proceeds from sale of available-for-sale investments	277,463	89,474	19,120
Purchase of Ruud Lighting, net of cash acquired	(454,605)	—	—
Purchases of patent and licensing rights	(17,204)	(12,752)	(9,273)
Net cash used in investing activities	(448,141)	(303,234)	(763,387)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	5,012	34,405	598,077
Excess tax benefit from share-based payment arrangements	277	10,141	21,722
Repurchases of common stock	(11,981)	—	—
Net cash (used in)/provided by financing activities	(6,692)	44,546	619,799
Effect of foreign exchange changes on cash and cash equivalents	840	475	296
Net (decrease)/increase in cash and cash equivalents	(211,713)	(6,833)	107,277
Cash and cash equivalents:			
Beginning of period	390,598	397,431	290,154
End of period	$178,885	$390,598	$397,431
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$17,984	$31,201	$33,441

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

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CREE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Number of Shares	Par Value				
	(In thousands)					
Balance at June 28, 2009	89,659	$112	$857,383	$356,017	$11,236	$1,224,748
Net income	—	—	—	152,290	—	152,290
Currency translation gain/(loss)	—	—	—	—	—	—
Unrealized gain on available-for-sale securities, net of tax of $591	—	—	—	—	935	935
Comprehensive income						153,225
Income tax benefits from stock option exercises	—	—	28,810	—	—	28,810
Repurchased shares	—	—	—	—	—	—
Stock-based compensation	—	—	24,271	—	—	24,271
Exercise of stock options and issuance of shares	18,343	23	596,971	—	—	596,994
Balance at June 27, 2010	108,002	$135	$1,507,435	$508,307	$12,171	$2,028,048
Net income	—	—	—	146,500	—	146,500
Currency translation gain/(loss)	—	—	—	—	—	—
Unrealized gain on available-for-sale securities, net of tax of $558	—	—	—	—	920	920
Comprehensive income						147,420
Income tax benefits from stock option exercises	—	—	7,865	—	—	7,865
Repurchased shares	—	—	—	—	—	—
Stock-based compensation	—	—	39,061	—	—	39,061
Exercise of stock options and issuance of shares	1,605	1	39,169	—	—	39,170
Balance at June 26, 2011	109,607	$136	$1,593,530	$654,807	$13,091	$2,261,564
Net income	—	—	—	44,412	—	44,412
Currency translation gain/(loss)	—	—	—	—	(335)	(335)
Unrealized loss on available-for-sale securities, net of tax of $1,059	—	—	—	—	(1,749)	(1,749)
Comprehensive income						42,328
Income tax benefits from stock option exercises	—	—	(354)	—	—	(354)
Repurchased shares	(521)	—	(856)	(11,981)	—	(12,837)
Stock-based compensation	—	—	45,784	—	—	45,784
Exercise of stock options and issuance of shares	6,820	8	223,398	—	—	223,406
Balance at June 24, 2012	115,906	$144	$1,861,502	$687,238	$11,007	$2,559,891

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

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CREE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business

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

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

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

The Company's lighting products consist of both LED and traditional lighting systems. The Company designs, manufactures and sells lighting systems for indoor and outdoor applications, with a primary focus on LED lighting systems for the commercial and industrial markets. The Company also uses its LED systems expertise to accelerate LED lighting adoption and expand the market for its LED components.

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

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

Cree, Inc. is a North Carolina corporation established in 1987.

As of June 24, 2012, the Company has three reportable segments:

- LED Products
- Lighting Products
- Power and RF Products

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

For financial results by reportable segment, please refer to Note 13, "Reportable Segments."

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

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Fiscal Year
The Company's fiscal year is a 52 or 53-week period ending on the last Sunday in the month of June. The Company's 2012 fiscal year extended from June 27, 2011 to June 24, 2012 and was a 52-week fiscal year. The Company's 2011 fiscal year extended from June 28, 2010 to June 26, 2011 and was a 52-week fiscal year. The Company's 2010 fiscal year extended from June 29, 2009 to June 27, 2010 and was a 52-week fiscal year. The Company's 2013 fiscal year will extend from June 25, 2012 to June 30, 2013 and will be a 53-week fiscal year.

Reclassifications
Certain prior period amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, provision for doubtful accounts, sales returns, sales price discounts and incentives, provision for inventory obsolescence, fair value of investments, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, income taxes, product warranty obligations, employee stock options, and contingencies and litigation, among others. The Company generally bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts recorded could differ materially from those estimates.

Segment Information
The Company follows U.S. GAAP with respect to disclosures regarding reportable segments. U.S. GAAP requires segmentation based on an entity's internal organization and reporting of revenue and operating income based upon internal accounting methods commonly referred to as the "management approach." Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. The Company has determined that it currently has three reportable segments.

Cash and Cash Equivalents
Cash and cash equivalents consist of unrestricted cash accounts and highly liquid investments with an original maturity of three months or less when purchased. Cash and cash equivalents are carried at cost, which approximates fair value. The Company holds cash and cash equivalents at several major financial institutions, which often exceed insurance limits set by the Federal Deposit Insurance Corporation ("FDIC"). The Company has not historically experienced any losses due to such concentration of credit risk.

Investments
Investments in certain securities may be classified into three categories:

- Held-to-Maturity – Debt securities that the entity has the positive intent and ability to hold to maturity, which are reported at amortized cost.
- Trading Securities – Debt and equity securities that are bought and held principally for the purpose of selling in the near term, which are reported at fair value, with unrealized gains and losses included in earnings.
- Available-for-Sale – Debt and equity securities not classified as either securities held-to-maturity or trading securities, which are reported at fair value with unrealized gains or losses excluded from earnings and reported as a separate

component of shareholders' equity.

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The Company reassesses the appropriateness of the classification (i.e. held-to-maturity, trading securities, or available-for-sale) of its investments at the end of each reporting period.

When the fair value of an investment declines below its original cost, the Company considers all available evidence to evaluate whether the decline is other-than-temporary. Among other things, the Company considers the duration and extent of the decline and economic factors influencing the capital markets. For the fiscal years ended June 24, 2012, June 26, 2011, and June 27, 2010, the Company has had no other-than-temporary declines below the cost basis of its investments. The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized gains and losses on investments are reported in other income and expense.

Investments in marketable securities with maturities beyond one year may be classified as short term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations.

Inventories

Inventories are valued at the lower of cost or market value, with cost being determined on the first-in, first-out (“FIFO”) method or the average cost method. The Company writes down its inventory balances for estimates of excess and obsolete amounts. These write-downs are recorded as a component of cost of sales. At the point of the write-down, a new lower-cost basis for that inventory is established, and any subsequent improvements in facts and circumstances do not result in the restoration or increase in that newly established lower cost basis. The Company recorded charges for write-downs in inventory of $14.7 million, $14.6 million and $16.2 million, for fiscal 2012, 2011 and 2010, respectively.

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the assets’ estimated useful lives. Leasehold improvements are amortized over the lesser of the asset life or the life of the related lease. In general, the Company's policy for useful lives is as follows:

Manufacturing equipment	3 to 5 years
Buildings and building improvements	5 to 40 years
Furniture and office equipment	3 to 5 years
Aircraft and vehicles	5 to 20 years
Leasehold improvements	Shorter of estimated useful life or lease term

Expenditures for repairs and maintenance are charged to expense as incurred. The costs for major renewals and improvements are capitalized and depreciated over their estimated useful lives. The cost and related accumulated depreciation of the assets are removed from the accounts upon disposition and any resulting gain or loss is reflected in operating income.

Shipping and Handling Costs

Shipping and handling costs are included in cost of revenues and are recognized as a period expense during the period in which they are incurred.

Goodwill and Intangible Assets

The Company records the assets acquired and liabilities assumed in business combinations at their respective fair values at the date of acquisition, with any excess purchase price recorded as goodwill. Valuation of intangible assets and in-process research and development entails significant estimates and assumptions including, but not limited to, determining the timing and expected costs to complete development projects, estimating future cash flows from product sales, developing appropriate discount rates, estimating probability rates for the successful completion of development projects, continuation of customer relationships and renewal of customer contracts, and approximating the useful lives of the intangible assets acquired.

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Goodwill

The Company recognizes goodwill as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The Company tests goodwill for impairment annually in the fiscal fourth quarter, or when indications of potential impairment exist. The Company monitors the existence of potential impairment indicators throughout the fiscal year.

The Company conducts impairment testing for goodwill at the reporting unit level. Reporting units as defined by ASC 350 may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. We have determined that our reporting units for fiscal 2012 are our three operating and reportable segments.

The Company may initiate goodwill impairment testing by considering qualitative factors to determine whether it is more likely than not that a reporting unit's carrying value is greater than its fair value. Such factors may include the following, among others: a significant decline in the reporting unit's expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and slower growth rates as well as changes in management, key personnel, strategy, and/or customers. If the Company's qualitative assessment reveals that goodwill impairment is more likely than not, the Company performs the two-step goodwill impairment test. Alternatively, the Company may bypass the qualitative test and initiate goodwill impairment testing with the first step of the two-step goodwill impairment test.

During the first step of the goodwill impairment test, the Company compares the fair value of the reporting unit to its carrying value, including goodwill. The Company derives a reporting unit's fair value through a combination of the market approach (a guideline transaction method) and the income approach (a discounted cash flow analysis). The income method cash flow analysis utilizes a discount rate from the capital asset pricing model. If all reporting units are analyzed during step 1 of the goodwill impairment test, their respective fair values are reconciled back to the Company's consolidated market capitalization.

If the fair value of a reporting unit exceeds its carrying value, then the Company concludes that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to measure possible goodwill impairment loss. During the second step, the Company hypothetically values the reporting unit's tangible and intangible assets and liabilities as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying value of its goodwill. If the carrying value of the reporting units goodwill exceeds the implied fair value of the goodwill, the Company recognizes an impairment loss in an amount equal to the excess, not to exceed the carrying value of the reporting unit's goodwill. Once an impairment loss is recognized, the adjusted carrying value of the goodwill becomes the new accounting basis of the goodwill for the reporting unit.

Indefinite-Lived Intangible Assets

The Company's indefinite-lived intangible assets are comprised of trade names as a result of the Ruud Lighting acquisition. These are tested for impairment annually in the fiscal fourth quarter, or when events or changes in circumstances indicate potential impairment may exist. The Company monitors the existence of potential impairment indicators throughout the fiscal year.

The Company initiates the impairment analysis with a qualitative test to determine whether it is more likely than not that an indefinite lived intangible asset's carrying value is greater than its fair value. If the Company's qualitative assessment reveals that asset impairment is more likely than not, the Company performs a quantitative impairment test by comparing the fair value of the indefinite lived intangible asset to its carrying value. Fair value reflects the price a market participant would be willing to pay in a potential sale of the asset. Valuation of indefinite-lived intangible assets entails significant estimates and assumptions including, but not limited to, determining the timing and expected costs to complete development projects, estimating future cash flows from product sales, developing appropriate discount rates, estimating probability rates for the successful completion of development projects, continuation of customer relationships and renewal of customer contracts, and approximating the useful lives of the intangible assets acquired.

If the fair value of the indefinite lived intangible asset exceeds its carrying value, then the Company concludes that no indefinite lived intangible asset impairment has occurred. If the carrying value of the indefinite lived intangible asset exceeds its fair value, the Company records an impairment loss in an amount equal to the excess, not to exceed the carrying value. Once an impairment loss is recognized, the adjusted carrying value becomes the new accounting basis of the indefinite lived intangible asset.

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In-Process Research and Development
The Company acquired in-process research and development ("IPR&D") as a result of the Ruud Lighting acquisition. The Company determines the fair value of IPR&D acquired in a business combination based on the present value of each project's projected cash flows using an income approach. IPR&D is initially capitalized and considered to be indefinite-lived assets subject to annual impairment reviews or more often upon the occurrence of certain events. If the fair value of the intangible assets is less than its carrying value, an impairment loss is recognized for the difference. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, the Company records an impairment loss for the value of the related intangible asset in the period it is abandoned.

Other Intangible Assets
U.S. GAAP requires that intangible assets, other than goodwill and indefinite-lived intangibles, must be amortized over their useful lives. The Company is currently amortizing its acquired intangible assets with finite lives over periods ranging from one to twenty years.
Patent rights reflect costs incurred by the Company in applying for and maintaining patents owned by the Company and costs incurred in purchasing patents and related rights from third parties. License rights reflect costs incurred by the Company in acquiring licenses under patents owned by others. The Company amortizes both on a straight-line basis over the expected useful life of the associated patent rights, which is generally the lesser of 20 years from the date of the patent application or the license period. Royalties payable under licenses for patents owned by others are expensed as incurred. The Company reviews its capitalized patent portfolio and records impairment charges when circumstances warrant, such as when patents have been abandoned or are no longer being pursued.

Impairment of Long-Lived Assets
The Company reviews long-lived assets such as property and equipment for impairment based on changes in circumstances that indicate their carrying amounts may not be recoverable. In making these determinations, the Company uses certain assumptions, including but not limited to: (1) estimations of the fair market value of the assets, and (2) estimations of future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service the asset will be used in the Company’s operations and estimated salvage values.

Contingent Liabilities
The Company provides for contingent liabilities when (1) it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements; and, (2) the amount of the loss can be reasonably estimated. Disclosure in the notes to the financial statements is required for loss contingencies that do not meet both these conditions if there is a reasonable possibility that a loss may have been incurred. See Note 12, “Commitments and Contingencies,” for a discussion of loss contingencies in connection with pending and threatened litigation. The Company expenses as incurred the costs of defending legal claims against the Company.

Revenue Recognition
The Company recognizes product revenue when the earnings process is complete, as evidenced by persuasive evidence of an arrangement, typically in the form of a purchase order, when the sales price is fixed or determinable, collection of revenue is reasonably assured, and title and risk of loss have passed to the customer.
The Company provides its customers with limited rights of return for non-conforming shipments and product warranty claims. The Company estimates an allowance for anticipated sales returns based upon an analysis of historical sales returns and other relevant data. The Company records an allowance at the time of sale, which is recorded as a reduction of product revenue and as a reduction to the related accounts receivable balance.
A substantial portion of the Company’s products are sold through distributors. Distributors stock inventory and sell the Company’s products to their own customer base, which may include: value added resellers; manufacturers who

incorporate the Company’s products into their own manufactured goods; or ultimate end users of the Company’s products. The Company recognizes revenue under the same terms as described. Certain of the Company’s distributors are provided limited rights that

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allow them to return a portion of inventory (Product Exchange Rights or Stock Rotation Rights) and receive credits for changes in selling prices (Price Protection Rights) and targeted customer pricing arrangements under the Company's “ship and debit” program. These estimates are calculated based upon historical experience, product shipment analysis, current economic conditions, on-hand inventory at the distributor, and customer contractual arrangements. The Company believes that it can reasonably and reliably estimate the allowance for distributor credits at the time of sale. Accordingly, estimates for these rights are recorded at the time of sale as a reduction of product revenue and as a reduction to the related accounts receivable balance.

On occasion, the Company will issue a new price book for its product, at which time the Company will provide a credit to certain distributors for inventory quantities on hand if required by the Company’s agreement with the distributor. This practice is known as price protection. These credits are applied against the reserve that the Company establishes upon initial shipment of product to the distributor.

Under the ship and debit program, products are sold to distributors at negotiated prices and the distributors are required to pay for product within the Company’s standard commercial terms. Subsequent to the initial product purchase, a distributor may request a price allowance for a particular part number(s) for certain target customers, prior to the distributor reselling the particular part. Once the Company has approved an allowance and the distributor resells the product to the target customer, the Company credits the distributor according to the allowance approved. These credits are applied against a reserve the Company establishes upon initial shipment of product to the distributor.

In addition, the Company periodically runs sales incentive programs with certain of its distributors and resellers, such as product rebates and cooperative advertising campaigns. The Company recognizes these incentives at the time they are offered for consideration given to customers, and records a credit to the customer’s account and offsetting expense as either a reduction to revenue, increase to cost of sales, or marketing expense depending on the type of sales incentive.

From time to time, the Company may enter into licensing arrangements related to its intellectual property. Revenue from licensing arrangements is recognized when earned and estimable. The timing of revenue recognition is dependent on the terms of each license agreement. Generally, the Company will recognize non-refundable upfront license fees related to patent licenses immediately upon receipt of the funds if the Company has no significant future obligations to perform under the arrangement. However, the Company will defer recognition for licensing fees where the Company has significant future performance requirements, the fee is not fixed (such as royalties earned as a percentage of future sales), or the fees are otherwise contingent.

Accounts Receivable

For product sales, the Company typically invoices its customers at the time of shipment for the sales order value of products shipped. For contract revenue, invoicing occurs based upon the terms of the specific research contract, typically one month in arrears for services rendered and any other allowable direct costs. Accounts receivable are recorded at the invoiced amount and are not subject to any interest or finance charges. The Company does not have any off-balance sheet credit exposure related to any of its customers.

Allowance for Doubtful Accounts

The Company evaluates the collectability of accounts receivable based on a combination of factors. In cases where the Company becomes aware of circumstances that may impair a specific customer’s ability to meet its financial obligations subsequent to the original sale, the Company will record an allowance against amounts due, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due and consideration of other factors such as industry conditions, the current business environment and the Company's historical experience.

Advertising

The Company expenses the costs of producing advertisements at the time production occurs and expenses the cost of communicating the advertising in the period in which the advertising is used. Advertising costs are included in selling, general and administrative expenses and amounted to approximately $9.7 million, $5.7 million, and $4.2 million for the years ended June 24, 2012, June 26, 2011 and June 27, 2010, respectively.

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Research and Development
Research and development activities are expensed when incurred. For contracts under which the Company anticipates that direct costs will exceed amounts to be funded over the life of the contract, costs are reported as research and development expenses when incurred, and related funding as an offset of those expenses when funds are received.

Earnings Per Share
Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding for the applicable period. Diluted earnings per share is determined in the same manner as basic earnings per share except that the number of shares is increased to assume exercise of potentially dilutive stock options, non-vested restricted stock and contingently issuable shares using the treasury stock method, unless the effect of such increases would be anti-dilutive. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

Accounting for Stock-Based Compensation
The Company recognizes compensation expense for all share-based payments granted based on the fair value of the shares on the date of grant. Compensation expense is then recognized over the award’s vesting period.

Fair Value of Financial Instruments
The carrying amounts of cash and cash equivalents, available-for-sale securities, accounts and interest receivable, accounts payable and other liabilities approximate their fair values at June 24, 2012 and June 26, 2011 due to the short-term nature of these instruments.

Taxes
The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss carryforwards and credit carryforwards, if it is more likely than not that the tax benefits will be realized. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances are established. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.
Taxes payable which are not based on income are accrued ratably over the period to which they apply. For example, payroll taxes are accrued each period end based upon the amount of payroll taxes that are owed as of that date; whereas taxes such as property taxes and franchise taxes are accrued over the fiscal year to which they apply if paid at the end of a period, or they are amortized ratably over the fiscal year if they are paid in advance.

Foreign Currency Translation
In the first quarter of fiscal 2012, the Company acquired two foreign subsidiaries as part of the Ruud Lighting acquisition that have a non-U.S. dollar functional currency. Accordingly, foreign currency translation adjustments have been recorded through accumulated other comprehensive income (loss) in fiscal 2012 for changes between the foreign subsidiaries' functional currency and the U.S. dollar. There were no translation adjustments recorded through accumulated other comprehensive income (loss) for fiscal years 2011 and 2010. In addition, historical foreign currency translation gains and losses incurred prior to fiscal 2010 will continue to exist in the Company’s equity account balance of Accumulated Other Comprehensive Income, along with the amounts recorded in fiscal 2012, until such time that the subsidiaries are either sold or substantially liquidated.
Because the Company and its subsidiaries transact business in currencies other than the U.S. Dollar, the Company will continue to experience varying amounts of foreign currency exchange gains and losses for subsidiaries with U.S. dollar functional currency.

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Recently Adopted Accounting Pronouncements

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 regarding transfers in and out of Levels 1 and 2 of the hierarchy in the third quarter of fiscal 2010, and the disclosures related to purchases, sales, issuance and settlements in the first quarter of fiscal 2012. Because these new standards are related primarily to disclosures, their adoption has not had a significant impact on the Company’s consolidated financial statements.

Goodwill Impairment Testing
In September 2011, the FASB issued updated guidance concerning the testing of goodwill for impairment. This guidance modifies goodwill impairment testing by allowing the inclusion of qualitative factors in the assessment of whether a two-step goodwill impairment test is necessary. Thus, entities are no longer required to calculate the fair value of a reporting unit unless they conclude through an assessment of qualitative factors that it is more likely than not that the unit's carrying value is greater than its fair value. When an entity's qualitative assessment reveals that goodwill impairment is more likely than not, the entity must perform the two-step goodwill impairment test. The amendments did not change the existing accounting guidance on how Step 1 and Step 2 of the goodwill impairment test are performed. In addition, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as previously permitted under the previous guidance. This guidance became effective for the Company in the second quarter of fiscal 2012. The Company's adoption of this guidance has not had a significant impact on its consolidated financial statements.

Indefinite-Lived Intangible Assets Impairment Testing
In July 2012, the FASB issued final guidance concerning the testing of indefinite-lived intangible assets for impairment. This guidance modifies both annual and interim impairment testing. Annual and interim indefinite-lived intangible asset impairment testing was modified to allow the inclusion of qualitative factors in the assessment of whether a quantitative impairment test is necessary. Thus, entities are no longer required to calculate the fair value of an indefinite-lived intangible asset unless they conclude through an assessment of qualitative factors that it is more likely than not that the carrying value of the indefinite-lived intangible asset exceeds its fair value.
When an entity's qualitative assessment reveals that indefinite-lived intangible asset impairment is more likely than not, the entity must perform the quantitative impairment test. The amendments did not change the existing accounting guidance on how this impairment test is performed.
This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, even by entities whose impairment testing dates have passed but have not issued their most recent financial statements. The Company is early adopting this guidance beginning with annual impairment testing in the fourth quarter of fiscal 2012. The Company's adoption of this guidance has not had a significant impact on its consolidated financial statements.

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Recently Issued Accounting Pronouncements

Presentation of Comprehensive Income
In June 2011, the FASB issued new guidance concerning the presentation of total comprehensive income and its components. Under this guidance an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income, either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. This guidance also requires an entity to present on the face of the financial statements reclassification adjustments from other comprehensive income to net income. In December 2011, the FASB issued an accounting standards update that defers this presentation requirement for other comprehensive income reclassifications on the face of the financial statements. This guidance, as amended, will become effective for the Company beginning in the first quarter of the fiscal year ending June 30, 2013. The Company's adoption of the new accounting guidance is not expected to have a significant impact on its consolidated financial statements.

Note 3 - Acquisitions

Acquisition of Ruud Lighting, Inc.
On August 17, 2011, the Company entered into a Stock Purchase Agreement with all of the shareholders of Ruud Lighting. Pursuant to the terms of the Stock Purchase Agreement and concurrently with the execution of the Stock Purchase Agreement, the Company acquired all of the outstanding share capital of Ruud Lighting in exchange for consideration consisting of 6.1 million shares of the Company's common stock and $372.2 million in cash, subject to certain post-closing adjustments. Following the acquisition, the Company recorded certain post-closing purchase price adjustments. These adjustments to the purchase price have been reflected as a reduction of goodwill. The acquisition allows the Company to expand its product portfolio into outdoor LED lighting.
Prior to the Company completing its acquisition of Ruud Lighting, Ruud Lighting completed the re-acquisition of its e-conolight business by purchasing all of the membership interests of E-conolight LLC ("E-conolight"). Ruud Lighting previously sold its e-conolight business in March 2010 and had been providing operational services to E-conolight since that date. In connection with the stock purchase transaction with Ruud Lighting, the Company funded Ruud Lighting's re-acquisition of E-conolight and paid off Ruud Lighting's outstanding debt in the aggregate amount of approximately $85.0 million.
The acquisitions of Ruud Lighting and E-conolight have been accounted for as business combinations in accordance with ASC 805 Business Combinations and, as such, the Ruud Lighting and E-conolight assets acquired and liabilities assumed have been recorded at their respective fair values. The determination of fair value for the identifiable tangible and intangible assets acquired and liabilities assumed requires extensive use of estimates and judgments. Significant estimates and assumptions include, but are not limited to: estimating future cash flows and determining the appropriate discount rate. The total purchase price for the acquisitions is as follows (in thousands):

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Cash consideration paid to stockholders	$372,235
Fair value of common stock issued by the Company [1]	211,040
Fair value of debt paid on behalf of stockholders	84,991
Post-closing adjustments [2] [3] [4] [5]	(2,260)
Total purchase price	$666,006

[1] Represents 6,074,833 shares of the Company's common stock at $34.74 per share, the closing share price on August 17, 2011. The shares are subject to certain transfer restrictions under the Stock Purchase Agreement that will generally lapse with respect to 25% of the shares held (i) at the completion of the consecutive six-month period following the date of the closing of the transaction; and, (ii) at the completion of each of the following three successive six-month periods, such that all restrictions will lapse by the second anniversary of the closing.
[2] In accordance with the Stock Purchase Agreement, the post-closing working capital adjustment was composed of approximately $1.0 million in cash and the return of 15,895 shares of the Company's common stock from escrow during the fourth quarter of fiscal 2012.
[3] In accordance with the Stock Purchase Agreement, the sellers have certain post-closing indemnification obligations to the Company. During the fourth quarter of fiscal 2012, the Company received approximately $0.3 million in cash and the return of 5,069 shares of the Company's common stock from escrow in connection with these indemnification obligations.
[4] The Company recovered approximately $0.4 million in insurance proceeds related to liabilities assumed in the acquisition during the fourth quarter of fiscal 2012.
[5] The Company paid approximately $0.2 million related to pre-closing taxes during the fourth quarter of fiscal 2012.

The Company incurred total transaction costs related to the acquisition of approximately $3.6 million, of which, $3.1 million were expensed in the first quarter of fiscal 2012 in accordance with U.S. GAAP.

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The following table presents the allocation of the purchase price for this acquisition to the assets acquired and liabilities assumed based on their estimated fair values and resulting residual goodwill (in thousands):

	August 17, 2011 (as initially reported)	Measurement Period Adjustments	August 17, 2011 (as adjusted)
Tangible assets:			
Cash and cash equivalents	$3,081	$—	$3,081
Accounts receivable	25,698	(375)	25,323
Inventories	39,330	(461)	38,869
Property and equipment	45,946	(233)	45,713
Other assets	4,727	—	4,727
Total tangible assets	$118,782	($1,069)	$117,713
Intangible assets:			
Developed technology	$96,300	$—	$96,300
Customer relationships	84,820	—	84,820
Trade names	82,950	—	82,950
In-process research & development	15,050	—	15,050
Non-compete agreements	9,800	—	9,800
Goodwill	287,431	2,734	290,165
Total intangible assets	$576,351	$2,734	$579,085
Liabilities assumed:			
Accounts payable	$12,943	$—	$12,943
Accrued expenses and liabilities	10,116	902	11,018
Warranty liabilities	2,600	3,023	5,623
Other long-term liabilities	1,208	—	1,208
Total liabilities assumed	$26,867	$3,925	$30,792
Net assets acquired	$668,266	($2,260)	$666,006

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the Ruud Lighting acquisition date through the end of the measurement period. As of the filing date of this report, the measurement period adjustments are complete.

Acquired finished goods and work-in-process inventory was valued at its estimated selling price less the sum of costs of disposal and a reasonable profit allowance for the Company's selling effort and, with respect to work-in-process inventory, estimated costs to complete. This valuation process resulted in a fair value adjustment that increased finished goods inventory approximately $1.5 million. Raw material inventory has been valued at current replacement cost, resulting in a write down of approximately $0.7 million. As of the end of fiscal year 2012, the Company has recognized the net step up of $0.8 million in its cost of revenue.

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The identifiable intangible assets acquired as a result of the acquisition will be amortized over their respecti