

CREE INC
Form DEF 14A
September 05, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

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

CREE, INC.

(Name of Registrant as Specified In Its Charter)

N/A

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

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No fee required.

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-

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Cree, Inc.:

The 2012 Annual Meeting of Shareholders of Cree, Inc. will be held at the offices of the corporation at 4425 Silicon Drive, Durham, North Carolina 27703, on Tuesday, October 23, 2012, at 10:00 a.m. local time, to consider and vote upon the following matters and to transact such other business as may be properly brought before the meeting:

• Proposal No. 1—Election of eight directors

• Proposal No. 2—Approval of an amendment to the 2004 Long-Term Incentive Compensation Plan to increase the number of shares authorized for issuance under the plan

• Proposal No. 3—Ratification of the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending June 30, 2013

• Proposal No. 4—Advisory (nonbinding) vote to approve executive compensation

All shareholders are invited to attend the meeting in person. Only shareholders of record at the close of business on August 27, 2012 are entitled to notice of and to vote at the meeting.

By order of the Board of Directors,

Adam H. Broome

Secretary

Durham, North Carolina

September 5, 2012

PLEASE NOTE:

We are primarily providing access to our proxy materials over the Internet pursuant to the Securities and Exchange Commission's "notice and access" rules. Beginning on or about September 10, 2012, we expect to mail to our shareholders a Notice of Internet Availability of Proxy Materials which will indicate how to access our 2012 Proxy Statement and 2012 Annual Report on the Internet. The Notice also includes instructions on how you can receive a paper copy of your annual meeting materials, including the notice of annual meeting, proxy statement and proxy card. Whether or not you plan to attend the meeting in person, please submit voting instructions for your shares promptly using the directions on your Notice or, if you elected to receive printed proxy materials by mail, your proxy card to vote by one of the following methods: (1) by telephone, by calling the toll-free telephone number available on the Internet voting site; (2) over the Internet, by accessing the website address printed on your Notice; or (3) if you elected to receive printed proxy materials by mail, by marking, dating and signing your proxy card and returning it in the accompanying postage-paid envelope.

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CREE, INC.

PROXY STATEMENT

MEETING INFORMATION

The Board of Directors of Cree, Inc., or the Company, is asking for your proxy for use at the 2012 Annual Meeting of Shareholders and any adjournments of the meeting. The meeting will be held at our offices at 4425 Silicon Drive, Durham, North Carolina 27703, on Tuesday, October 23, 2012, at 10:00 a.m. local time, to conduct the following business and such other business as may be properly brought before the meeting: (1) election of the eight directors listed in this proxy statement; (2) approval of an amendment to the 2004 Long-Term Incentive Compensation Plan, or the LTIP, to increase the number of shares authorized for issuance under the plan; (3) ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending June 30, 2013; and (4) advisory (nonbinding) vote to approve executive compensation.

The Board of Directors recommends that you vote FOR the election of the director nominees listed in this proxy statement, FOR approval of the amendment to the LTIP, FOR ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending June 30, 2013, and FOR the advisory (nonbinding) vote to approve executive compensation.

Beginning on or about September 10, 2012, proxy materials for the annual meeting, including this proxy statement and our 2012 Annual Report, are being made available to shareholders entitled to vote at the annual meeting. The annual report is not part of our proxy soliciting materials.

Important Notice Regarding the Availability of Proxy Materials
For the Shareholder Meeting to Be Held on October 23, 2012:

The annual report and proxy statement will be available on the Internet at www.cree.com/annualmeeting.

Pursuant to the Securities and Exchange Commission's "Notice and Access" rules, we are furnishing proxy materials to our shareholders primarily via the Internet. Beginning on or about September 10, 2012, we intend to mail to our shareholders a Notice of Internet Availability of Proxy Materials, or Notice, containing instructions on how to access our proxy materials on the Internet, including our proxy statement and our annual report. The Notice also instructs you on how you can vote using the Internet and how you can access the Internet voting site, which will contain instructions on how you can vote by telephone. Other shareholders, in accordance with their prior requests, have received e-mail notification of how to access our proxy materials and vote via the Internet, or have been mailed paper copies of our proxy materials and a proxy card or voting form.

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

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VOTING PROCEDURES

Who Can Vote

Only shareholders of record of the Company at the close of business on August 27, 2012 are entitled to vote at the meeting and any adjournments of the meeting. At that time, there were 116,000,395 shares of the Company's common stock outstanding, each of which is entitled to one vote on each matter submitted to a vote at the meeting.

How You Can Vote

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

Voting by Telephone. You can vote by following the directions on your Notice to access the Internet voting site and by calling the toll-free telephone number available on the site, or if you requested printed proxy materials, by calling the toll-free number printed on your proxy card. The deadline for voting by telephone is Monday, October 22, 2012, at 11:59 p.m. Eastern time.

Voting by Internet. You can vote over the Internet by following the directions on your Notice to access the website address printed on the Notice. The deadline for voting over the Internet is Monday, October 22, 2012 at 11:59 p.m. Eastern time.

Voting by Mail. If you requested printed proxy materials, you can vote by completing and returning your signed proxy card. To vote using your proxy card, please mark, date and sign the card and return it by mail in the accompanying postage-paid envelope. You should mail your signed proxy card sufficiently in advance for it to be received by Monday, October 22, 2012.

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

How You Can Revoke Your Proxy and Change Your Vote

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

How Your Proxy Will Be Voted

If you timely submit your proxy by telephone, over the Internet or by proxy card as described above and have not revoked it, your shares will be voted or withheld from voting in accordance with the voting instructions you gave. If you timely submit your proxy without giving contrary voting instructions, your shares will be voted "FOR" election of the director nominees listed in this proxy statement, "FOR" approval of the amendment to the LTIP, "FOR" ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending June 30, 2013, and "FOR" the advisory (nonbinding) vote to approve executive compensation.

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

If a broker, bank, custodian or other nominee holds your shares, you may have received a notice or voting instruction form from them. Please follow the directions that your broker, bank, custodian or other nominee provides or contact the firm to determine the voting methods available to you. Brokers are no longer permitted to vote in the election of directors if the broker has not received instructions from the beneficial owner of shares. It is particularly important, if you are a beneficial owner, that you instruct your broker how you wish to vote your shares as brokers will have discretionary voting authority only with respect to Proposal 3 if you do not instruct your broker how you wish to vote your shares.

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Quorum Required

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

Vote Required

Directors will be elected by a plurality of the votes cast. Thus the nominees who receive the most votes will be elected to fill the available positions. Shareholders do not have the right to vote cumulatively in electing directors.

Withholding authority in your proxy to vote for a nominee will result in the nominee receiving fewer votes.

The proposed amendment to the LTIP and ratification of the appointment of Ernst & Young LLP as independent auditors for fiscal 2013 will be approved if the votes cast for approval exceed the votes cast against approval. Although shareholder ratification of the appointment is not required by law or the Company’s Bylaws, the Audit Committee determined that, as a matter of corporate governance, the selection of independent auditors should be submitted to the shareholders for ratification. If the appointment of Ernst & Young LLP is not ratified by a majority of the votes cast at the 2012 Annual Meeting, the Audit Committee will consider the appointment of other independent auditors for subsequent fiscal years. Even if the appointment is ratified, the Audit Committee may change the appointment at any time during the year if it determines that the change would be in the Company’s best interest and the best interests of the shareholders.

With respect to the advisory (nonbinding) vote on executive compensation, the executive compensation will be approved if the votes cast for approval exceed the votes cast against approval. Because your vote on executive compensation is advisory, it will not be binding upon the Board of Directors, it will not overrule any decision by the Board of Directors, and it will not create or imply any additional fiduciary duties on the Board of Directors or any member thereof. However, the Compensation Committee of the Board of Directors will take into account the outcome of the vote when considering future executive compensation arrangements.

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

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PROPOSAL NO. 1—ELECTION OF DIRECTORS

Nominees for Election as Directors

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

The following table lists the nominees for election and information about each. The Governance and Nominations Committee of the Board of Directors has recommended each nominee to the Board of Directors. Each nominee meets the criteria set forth in the Corporate Governance Principles adopted by the Board of Directors, including that no nominee will be 72 years old or older at the time of the annual meeting. In addition, each nominee meets the minimum share ownership guidelines set forth in the Corporate Governance Principles, under which the Chief Executive Officer is expected to own shares with a value not less than five times his base salary, and each non-employee member of the Board of Directors is expected to own shares with a value not less than five times the sum of the director's retainers for service on the Board and on Board committees.

Name	Age	Principal Occupation and Background	Director Since
Charles M. Swoboda	45	<p>Mr. Swoboda has served as the Company's Chief Executive Officer since June 2001, as President since January 1999, as a member of the Board of Directors since October 2000 and as chairman since April 2005. He was Chief Operating Officer of the Company from 1997 to June 2001 and Vice President for Operations from 1997 to 1999. Prior to his appointment as Vice President for Operations, Mr. Swoboda served as Operations Manager from 1996 to 1997, as General Manager of the Company's former subsidiary, Real Color Displays, Incorporated, from 1994 to 1996 and as LED Product Manager from 1993 to 1994. He was previously employed by Hewlett-Packard Company.</p> <p>Mr. Swoboda's employment with the Company for the past 19 years in diverse roles, his leadership as the Company's Chief Executive Officer for more than a decade and his service on the Board of Directors for twelve years, including his service as Chairman of the Board for the past seven years, uniquely qualify him for election to the Board of Directors. He brings to the Board a critical perspective and understanding of the Company's business strategy, and he is enabled by his experience and position as Chief Executive Officer to provide the Board valuable insight into the management and operations of the Company.</p>	2000

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Name	Age	Principal Occupation and Background	Director Since
Clyde R. Hosein	53	<p>Mr. Hosein has been a member of the Board of Directors since December 2005. Since June 2008, he has served as Chief Financial Officer of Marvell Technology Group Ltd., a publicly traded semiconductor provider of high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits, and he also served as its Interim Chief Operating Officer and Secretary from October 2008 to March 2010. From 2003 to 2008, he served as Vice President and Chief Financial Officer of Integrated Device Technology, Inc., a provider of essential mixed-signal semiconductor solutions. From 2001 to 2003, he served as Senior Vice President, Finance and Administration and Chief Financial Officer of Advanced Interconnect Technologies, a semiconductor assembly and test company. He has also held other senior level financial positions, including the role of Chief Financial Officer at Candescant Technologies, a developer of flat panel display technology. Early in his career he spent 14 years in financial and engineering roles at IBM Corporation.</p> <p>Mr. Hosein's qualifications to serve as a director include his service on the Company's Board of Directors and its Audit Committee during the past seven years, his years of experience as an executive officer in publicly traded companies in the semiconductor industry, including his roles in operational management, his substantial experience as a chief financial officer responsible for the finance and accounting functions of publicly traded companies, his qualifications as an audit committee financial expert, and his technical background and significant experience in technology-based companies generally.</p>	2005

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Name	Age	Principal Occupation and Background	Director Since
Robert A. Ingram	69	<p>Mr. Ingram joined the Board of Directors in December 2008. Since January 2010, he has been a General Partner in the firm Hatteras Venture Partners, a venture capital firm that invests in early stage life science companies in the southeast United States, and he has also served as strategic advisor to the chief executive officer of GlaxoSmithKline plc, a publicly traded pharmaceutical research and development company. From 2003 through 2009, he served as Vice Chairman Pharmaceuticals, GlaxoSmithKline. He previously served as Chief Operating Officer and President of Pharmaceutical Operations of GlaxoSmithKline following the December 2000 merger of Glaxo Wellcome plc and SmithKline Beecham plc. Prior to the merger he served as Chief Executive Officer of Glaxo Wellcome plc and as Chairman, President and Chief Executive Officer of Glaxo Wellcome Inc. Mr. Ingram also serves on the Boards of Directors of Allergan, Inc. and Edwards Lifesciences Corporation and serves as Lead Director of Valeant Pharmaceuticals International, Inc. and as Chairman of Elan Corporation, plc. He also served as Chairman of the Board of Directors of OSI Pharmaceuticals, Inc. from January 2003 until its sale in June 2010. He previously served as a director of Misys plc, Nortel Networks Corp., Wachovia Corp., Lowe's Companies, Inc. and Pharmaceutical Product Development, Inc. until 2005, 2006, 2008, May 2011 and December 2011 respectively.</p> <p>Mr. Ingram brings to the Company's Board of Directors a wealth of experience as a director who has served in several roles on the boards of major publicly traded companies, including his service since October 2011 as the Company's Lead Independent Director and Chairman of the Governance and Nominations Committee. He also provides the perspective of a former chief executive officer with substantial leadership experience in the life sciences sector along with insights on operational and other matters relevant to business generally and the semiconductor business in particular, such as research and development and intellectual property. In addition, Mr. Ingram brings to the Board the views and judgment of a leader who is highly respected both locally and internationally for his business expertise and acumen.</p>	2008

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Name	Age	Principal Occupation and Background	Director Since
Franco Plastina	49	<p>Mr. Plastina joined the Board of Directors in December 2007. Since May 2012, he has served as President and Founder of Arc & Company, LLC, an advisory and angel investment firm. He has also served as an Entrepreneur-in-residence with the Blackstone Entrepreneurs Network in Research Triangle Park, North Carolina since October 2011. From February 2006 until January 2011 he served as President and Chief Executive Officer, and as a board member, of Tekelec, a publicly traded provider of telecommunications network systems and software applications. From September 2005 through February 2006 Mr. Plastina served as Executive in Residence at Warburg Pincus LLC, a private equity firm, where he was responsible for evaluating potential investments and providing executive support to portfolio companies. From 2003 to 2005, he held various executive positions with Proxim Corporation, a provider of Wi-Fi and broadband wireless access products, including Executive Chairman, President and CEO. From 1987 until 2002, Mr. Plastina served in a series of management and executive positions with Nortel Networks Corporation, a multi-national telecommunications equipment provider. Mr. Plastina brings to the Board significant senior executive leadership experience, including seven years of experience from his service as chief executive officer of two publicly traded companies as well as over 25 years of experience in various executive roles in the telecommunications and wireless industries. This technology industry experience gives him a valuable perspective in his role as a director. His qualifications to serve as a director also include his service on the Company's Board of Directors and its Audit Committee for the past five years, his private equity investment experience and his qualifications as an accounting committee financial expert.</p>	2007
Alan J. Ruud	65	<p>Mr. Ruud joined the Board of Directors in August 2011, when the Company acquired Ruud Lighting, Inc., or Ruud Lighting, and also began serving as the Company's Vice Chairman-Lighting at that time. Mr. Ruud is a founder of Ruud Lighting and served in various roles at Ruud Lighting since its founding in 1982, including as its Chief Executive Officer, President and as a member of its Board of Directors. Most recently, and until the acquisition, Mr. Ruud served as the Chief Executive Officer and as Chairman of the Board of Directors of Ruud Lighting, positions which he held for over a decade. Mr. Ruud also served as the President of Ruud Lighting until November 2009.</p> <p>Mr. Ruud's roles as a founder, executive officer, and director of Ruud Lighting since its incorporation and his nationally-recognized expertise in the lighting industry uniquely qualify him for election to the Company's Board of Directors as the Company expands its lighting business.</p>	2011

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Name	Age	Principal Occupation and Background	Director Since
Robert L. Tillman	69	<p>Mr. Tillman joined the Board of Directors in October 2010. From November 1994 to January 2005, he served as a director of Lowe's Companies, Inc., as its Chairman from January 1998 to January 2005, and as its President and Chief Executive Officer from August 1996 to January 2005. After his retirement from Lowe's, he served on the Board of Directors of Bank of America Corporation from April 2005 to May 2009, and also served as a member of its Asset Quality and Executive Committees.</p> <p>Mr. Tillman brings substantial leadership experience as a chief executive officer in a substantial, publicly traded company in the retail distribution industry. His knowledge and operational expertise in that environment, particularly with respect to consumer product marketing, and his substantial board experience, qualify him to serve on the Company's Board.</p>	2010
Harvey A. Wagner	71	<p>Mr. Wagner has served on the Board of Directors since February 2004. Since August 2007, he has served as managing principal of H.A. Wagner Group LLC, an investment and consulting firm. From April 2008 to November 2010, he served as President and Chief Executive Officer, and as a board member, of Caregiver Services, Inc., a home care provider. Mr. Wagner previously served as President and Chief Executive Officer of Quovadx, Inc., a global software and services company, from October 2004 to July 2007, as its Acting President and Chief Executive Officer from May 2004 to October 2004, and as a member of its Board of Directors from April 2004 to July 2007. From 1989 to 1994 he served as Chief Financial Officer at Computervision Corporation and from 1994 to 1998 at Scientific-Atlanta, Inc. From 1998 until joining Quovadx in 2004, he held chief financial officer positions with Premiere Technologies, Inc., PaySys International, Inc., Optio Software, Inc. and Mirant Corporation. Earlier in his career, he spent 18 years in Silicon Valley where he held senior financial positions with GTE Corporation, Fairchild and American Microsystems. He served as a director of StarTek, Inc. from May 2008 to May 2012 and served as a director of FormFactor, Inc. from 2005 to 2010. Mr. Wagner has served as chief financial officer of six publicly traded companies and as chief executive officer of a publicly traded company, giving him extensive experience in and knowledge useful for the oversight of financial management, financial reporting and related functions for public companies and technology companies in particular. In addition to his qualifications as an audit committee financial expert and his nearly nine years of experience serving on the Company's Board of Directors and as Chairman of its Audit Committee, he brings to the Board of Directors his leadership experience as a chief executive officer of a publicly traded technology company and his experience acquired in serving on the boards of directors of other publicly traded companies in the technology sector.</p>	2004

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Name	Age	Principal Occupation and Background	Director Since
Thomas H. Werner	52	<p>Mr. Werner has been a member of the Board of Directors since March 2006. He has served as Chief Executive Officer for SunPower Corporation, a publicly traded manufacturer of high-efficiency solar cells and solar panels, since June 2003, and is also a member of its Board of Directors. Prior to SunPower, he served as Chief Executive Officer of Silicon Light Machines Corporation, an optical solutions subsidiary of Cypress Semiconductor Corporation, from July 2001 to June 2003. Earlier, Mr. Werner was Vice President and General Manager of the Business Connectivity Group of 3Com Corporation, a network solutions company. He is currently also a director of Silver Spring Networks, Inc., an energy solutions company.</p> <p>Mr. Werner’s qualifications to serve as a director include his six years of service on the Company’s Board of Directors and his five years serving as Chairman of its Compensation Committee. In addition to his technical expertise, he brings to the Board significant executive leadership and operational management experience gained at businesses in the technology sector, and the semiconductor industry in particular, including his experience as a chief executive officer of a publicly traded “green technology” company for the past nine years.</p>	2006

The Board of Directors recommends shareholders vote FOR election of the nominees named above.

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Executive Officers

Mr. Swoboda serves as both an executive officer of the Company and a member of the Board of Directors. Michael E. McDevitt (age 48), Norbert W. G. Hiller (age 52) and Tyrone D. Mitchell, Jr. (age 45) also serve as executive officers of the Company.

Mr. McDevitt was appointed as Vice President and Interim Chief Financial Officer of the Company effective May 22, 2012. Mr. McDevitt previously served as the Company's Director—Financial Planning from 2005 to 2011 and as the Company's Corporate Controller from 2002 to 2005. Since 2011 he served as Director—Sales Operations. Additionally, he served as the Company's Chief Financial Officer and Treasurer on an interim basis from May 2006 through September 2006. Before joining the Company in 2002, Mr. McDevitt was Chief Financial Officer of American Sanitary Incorporated, a privately owned U.S. distributor of janitorial-sanitary maintenance products, from 1997 to 2002. He served from 1994 to 1997 as Director of Acquisitions for Unisource Worldwide, Inc., a publicly traded North American distributor of printing and imaging papers and supply systems.

Mr. Hiller was appointed as Executive Vice President—LEDs of the Company in October 2011. He joined the Company in 2001, serving previously as the Company's Vice President & General Manager—LED Components, Senior Vice President—Sales (interim), Vice President & General Manager—XLamp and General Manager—Optoelectronics. Before joining the Company, Mr. Hiller served from 1996 to 2001 as a Vice President at OSRAM Opto Semiconductors GmbH in Germany, and was responsible for general marketing of the LED components and light modules group. He served from 1991 to 1996 as a Marketing & Sales Manager for Philips Optoelectronics Centre in the Netherlands, and spent several years at one of their German facilities.

Mr. Mitchell was appointed as Executive Vice President—Lighting in October 2011. Previously, he held several business leadership roles at Cree, and most recently served as Vice President and General Manager of LED Lighting beginning in January 2010. Prior to that, he served as Vice President and General Manager of LED Chips and Materials beginning in 2008. He was named General Manager for LED Chips in 2006, and added general management responsibility for Materials in 2008.

Code of Ethics

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

Board Composition and Independence of Directors

The size of the Board of Directors was fixed at not less than five nor more than nine members by the Company's shareholders, with the Board of Directors determining the number within that range from time to time. Eight persons have been nominated for election at the annual meeting. The accompanying proxy cannot be voted for more than eight nominees.

A majority of the Board of Directors must be comprised of independent directors for the Company to comply with the listing requirements of The Nasdaq Stock Market LLC, or Nasdaq. Currently, the Board of Directors is composed of Messrs. Swoboda, Hosein, Ingram, Plastina, Ruud, Tillman, Wagner and Werner. The Board of Directors has determined that six of the present directors—Messrs. Hosein, Ingram, Plastina, Tillman, Wagner and Werner—are each an "independent director" within the meaning of the applicable Listing Rules of Nasdaq. All of these directors are standing for re-election.

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The Leadership Structure of the Board of Directors

The leadership of the Board of Directors includes the Chairman of the Board, the Lead Independent Director, and the Chairman of each of the Audit Committee, the Compensation Committee and the Governance and Nominations Committee.

The responsibilities of the Chairman of the Board under our Bylaws are to preside at meetings of the Board of Directors and shareholders and to perform such other duties as may be directed by the Board from time to time. The Chairman also has the power to call meetings of the Board of Directors and of the shareholders. Mr. Swoboda, our Chief Executive Officer since 2001, has served as Chairman of the Board since 2005.

The Board has adopted Corporate Governance Principles that call for the Board to designate a Lead Independent Director any time that the Chairman of the Board is not an independent director. Our Lead Independent Director, Mr. Ingram, has served in that capacity since 2011. The independent directors meet at regularly scheduled sessions immediately following each regularly scheduled Board of Directors meeting without other directors or members of management present. As specified in the Corporate Governance Principles, the responsibilities of the Lead Independent Director include the following:

• In the absence of the Chairman, the Lead Independent Director serves as acting Chairman presiding over meetings of the Board of Directors and shareholders.

• The Lead Independent Director convenes and presides over meetings of the independent directors and communicates the results of these sessions where appropriate to the Chairman, other management or the Board.

• In general, the Lead Independent Director serves as principal liaison between the independent directors and the Chairman and between the independent directors and other management.

• The Lead Independent Director reviews agendas for Board of Director meetings in advance with the Chairman.

The day-to-day work of the Board of Directors is conducted through its three principal standing committees—Audit, Compensation and Governance and Nominations—to which the Board has delegated authority and responsibilities in accordance with the committees' respective charters. The Chairmen of each of these committees are independent directors appointed by the Board upon the recommendation of the Governance and Nominations Committee. Under our Corporate Governance Principles, the Chairman of each committee is responsible for development of the agenda for committee meetings, and each committee must regularly report to the Board of Directors on the discussions and actions of the committee.

The Board of Directors has determined that this leadership structure is appropriate for the Company and best serves the interests of the shareholders under the present circumstances. In particular, the Board has determined that the Company is best served by having Mr. Swoboda hold the position of Chairman of the Board in addition to his role as Chief Executive Officer, with Mr. Ingram serving as Lead Independent Director. This determination is based in part upon the experience, leadership qualities and skills that Mr. Swoboda and Mr. Ingram bring to the Board, as detailed in the section captioned "Nominees for Election as Directors" on page 4. In addition, Mr. Swoboda is the director in the best position to establish the agendas for meetings of the Board and to lead the discussions of the Board regarding strategy, operations and management, because he is responsible for the formulation and day-to-day execution of the strategy and business plans reviewed with the Board. Although the Board believes this structure is appropriate under the present circumstances, the Board has also affirmatively determined not to adopt a policy on whether the roles of Chairman and Chief Executive Officer should be separated or combined because the Board believes that there is no single best blueprint for structuring board leadership and that, as circumstances change, the optimal leadership structure may change.

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Board's Role in Risk Oversight

The Board, acting through itself or one or more of its committees, has general oversight responsibility for corporate risk management, including oversight of management's implementation of risk management practices. While the Board is responsible for risk oversight, management is ultimately responsible for assessing and managing our risk exposures. The Board directly oversees management's assessment, mitigation efforts and monitoring of strategic and operational risks, such as those relating to competitive dynamics, market trends and developments in the Company's industry and changes in economic conditions. Senior management regularly updates business plans for each of the Company's product lines, including an assessment of strategic and operational risks and responses to identified risks, and members of the Board and senior management meet annually to review these plans. In addition, senior management reports to the Board at each quarterly Board meeting on progress made against these strategic plans, including an update on changes in risk exposure and management's responses to the changes.

The Board also fulfills its risk oversight role through its committees. Specifically, the Audit Committee charter assigns it the responsibility to review periodically with management, the internal auditors, and the independent auditors the Company's significant financial risk exposures, including the Company's policies with respect to risk assessment and Company-wide risk management, and to assess the steps management has taken to monitor and control such exposures. The Audit Committee regularly discusses material risks and exposures with our independent registered public accounting firm and receives reports from our accounting and internal audit management personnel regarding such risks and exposures and how management has attempted to minimize the exposures. The Audit Committee's primary focus is financial risk, including our internal control over financial reporting. Particular areas of focus of the Audit Committee include risks associated with taxes, liquidity, investments, information technology security, material litigation, and compliance.

Similarly, the Compensation Committee charter assigns it the responsibility to review periodically with management the Company's compensation programs as they relate to risk management practices and risk-taking incentives, including an assessment of whether the Company's compensation policies and practices encourage excessive or inappropriate risk-taking. The Committee also considers risk management as it develops and approves incentive and other compensation programs for our executive officers, and it performs risk oversight in the area of management succession.

Each of these committees reports to the Board of Directors with respect to the risk categories it oversees. These ongoing discussions enable the Board to monitor our risk exposure and evaluate our risk mitigation efforts.

Compensation Program Risk Assessment

We have assessed our compensation programs and have concluded that risks arising from our compensation policies and practices are not reasonably likely to have a material adverse effect on us. The risk assessment process included a review by management and by Radford, an Aon Hewitt Company, independent consultants to the Compensation Committee, of compensation policies and practices, focusing on programs with variable compensation, specifically:

- stock option and restricted stock awards under our LTIP;

- performance unit awards under the LTIP which provide for cash payments based upon achieving annual corporate financial goals;

- awards under our Management Incentive Compensation Program, or MICP, in which most of our senior managers (other than our CEO) participate and may receive payments based upon achieving quarterly or annual corporate financial goals and quarterly individual goals;

- sales commission incentive programs for our sales personnel; and

- quarterly profit-sharing plan in which all other regular, full-time employees participate and are eligible to receive cash payments based upon achieving quarterly corporate financial goals.

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Based upon this review, we concluded that our compensation policies and practices do not encourage excessive or inappropriate risk-taking. We believe our programs are appropriately designed to encourage our employees to make decisions that should result in positive short-term and long-term results for our business and our shareholders. Management and Radford reviewed the results of this review with the Compensation Committee at a meeting in August 2012, and the Committee concurred with management's assessment.

Attendance at Meetings

The Board of Directors held six meetings during fiscal 2012. Each incumbent director attended or participated in 75% or more of the aggregate of the number of meetings of the Board of Directors held during the period he was a director and the number of meetings of committees on which he served that were held during the period of his service.

The Company expects all directors to attend each annual meeting of shareholders absent good reason. All nine directors serving at that time attended the 2011 Annual Meeting of Shareholders.

Standing Committees

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

Audit Committee

The Audit Committee is appointed by the Board of Directors to oversee the accounting and financial reporting processes of the Company and audits of the Company's financial statements. The responsibilities of the Audit Committee include acting on the Board of Directors' behalf in providing oversight with respect to (i) the quality and integrity of the Company's financial statements and internal accounting and financial controls, (ii) all audit, review and attest services relating to the Company's financial statements and internal controls, including the appointment, compensation, retention and oversight of the work of the independent auditors engaged to provide audit services to the Company and (iii) the Company's compliance with legal and regulatory requirements. In addition, the Audit Committee is charged with conducting appropriate review and oversight of any related person transactions, other than related person transactions for which the Board of Directors has delegated review to another independent committee of the Board of Directors.

The members of the Audit Committee are Messrs. Wagner, Hosein and Plastina. The Board of Directors has determined that all members of the Committee are "independent directors" within the meaning of the applicable Nasdaq Listing Rules, including the special independence requirements applicable to Audit Committee members. Mr. Wagner is Chairman of the Audit Committee and has served in that capacity since 2004. The Board of Directors has determined that each of Messrs. Wagner, Hosein and Plastina is an "audit committee financial expert" as defined in Item 407 of Regulation S-K of the Securities and Exchange Commission. The Audit Committee held eight meetings during fiscal 2012. The Audit Committee from time to time also takes action by unanimous written consent in lieu of holding a meeting.

Governance and Nominations Committee

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

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The members of the Governance and Nominations Committee are Messrs. Ingram, Hosein, Plastina, Tillman, Wagner and Werner. The Board of Directors has determined that all members of the Committee are “independent directors” within the meaning of the applicable Nasdaq Listing Rules. Mr. Ingram is Chairman of the Governance and Nominations Committee and has served in that capacity since 2011. The Governance and Nominations Committee charter establishes a policy with regard to the consideration of director candidates, including those candidates recommended by shareholders. The Committee will consider written nominations properly submitted by shareholders according to procedures set forth in the Company’s Bylaws. For a description of these procedures and policies regarding nominations see “Procedures for Director Nominations” and “2013 Annual Meeting of Shareholders” on page 62 below. The Governance and Nominations Committee held five meetings during fiscal 2012. The Governance and Nominations Committee from time to time also takes action by unanimous written consent in lieu of holding a meeting.

Compensation Committee

The Compensation Committee is appointed by the Board of Directors to assist the Board of Directors in discharging its overall responsibility relating to executive officer and director compensation and to oversee and report to the Board of Directors as appropriate on the Company’s compensation and benefit policies, programs and plans, including its stock-based compensation programs and employee stock purchase plan. The Compensation Committee approves the compensation of all executive officers, administers the Company’s stock-based compensation programs and recommends compensation for non-employee directors to the Governance and Nominations Committee for approval. The Compensation Committee may delegate its authority to adopt, amend, administer and/or terminate any benefit plan other than retirement plans or stock-based compensation plans or non-stock-based compensation plans in which directors or executive officers are eligible to participate to the Company’s chief executive officer, any other officer of the Company, or to a committee the membership of which consists of at least one Company officer. To the extent not inconsistent with governing requirements, the Committee may also delegate its authority to grant equity awards other than awards to directors and executive officers to a committee comprised solely of executive officers or to one or more executive officers and may delegate its authority for day-to-day administration of the Company’s stock-based plans to any officer or employee of the Company.

The Compensation Committee generally makes decisions and recommendations regarding annual compensation at its August meeting each year. The Committee solicits the recommendations of the Company’s Chief Executive Officer with respect to the compensation of the Company’s executive officers other than himself and factors these recommendations into the determination of compensation, as described in the Compensation Discussion and Analysis. In addition, the Compensation Committee engaged Radford to conduct an annual review of the Company’s compensation program for its executive officers and directors, including a review for fiscal 2012. Radford provided the Committee with relevant market data and recommendations to consider when making compensation decisions with respect to the executive officers and in making recommendations to the Governance and Nominations Committee with respect to the compensation of non-employee directors. The Company also engaged Radford for additional services as further discussed in the section entitled “Role of Compensation Consultant” on page 31 below.

The members of the Compensation Committee are Messrs. Werner, Ingram and Tillman. The Board of Directors has determined that all members of the Committee are “independent directors” within the meaning of the applicable Nasdaq Listing Rules. Mr. Werner is Chairman of the Compensation Committee and has served in that capacity since 2007. The Compensation Committee held four meetings during fiscal 2012. The Compensation Committee from time to time also takes action by unanimous written consent in lieu of holding a meeting.

Certain Transactions and Legal Proceedings

Transactions with Intematix Corporation

In July 2010 Mark Swoboda was appointed Chief Executive Officer of Intematix Corporation, or Intematix. Prior to his appointment as Chief Executive Officer, Mr. Swoboda was unaffiliated with Intematix. Mark Swoboda is the brother of the Company’s Chairman, Chief Executive Officer and President, Charles M. Swoboda. For many years, beginning before Mark Swoboda became affiliated with Intematix, the Company has purchased raw materials

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from Intematix pursuant to standard purchase orders in the ordinary course of business. During fiscal 2012, the Company purchased \$1.9 million of raw materials from Intematix pursuant to standard purchase orders. The Company anticipates that it will continue to purchase raw materials from Intematix in the future pursuant to standard purchase orders.

Transactions with Ruud Lighting, Inc. and Alan J. Ruud

Ruud Lighting Stock Purchase: 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, the Company acquired all of the outstanding share capital of Ruud Lighting in exchange for consideration consisting of 6,074,833 shares of the Company's common stock, par value \$0.00125 per share, and \$372.2 million in cash, subject to certain post-closing working capital and related adjustments, referred to as the Purchase Price Adjustment. In connection with the stock purchase transaction, the Company funded Ruud Lighting's re-acquisition of E-conolight LLC and paid off Ruud Lighting's outstanding debt in the aggregate amount of \$85.0 million. As a result of the purchase, Ruud Lighting is now a wholly owned subsidiary of the Company, and immediately after the purchase, Alan Ruud was appointed to the Board of Directors.

Pursuant to the Stock Purchase Agreement, Alan Ruud received, as a shareholder of Ruud Lighting, approximately \$89,182,200 in cash and 1,455,442 shares of the Company's common stock, and the AJR Legacy Trust (a trust created by Mr. Ruud) received, as a shareholder of Ruud Lighting, approximately \$4,095,400 in cash and 66,836 shares of the Company's common stock (including shares of Ruud Lighting held by the AJR Legacy Trust, Alan Ruud was a 25.1% shareholder of Ruud Lighting). Additionally, each of Christopher Ruud (the son of Alan Ruud), the JZC Legacy Trust (a trust created by Christopher Ruud), and Cynthia Ruud-Johnson (the daughter of Alan Ruud), received consideration as shareholders of Ruud Lighting. Christopher Ruud received approximately \$112,986,700 in cash and 1,843,928 shares of the Company's common stock, the JZC Legacy Trust received approximately \$5,769,900 in cash and 94,165 shares of the Company's common stock (including shares of Ruud Lighting held by the JZC Legacy Trust, Christopher Ruud was a 31.9% shareholder of Ruud Lighting), and Cynthia Ruud-Johnson (an 8.0% shareholder of Ruud Lighting) received approximately \$29,743,800 in cash and 485,416 shares of the Company's common stock. A certain portion of the cash and shares of the Company's common stock referred to above was deposited in escrow pursuant to escrow arrangements agreed to by the Company and the Ruud Lighting shareholders as the primary (and, in certain cases, the sole) source of recovery with respect to the Purchase Price Adjustment and damages for which the Company is indemnified under the Stock Purchase Agreement. In connection with the transaction, Alan Ruud, Christopher Ruud and Cynthia Ruud-Johnson also entered into customary noncompetition agreements that impose confidentiality, noncompetition, nonsolicitation, nondisparagement, and noninterference obligations for specified terms.

On March 21, 2012, the Company and Christopher Ruud, acting as the Seller Representative for the former Ruud Lighting shareholders, entered into a letter agreement, referred to as the March 2012 Letter Agreement, resolving the amount of the Purchase Price Adjustment and related matters. Pursuant to the March 2012 Letter Agreement, which was approved by the Audit Committee on March 28, 2012, the parties agreed to a Purchase Price Adjustment of \$1.6 million. In satisfaction of the Purchase Price Adjustment, in the fourth quarter of fiscal 2012, the Company received approximately \$1.0 million in cash and 15,895 shares of the Company's common stock from escrow.

The Stock Purchase Agreement generally provides that the Ruud Lighting shareholders bear the responsibility for, and receive any benefits from, taxes attributable to the operation of Ruud Lighting and its subsidiaries prior to the closing of the Ruud Lighting acquisition. Consistent with these arrangements, on June 26, 2012, the Company and the Seller Representative entered into a letter agreement with respect to the resolution of certain pre-closing tax matters. Pursuant to this letter agreement, the Company paid the Seller Representative (for further distribution to the former Ruud Lighting shareholders) approximately \$240,000 for benefits received by the Company related to pre-closing taxes.

In addition, since the Ruud Lighting acquisition, the Company has received approximately \$311,000 and 5,069 shares of the Company's common stock from the escrow fund in connection with the Ruud Lighting shareholders' indemnification obligations under the Stock Purchase Agreement.

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Employment of Alan Ruud: In connection with the transaction and pursuant to an offer letter, Alan Ruud continued as an employee of Ruud Lighting and serves as the Company's Vice Chairman–Lighting. For details regarding the compensation Mr. Ruud received during fiscal 2012, please refer to the section below on page 57 entitled "Director Compensation."

Employment of Christopher Ruud: In connection with the transaction and pursuant to an offer letter, Christopher Ruud continued as an employee of Ruud Lighting and serves as the Company's Vice President–Global Sales, Lighting. In this role, Christopher Ruud receives an annual base salary in the amount of \$275,000 and is eligible for a target bonus of up to 50% of his base salary. In September 2011, Christopher Ruud also received 4,000 shares of restricted common stock of the Company and options to purchase 25,000 shares of the Company's common stock, each pursuant to the LTIP, and is eligible to receive future annual equity grants under the LTIP. In September 2012, Christopher Ruud also received 4,000 shares of restricted common stock of the Company and options to purchase 22,500 shares of the Company's common stock, each pursuant to the LTIP, and is eligible to receive future annual equity grants under the LTIP. The restricted stock awards vest in four annual installments, and the option awards vest in three annual installments and have a term of seven years. Christopher Ruud is also eligible to participate in insurance, benefit and compensation plans available to employees generally.

Airplane Joint Ownership: On August 17, 2011, pursuant to an Aircraft Purchase and Sale Agreement and a Joint Ownership Agreement with Ruud Lighting, each of Alan Ruud (through LSA, LLC, a limited liability company of which Mr. Ruud is the sole member, or LSA), and Christopher Ruud (through Light Speed Aviation, LLC, a limited liability company of which Christopher Ruud is the sole member, or Light Speed) acquired a 10% interest in an aircraft previously purchased by Ruud Lighting, resulting in Ruud Lighting owning an 80% interest in the aircraft. Each of LSA and Light Speed acquired its ownership in the aircraft for a purchase price of approximately \$930,000. The initial term of the Joint Ownership Agreement is three years and the term will continue indefinitely thereafter unless terminated by any owner on at least ninety (90) days prior notice. In the event of the expiration or termination of the Joint Ownership Agreement, Ruud Lighting has been provided the right to purchase the ownership interests of LSA and Light Speed for fair market value. If Ruud Lighting does not exercise this right, LSA and Light Speed, jointly, have been provided the right to purchase the ownership interest of Ruud Lighting for fair market value. Further, if Alan Ruud ceases to be an employee of the Company, Ruud Lighting has the right to purchase the ownership interest of LSA for fair market value, and, alternatively, Alan Ruud has the right to require Ruud Lighting to purchase the ownership interest of LSA for fair market value. If Christopher Ruud ceases to be an employee of the Company, Ruud Lighting has the right to purchase the ownership interest of Light Speed for fair market value, and, alternatively, Christopher Ruud has the right to require Ruud Lighting to purchase the ownership interest of Light Speed for fair market value.

Pursuant to the Joint Ownership Agreement, each of LSA and Light Speed is responsible for its share of flight crew, direct, fixed and other expenses attributable to its use of the aircraft. During fiscal 2012, the Company billed LSA and Light Speed \$230,000 and \$181,000, respectively, for use of the aircraft, and LSA and Light Speed have reimbursed the Company for these amounts.

Transactions Between the Company and Ruud Lighting: Prior to the Company's acquisition of Ruud Lighting and prior to any affiliation between Alan Ruud and the Company, Ruud Lighting was a customer of the Company in the ordinary course of business. Mr. Ruud was the Chairman, the Chief Executive Officer and a shareholder of Ruud Lighting, Christopher Ruud was the President, a director and a shareholder of Ruud Lighting, and Cynthia Ruud-Johnson was a shareholder of Ruud Lighting. Between June 27, 2011, the beginning of the Company's last completed fiscal year, and August 17, 2011, when the Company acquired Ruud Lighting, Ruud Lighting acquired products from the Company with an aggregate purchase price of approximately \$1.2 million pursuant to standard purchase orders.

Mirant Proceedings

Mr. Wagner served as Executive Vice President and Chief Financial Officer of Mirant Corporation, an international energy company based in Atlanta, Georgia, from January 2003 through April 2004. In July 2003, Mirant and certain of its wholly owned subsidiaries in the United States filed voluntary petitions for relief under

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Chapter 11 of the U.S. Bankruptcy Code. Additionally, certain of Mirant's Canadian subsidiaries filed an application for creditor protection under the Companies' Creditors Arrangement Act in Canada. The Canadian subsidiaries emerged from creditor protection in May 2004. Mirant Corporation emerged from bankruptcy proceedings in the United States in January 2006.

Proxim Proceedings

From May 2003 to July 2005, Mr. Plastina held various executive positions with Proxim Corporation, a provider of Wi-Fi and broadband wireless access products, including Executive Chairman, President and CEO. In June 2005, Proxim Corporation filed a voluntary petition for relief under the reorganization provisions of Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware, and in July 2005 it sold substantially all of its assets to YDI Wireless, Inc.

Review and Approval of Related Person Transactions

The Audit Committee, or another independent committee of the Board of Directors to which authority is delegated by the Board of Directors, must approve any related person transaction, which is defined in the Audit Committee Charter as any transaction required to be disclosed pursuant to Securities and Exchange Commission Regulation S-K, Item 404, and any other transactions for which Audit Committee approval is required pursuant to applicable law or listing standards applicable to the Company. In determining whether to approve such transactions, the members of the Audit Committee or another independent body of the Board of Directors delegated by the Board of Directors may exercise their discretion in performance of their duties as directors. These duties include the obligation of a director under North Carolina law to "discharge his duties as a director, including his duties as a member of a committee: (1) in good faith; (2) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and (3) in a manner he reasonably believes to be in the best interests of the corporation." North Carolina General Statutes Section 55-8-30(a). The Audit Committee generally approves related person transactions and approved the related person transactions described above under "Certain Transactions and Legal Proceedings," except for (1) related person transactions arising in connection with the employment of Alan and Christopher Ruud and the entry into the Joint Ownership Agreement, which were approved by the Governance and Nominations Committee pursuant to authority delegated by the Board of Directors, and (2) changes to Alan and Christopher Ruud's compensation following the closing of the Ruud Lighting acquisition, which were approved by the Compensation Committee.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Directors, officers and greater-than-ten-percent beneficial owners are required by Securities and Exchange Commission rules to furnish the Company with copies of all reports they file under Section 16(a). To the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company and written representations that no other reports were required, all Section 16(a) filing requirements applicable to our directors, officers and ten percent beneficial owners were complied with on a timely basis during fiscal 2012, except that a report on Form 4 was not timely filed for the return, as part of a post-closing purchase price adjustment, to the Company of shares of Company stock attributable to Mr. Ruud and deposited in escrow in connection with the Company's acquisition of Ruud Lighting.

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PROPOSAL NO. 2—APPROVAL OF AMENDMENT TO 2004
LONG-TERM INCENTIVE COMPENSATION PLAN

General

We are requesting that shareholders approve a proposed amendment to the 2004 Long-Term Incentive Compensation Plan, or LTIP. The amendment would increase the aggregate number of shares that may be issued under the LTIP by 4,000,000 shares. The amendment was approved at a meeting of the Board of Directors on August 14, 2012 and will become effective only upon shareholder approval. The LTIP is currently the only plan under which we are authorized to award share-based compensation to employees and outside directors, including stock options and restricted stock. If approved, the amendment would revise Section 4.1(a) of the LTIP to read as shown in Appendix B. The LTIP is filed as Exhibit 10.1 to our Current Report on Form 8-K (File No. 000-21154) filed with the Securities and Exchange Commission on October 27, 2011, which is available online through the Commission's EDGAR System and through the "Investor Relations" section of our website at investor.cree.com/sec.cfm. You may also request a copy of the LTIP, as currently in effect, by sending a written request to: Director, Investor Relations, Cree, Inc., 4600 Silicon Drive, Durham, North Carolina 27703.

As of September 4, 2012, there remained 3,766,026 shares available for future awards under the LTIP. If the amendment is approved, the number of shares authorized for issuance under the plan would increase by 4,000,000 shares. Based on the awards outstanding as of September 4, 2012, if the amendment is approved, there would be 7,766,026 shares available for future awards under the plan. For additional information regarding outstanding awards under our equity compensation plans, please refer to the section below on page 25 entitled "Equity Compensation Plans."

We believe the LTIP, as proposed to be amended, is essential to the Company's future success and encourage shareholders to vote in favor of its approval.

The Board of Directors recommends
shareholders vote FOR Proposal No. 2.

Description of LTIP

The following is a description of the LTIP as proposed to be amended. This description is merely a summary of material provisions of the plan and is qualified by the full text of the amended plan as filed as Appendix C to our definitive proxy statement filed with the Securities and Exchange Commission on September 5, 2012.

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

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

Eligible Participants. Only employees of the Company and its subsidiaries, and non-employee directors of the Company, are eligible to receive awards under the LTIP. As of September 4, 2012, there were approximately 5,618 employees, including part-time and temporary employees, and six non-employee directors who were eligible to participate in the LTIP. The Company generally does not make stock-based awards to part-time employees working less than 30 hours per week or to temporary employees. Since September 2005, the Company has generally limited awards to salaried (exempt) employees and to non-employee directors.

Administration. The LTIP provides that it is to be administered by a committee, or the Committee, consisting of two or more non-employee directors appointed by the Board of Directors. The Committee has the exclusive right to interpret, construe and administer the LTIP, to select the persons eligible to receive awards and to act in all matters pertaining to the granting of awards and the contents of agreements evidencing awards. The Committee has the

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exclusive right to approve awards to outside directors. The Committee's decisions are conclusive, final and binding upon all parties. The Board of Directors, in its sole discretion, may exercise any authority of the Committee under the LTIP, except that awards to outside directors may only be approved by the Committee. The Board of Directors may appoint separate Committees, each composed solely of outside directors, to administer specific provisions of the plan. Unless the Board of Directors directs otherwise, the Compensation Committee of the Board of Directors serves as the Committee under the terms of the LTIP. With respect to awards to outside directors, the Board of Directors has directed that awards under the plan must be approved by the Governance and Nominations Committee upon the recommendation of the Compensation Committee. The charters adopted by the Board of Directors for both the Compensation Committee and the Governance and Nominations Committee provide that all members of each committee must be independent directors who meet the independence requirements of Nasdaq's Listing Rules. In addition, members of the Compensation Committee must be (i) "non-employee directors" as defined by Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and (ii) "outside directors" as defined by Section 162(m) of the Code. To the extent permitted by law and the Company's Bylaws, and subject to the applicable rules of any securities exchange or quotation or trading system on which the Company's shares are traded, the Committee acting as such for purposes of the plan may delegate authority under the LTIP to one or more Committee members or executive officers of the Company, except that the Committee may not delegate such authority with respect to awards to directors or executive officers. The Committee may also delegate authority for certain administrative functions under the LTIP to an officer or employee of the Company.

Securities to be Offered. The Company is authorized to issue shares of the Company's common stock, par value \$0.00125 per share, pursuant to awards under the LTIP. Shares subject to awards under the plan are made available from the authorized and unissued shares of the Company's common stock. The last sale price of the common stock on September 4, 2012 was \$27.77 per share, as reported by Nasdaq.

As of September 4, 2012, there were available for future awards under the LTIP a total of 3,766,026 shares, of which 676,100 shares were available for awards of restricted stock, stock units and performance units. The amendment proposed by Proposal No. 2 would increase the aggregate number of shares that may be issued pursuant to awards under the LTIP by 4,000,000 shares. If for any reason any shares awarded or subject to purchase under the LTIP are not delivered or purchased, or are reacquired by the Company, the shares will again become available for issuance pursuant to awards under the LTIP, except that shares with respect to which a SAR is exercised and any shares withheld for payment of taxes in connection with an award will not thereafter be available for issuance under the plan. The determination of the number of shares that may again become available for issuance with respect to grants of incentive stock options will be made in accordance with the requirements of applicable regulations under the Code. The Committee has authority to determine the individuals to whom awards will be granted, the number of shares subject to an award and the other terms and conditions of an award. Except to the extent the Committee determines that an award shall not comply with the performance-based compensation provisions of Section 162(m) of the Code, (i) the aggregate number of shares subject to options or SARs granted in any one fiscal year to any one participant shall not exceed 300,000, (ii) the aggregate number of shares subject to restricted stock or stock unit awards granted in any one fiscal year to any one participant shall not exceed 100,000 and (iii) the aggregate value of performance unit awards (valued as of the grant date) that may be granted in any one fiscal year to any one participant shall not exceed the fair market value of 100,000 shares.

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

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outstanding award, the exercise price under outstanding options and the number of shares to be transferred in settlement of outstanding SARs and the terms, conditions or restrictions of any award and award agreement, including the price payable for the acquisition of shares.

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

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

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

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

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

Options granted under the LTIP shall be exercised by the delivery of written or electronic notice of exercise to the Company or its designated representative, setting forth the number of shares with respect to which the option is to be exercised and satisfying any requirements that the Committee may establish in or pursuant to the award agreement. Unless otherwise authorized by the Committee, no shares shall be delivered, whether in certificated or uncertificated form, until the full exercise price has been paid. The option price upon exercise shall be payable to the Company either (a) in cash, (b) in a cash equivalent approved by the Committee, (c) if approved by the Committee, by tendering previously acquired shares (or delivering a certification or attestation of ownership of such shares) having an

aggregate fair market value at the time of exercise equal to the total option price (provided that the tendered shares must have been held by the participant for any period required by the Committee), or (d) by a

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combination of (a), (b) or (c). The Committee also may allow cashless exercises as permitted under Regulation T of the Federal Reserve Board, subject to applicable securities law restrictions, or by any other means that the Committee determines to be consistent with the LTIP's purpose and applicable law.

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

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

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

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

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

Performance Units. Performance units are awards granted in terms of a value set by the Committee (or that is determined by reference to a valuation formula specified by the Committee) in which the Company promises to pay the value of the award by delivery of such property as the Committee shall determine, including without limitation, cash or shares, or any combination thereof, upon achievement of such performance objectives during the relevant performance period as the Committee shall establish. Such awards may be granted subject to any restrictions deemed appropriate by the Committee. The determination of the Committee with respect to the form and timing of payout of such awards shall be set forth in the award agreement. Except as otherwise provided in the award agreement, a

participant shall be entitled to receive any dividends declared with respect to earned grants of

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performance units that are being settled in shares and that have not yet been distributed to the participant (such dividends may be subject to the same accrual, forfeiture and payout restrictions as apply to dividends earned with respect to stock units under the LTIP). In addition, unless otherwise provided in the award agreement, a participant shall be entitled to exercise full voting rights with respect to such shares.

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

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

Federal Income Tax Consequences

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

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

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

Restricted Stock Awards. A participant will not recognize taxable income upon the grant of a restricted stock award, and the Company will not be entitled to a tax deduction at such time, unless the participant makes an election to be taxed at the time such restricted stock award is granted. If such election is made, the participant will recognize income taxable as ordinary income (and with respect to a Company employee, be subject to income tax withholding) at the time of grant in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. If such election is not made, the participant will recognize income taxable as ordinary

income (and with respect to a Company employee, be subject to income tax withholding) at the time the

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

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

Performance Units. A participant will not recognize taxable income upon the grant of a performance unit and the Company will not be entitled to a tax deduction at that time. Upon the settlement of a performance unit, the participant will recognize income taxable as ordinary income (and with respect to a Company employee, be subject to income tax withholding) in an amount equal to the cash paid and the fair market value of the shares or other property delivered to the participant, and the Company will be entitled to a corresponding deduction, except to the extent the limit of Section 162(m) of the Code applies and except in the case of performance units settled in shares of restricted stock (in which case the federal income tax laws applicable to restricted stock described above will apply).

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

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

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Plan Awards

The following table sets forth with respect to each individual and group listed below (i) the number of shares of common stock issued or issuable pursuant to stock options granted under the LTIP, (ii) the number of shares underlying restricted stock and stock unit awards granted under the LTIP and (iii) the number of shares of common stock issued or issuable pursuant to performance units granted under the LTIP, in each case since the LTIP's inception on November 4, 2004 through September 4, 2012. Any future awards to eligible participants under the LTIP are subject to the discretion of the Committee or Board of Directors and therefore are not determinable at this time. To date, no incentive stock options have been granted under the LTIP and none are presently contemplated. The table does not include grants made under any of the Company's other compensation plans.

Cumulative Grants Since
Plan Inception in 2004

	No. of Shares Underlying Options Granted	No. of Shares Underlying Restricted Stock and Stock Unit Awards Granted	No. of Shares Underlying Performance Units Granted
Charles M. Swoboda Chairman, Chief Executive Officer and President	756,000	265,000	5,794
Michael E. McDevitt Vice President and Interim Chief Financial Officer	125,500	14,000	—
Norbert W. G. Hiller Executive Vice President—LEDs	325,000	43,000	—
Tyrone D. Mitchell, Jr. Executive Vice President—Lighting	320,000	46,000	—
John T. Kurtzweil Former Executive Vice President—Finance, Chief Financial Officer and Treasurer	215,000	50,000	—
Stephen D. Kelley Former Executive Vice President and Chief Operating Officer	185,000	38,000	—
Clyde R. Hosein	36,750	36,750	—
Robert A. Ingram	21,750	21,750	—
Franco Plastina	26,750	26,750	—
Alan J. Ruud	60,000	5,000	—
Robert L. Tillman	11,750	11,750	—
Harvey A. Wagner	38,000	38,000	—
Thomas H. Werner	35,500	35,500	—
All current executive officers as a group	1,526,500	368,000	5,794
All current directors who are not executive officers as a group	230,500	175,500	—
All associates of directors, executive officers or nominees	55,255	8,000	—
All other persons who received or are to receive 5% of plan awards	—	—	—
All employees, including all current officers who are not executive officers, as a group (1)	15,581,138	968,100	—

(1) Amounts reported are the gross number of shares underlying grants; 1,709,693 options, 59,550 restricted shares and 14,000 stock units have been forfeited upon termination of service.

The Company in August 2012 also granted additional performance units to Mr. Swoboda under the LTIP. Pursuant to these awards, if the Company achieves certain annual financial goals during fiscal 2013, Mr. Swoboda may earn incentive compensation in a target amount equal to 100% of his base salary. These awards do not provide for

settlement in shares. The actual payouts may range from 0% to 200% of the target amount depending upon the Company's financial performance.

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Equity Compensation Plans

As of September 4, 2012:

There were options to purchase 11,666,332 shares of our common stock outstanding under all of our equity compensation plans, including legacy plans under which we will make no more grants. The weighted average remaining life of these outstanding options was 5.22 years, and the weighted average exercise price was \$34.45.

There were 650,713 shares outstanding subject to restricted stock and stock unit awards that remain subject to forfeiture.

There were 3,766,026 shares available for future grants under the LTIP, of which no more than 676,100 shares can be awarded as restricted stock, stock units and performance units, 1,104,908 shares available for future issuance under the ESPP and 94,178 shares available for future issuance under the Non-Employee Director Stock Compensation and Deferral Program, or the Deferral Program.

The following table provides information, as of June 24, 2012, for all of the Company's compensation plans (including individual compensation arrangements) under which it is authorized to issue equity securities.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (1)
Equity compensation plans approved by security holders	8,757,418 (2)	\$36.87	8,193,759 (3)
Equity compensation plans not approved by security holders	48,230 (4)	\$3.12	94,731 (5)
Total	8,805,648	\$36.71	8,288,490

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

(2) Includes shares issuable upon exercise of outstanding options under the LTIP.

(3) Includes shares remaining for future issuance under the following plans in the amounts indicated: LTIP — 7,088,851 shares (of which 989,000 shares are available for issuance as restricted stock, stock units or performance shares); and ESPP — 1,104,908 shares.

(4) Includes shares issuable upon exercise of outstanding options under the following plans in the amounts indicated: INTRINSIC Semiconductor Corporation 2003 Equity Incentive Plan, or the INTRINSIC Plan — 2,830 shares; and LED Lighting Fixtures, Inc. 2006 Stock Plan, or the LLF Plan — 40,131 shares. Also includes shares issuable under the Deferral Program — 5,269 shares. The Company assumed (i) the options outstanding under the INTRINSIC Plan, which have a weighted average exercise price of \$5.52 per share, in connection with the Company's acquisition of INTRINSIC Semiconductor Corporation, or INTRINSIC, in July 2006, and (ii) the options outstanding under the LLF Plan, which have a weighted average exercise price of \$2.95 per share, in connection with the Company's acquisition of LLF in February 2008.

(5) Includes shares remaining for future issuance under the Deferral Program.

As of June 24, 2012, the only compensation plans or arrangements under which the Company is authorized to issue equity securities and which have not been previously approved by the shareholders are the Deferral Program and the options assumed under the INTRINSIC Plan and the LLF Plan. All of these plans, except the Deferral Program, have been terminated as to future grants. The following is a brief description of the material features of these plans; this description is not intended to be a complete description of the plans and is qualified in its entirety by reference to the

full text of the applicable plan:

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INTRINSIC Plan. In connection with the acquisition of INTRINSIC in July 2006, pursuant to which INTRINSIC became the Company's wholly owned subsidiary, the Company assumed certain outstanding stock options granted under the INTRINSIC Plan. Since the closing of the acquisition, no additional stock options have been awarded, nor are any authorized to be awarded, under the INTRINSIC Plan. As of June 24, 2012, there were 1,330 incentive stock options and 1,500 nonqualified stock options outstanding under the INTRINSIC Plan.

LLF Plan. In connection with the acquisition of LLF in February 2008, pursuant to which LLF became the Company's wholly owned subsidiary, the Company assumed certain outstanding stock options granted under the LLF Plan. Since the closing of the acquisition, no additional stock options have been awarded, nor are any authorized to be awarded, under the LLF Plan. As of June 24, 2012, there were 40,131 nonqualified stock options outstanding under the LLF Plan.

Deferral Program. The Company offers its non-employee directors the opportunity to receive all or a portion of their cash compensation in shares of the Company's common stock and to defer the time of receipt of such shares. A non-employee director may elect to receive a lump sum payment or annual installment payments of the shares following such director's separation from service with the Company. Non-employee directors must make their deferral elections by December 31st of the prior year. The Board of Directors adopted the plan in August 2009, and it became effective on January 1, 2010. As of June 24, 2012, there were 100,000 shares reserved for issuance under the Deferral Program, of which 5,269 shares have been credited to directors' accounts.

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OWNERSHIP OF SECURITIES

Principal Shareholders and Share Ownership by Management

The following table sets forth information regarding the beneficial ownership of the Company's common stock as of September 4, 2012 by (i) each person known to the Company to be the beneficial owner of more than 5% of the outstanding common stock, (ii) each person named in the Summary Compensation Table on page 45, (iii) each person serving as a director or nominated for election as a director and (iv) all current executive officers and directors as a group. Except as otherwise indicated by footnote or to the extent shared by spouses under applicable law, to the Company's knowledge, the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

Name and Address (1)	Common Stock Beneficially Owned	Percentage of Outstanding Shares
FMR LLC (2) 82 Devonshire Street Boston, MA 02109	13,158,584	11.3%
PRIMECAP Management Company (3) 225 South Lake Avenue, #400 Pasadena, CA 91101	8,530,507	7.3%
Blackrock, Inc. (4) 40 East 52 nd Street New York, NY 10022	6,635,081	5.7%
ClearBridge Advisors, LLC (5) 620 8 th Avenue New York, NY 10018	6,417,974	5.5%
Kevin Douglas (6) 125 E. Sir Francis Drake Blvd., Ste 400 Larkspur, CA 94939	6,200,000	5.3%
Alan J. Ruud (7)	1,523,164	1.3%
Charles M. Swoboda (8)	576,270	*
Tyrone D. Mitchell, Jr. (9)	156,095	*
Norbert W. G. Hiller (10)	143,469	*
Harvey A. Wagner (11)	52,000	*
Clyde R. Hosein (12)	50,750	*
Thomas H. Werner (13)	45,000	*
Robert A. Ingram (14)	40,500	*
Franco Plastina (15)	39,500	*
Michael E. McDevitt (16)	38,942	*
John T. Kurtzweil (17)	25,594	*
Robert L. Tillman (18)	19,500	*
Stephen D. Kelley (19)	438	*
All current directors and executive officers as a group (11 persons) (20)	2,685,190	2.3%

*Less than 1%.

(1) Unless otherwise noted, all addresses are in care of the Company at 4600 Silicon Drive, Durham, NC 27703.

As reported by FMR LLC in a Schedule 13G/A filed with the Securities and Exchange Commission on March 12, 2012, which states that FMR LLC has sole dispositive power with respect to all of such shares and sole voting power with respect to 181,443 of such shares.

(3) As reported by PRIMECAP Management Company in a Schedule 13G/A filed with the Securities and Exchange Commission on February 13, 2012, which states that PRIMECAP Management Company has sole dispositive

power with respect to all of such shares and sole voting power with respect to 3,739,118 of such shares.

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As reported by BlackRock, Inc. in a Schedule 13G/A filed with the Securities and Exchange Commission on (4) February 13, 2012, which states that BlackRock, Inc. has sole investment and voting authority with respect to all of such shares.

As reported by ClearBridge Advisors, LLC in a Schedule 13G filed with the Securities and Exchange Commission (5) on February 14, 2012, which states that Clearbridge Advisors, LLC has sole dispositive power with respect to all of such shares and sole voting power with respect to 4,924,749 shares.

As reported in a Schedule 13G/A filed jointly by Kevin Douglas, Michelle Douglas, James E. Douglas, III, K&M Douglas Trust, Douglas Family Trust, and James Douglas and Jean Douglas Irrevocable Descendants' Trust with the Securities and Exchange Commission on February 14, 2012. As reported in such filing, Kevin Douglas has shared voting power and shared dispositive power with his wife, Michelle Douglas, over 4,526,000 shares, of which they (i) hold jointly, as the beneficiaries and co-trustees of the K&M Douglas Trust, 80,000 shares, currently exercisable call options to purchase 1,000,000 shares at \$80.00 per share and a currently exercisable call option to purchase 1,400,000 shares at \$60.00 per share and (ii) are co-trustees of (6) the James Douglas and Jean Douglas Irrevocable Descendants' Trust, which holds 66,000 shares, currently exercisable call options to purchase up to 825,000 shares at \$80.00 per share and currently exercisable call options to purchase up to 1,155,000 shares at \$60.00 per share. In addition, Kevin Douglas has shared dispositive power with respect to (i) 20,000 shares, currently exercisable call options to purchase up to 250,000 shares at \$80.00 per share and currently exercisable call options to purchase up to 350,000 shares at \$60.00 per share held by James E. Douglas, III, and (ii) 34,000 shares, currently exercisable call options to purchase up to 425,000 shares at \$80.00 per share and currently exercisable call options to purchase up to 595,000 shares at \$60.00 per share held by the Douglas Family Trust.

Includes 10,000 shares subject to options exercisable within sixty days of September 4, 2012. Also includes 3,333 shares held by Mr. Ruud pursuant to a restricted stock award which had not vested as of September 4, 2012. The (7) share amount reported for Mr. Ruud includes 205 shares held by Mr. Ruud's spouse and 66,605 shares held by AJR Legacy Trust. Mr. Ruud has neither voting nor investment power over the AJR Legacy Trust; however, under the terms of such trust, Mr. Ruud has the right to withdraw the shares from such trust within sixty days. Mr. Ruud disclaims beneficial ownership of the 66,605 shares held by the AJR Legacy Trust.

Includes 280,000 shares subject to options exercisable within sixty days of September 4, 2012. Also includes (8) 103,250 shares held by Mr. Swoboda pursuant to restricted stock awards which had not vested as of September 4, 2012.

Includes 103,334 shares subject to options exercisable within sixty days of September 4, 2012. Also includes (9) 23,900 shares held by Mr. Mitchell pursuant to restricted stock awards which had not vested as of September 4, 2012.

Includes 106,667 shares subject to options held by Mr. Hiller and 2,870 shares subject to options held by Mr. (10) Hiller's spouse which are exercisable within sixty days of September 4, 2012. Also includes 20,150 shares held by Mr. Hiller pursuant to restricted stock awards which had not vested as of September 4, 2012.

Includes 24,000 shares subject to options exercisable within sixty days of September 4, 2012. Also includes 4,000 (11) shares held by Mr. Wagner pursuant to a restricted stock award which had not vested as of September 4, 2012.

Includes 32,750 shares subject to options exercisable within sixty days of September 4, 2012. Also includes 4,000 (12) shares held by Mr. Hosein pursuant to a restricted stock award which had not vested as of September 4, 2012.

Includes 21,500 shares subject to options exercisable within sixty days of September 4, 2012. Also includes 4,000 (13) shares held by Mr. Werner pursuant to a restricted stock award which had not vested as of September 4, 2012.

Includes 17,750 shares subject to options exercisable within sixty days of September 4, 2012. Also includes 4,000 (14) shares held by Mr. Ingram pursuant to restricted stock awards which had not vested as of September 4, 2012.

Includes 11,500 shares subject to options exercisable within sixty days of September 4, 2012. Also includes 4,000 (15) shares held by Mr. Plastina pursuant to a restricted stock award which had not vested as of September 4, 2012.

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Includes 23,833 shares subject to options exercisable within sixty days of September 4, 2012. Also includes
(16) 10,000 shares held by Mr. McDevitt pursuant to restricted stock awards which had not vested as of September 4, 2012.

(17) Mr. Kurtzweil served as Executive Vice President–Finance, Chief Financial Officer and Treasurer from September 29, 2006 to May 21, 2012.

(18) Includes 7,750 shares subject to options exercisable within sixty days of September 4, 2012. Also includes 4,000 shares held by Mr. Tillman pursuant to a restricted stock award which had not vested as of September 4, 2012.

(19) Mr. Kelley served as Executive Vice President and Chief Operating Officer from August 19, 2008 to October 18, 2011.

For all current executive officers and directors as a group, includes a total of 641,954 shares subject to options
(20) exercisable within sixty days of September 4, 2012 and 184,633 shares held pursuant to restricted stock awards which had not vested as of September 4, 2012.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following discussion and analysis describes the compensation of the named executive officers for fiscal 2012, including the Company's compensation philosophy, process and the elements of the Company's compensation programs. This section of the proxy statement explains the decisions that were made in determining the fiscal 2012 compensation for each named executive officer.

Named Executive Officers

The named executive officers who were serving at the end of fiscal 2012 were:

• Charles M. Swoboda, Chairman, Chief Executive Officer and President

• Norbert W. G. Hiller, Executive Vice President—LEDs

• Tyrone D. Mitchell, Jr., Executive Vice President—Lighting

• Michael E. McDevitt, Vice President and Interim Chief Financial Officer

The named executive officers for fiscal 2012 also include the following individuals, who served for a portion of fiscal 2012 but were not employed by the Company at the end of fiscal 2012:

• John T. Kurtzweil, Former Executive Vice President—Finance, Chief Financial Officer and Treasurer

• Stephen D. Kelley, Former Executive Vice President and Chief Operating Officer

Executive Summary

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

The Committee believes that executive officer compensation should:

• be linked closely to the Company's performance;

• align the interests of the executives with those of the Company's shareholders;

• provide incentives for achieving financial and business goals; and

• provide individual executive officers with the opportunity to earn compensation at levels that are competitive with executives in comparable jobs within the Company's peer companies.

The primary elements of the executive compensation program are:

• base salary;

• performance-based cash incentive compensation; and

• long-term equity incentive compensation.

The cash and equity incentive elements are linked directly to corporate performance and shareholder return, and these elements account for the majority of the target total direct compensation of each executive officer. While these incentive elements provide an opportunity for the executive officer to realize considerable value, total direct compensation actually earned can vary substantially from the target depending on the degree to which the financial and business objectives are achieved and shareholder value increased.

Although the Company's financial performance in fiscal 2011 and fiscal 2010 was strong, the Company experienced a challenging operating environment in fiscal 2012. The Company achieved its strategic objective of acquiring a leading LED outdoor lighting business and revenues grew despite the difficult operating environment, but net income and earnings per share decreased from fiscal 2011. The Company's stock price, which has historically been volatile, declined from \$33.96 per share at the end of fiscal 2011 to \$24.45 per share at the end of fiscal 2012.

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The Committee remained committed to reinforcing the Company's pay-for-performance philosophy. Key actions the Committee took with respect to fiscal 2012 compensation are summarized below:

Aggressive targets and limited payouts. The Committee established challenging performance targets for the fiscal 2012 performance-based cash incentive programs. Because the Company did not achieve all of its financial targets, the CEO did not receive any performance-based cash incentive compensation for fiscal 2012, the other named executive officers received no annual incentive payout and the other named executive officers serving at the end of fiscal 2012 only received limited quarterly cash incentive compensation related to strong fourth quarter performance for their service as executive officers.

Base salaries. Based on 2011 corporate and individual performance, the Committee approved limited base salary increases for fiscal 2012. Mr. Swoboda received a base salary increase of 4.2% and Messrs. Kurtzweil and Kelley did not receive base salary increases. Messrs. Hiller and Mitchell received base salary increases of 7.5% and 16.0%, respectively, based on strong individual performance and broader responsibilities that these executives were asked to assume following the successful completion of the Ruud Lighting acquisition.

Proportion of performance-based pay. Over 80% of the CEO's target total direct compensation for fiscal 2012 was composed of variable performance-based pay in the form of short-term cash incentives and long-term equity awards. On average, over 70% of the other named executive officers' target total direct compensation for fiscal 2012 was comprised of these components.

Long-term equity compensation. The Company grants equity awards to the named executive officers in the form of stock options and restricted stock. Due to the decline in the Company's stock price during fiscal 2012, all of the stock options granted to the named executive officers in September 2011, 2010, and 2009 are currently underwater, and the value of the restricted stock granted to the named executive officers in each of these months has declined by over 30% on a weighted-average basis. These decreases in the value of the equity awards demonstrate that the compensation of the named executive officers is closely aligned with the returns experienced by the Company's shareholders, and the Company's failure to deliver strong returns has a direct impact on the named executive officers' compensation.

Compensation Philosophy and Objectives

The Committee believes that the compensation packages provided to the named executive officers should include both cash and stock-based compensation and should utilize performance-based compensation to reward performance as measured against established business goals, which results in increased compensation to the executive officers if the Company meets or exceeds these goals.

To achieve its objectives in setting fiscal 2012 compensation for the executive officers, the Committee:

Evaluated base pay as compared to executives in similar roles in the peer group and the Radford Global Technology survey, assessed the performance of the named executive officers, and considered the scope of responsibility and strategic impact of their respective roles in the organization.

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

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

Compensation Process

Role of Compensation Consultant

The Committee has engaged Radford, an Aon Hewitt Company, to act as its independent compensation consultant. Radford reports directly to the Committee and works with management only at the Committee's direction. For fiscal 2012, Radford was given the overall directive to assist the Committee with implementing the Company's compensation philosophy for the executive officers in keeping with overall objectives, including gathering relevant market data to assist the Committee in making compensation decisions for the named executive

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officers as well as reviewing the Company's severance and change in control arrangements as compared to those of the peer group. The Company also purchases published compensation and benefits surveys from Radford, and on occasion, engages Radford to provide consulting services for non-executive compensation matters. The fees paid to Radford for these additional services did not exceed \$120,000 in fiscal 2012.

Role of Executive Officers

No executive officer, including the CEO, provides input to the Committee into setting his own compensation, but executive officers are provided the opportunity to make recommendations regarding individual goals, and, with respect to the CEO, annual corporate goals. The CEO is responsible for annually evaluating the performance of the named executive officers (except himself), developing performance summaries and making recommendations based on those reviews for the compensation of those executives, which are one factor the Committee considers in making final compensation decisions. Further, the CEO coordinates with executive officers throughout the fiscal year in setting quarterly individual goals under the Company's management incentive compensation plan, or MICP.

Role of Benchmarking and Comparative Analysis

The Committee uses market analyses provided by Radford as a reference point to evaluate the competitiveness of the Company's compensation packages for the executive officers. Radford develops market composites (referred to as the market data) using data from two sources: (1) public company filings from a select peer group and (2) the Radford Global Technology survey. Jobs of similar scope and responsibility as the peer companies and Radford surveys are identified and market composites are created for each of the executive officer roles. The Committee uses this data to compare base salary, short-term incentive compensation, total cash compensation, equity compensation, and total direct compensation to other companies in the industry that are of comparable size.

Peer Group

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

- Semiconductor or semiconductor-related business
- Semiconductor device companies (as opposed to equipment companies)
- "Clean" technology companies (those who offer products and services to reduce the use of natural resources)
- Comparable revenue, market cap, and market cap as a multiple of revenue
- Comparable number of employees
- Companies against which the Company competes for executive talent

The Committee reviews the peer group each year to determine if companies should be added or removed from the peer group list.

For comparative purposes, the Company's employee size for fiscal 2011 was slightly above the 50th percentile of the market and the revenue was between the 25th and 50th percentiles of the market. Net income was above the 50th percentile of the peer companies. The companies comprising the peer group used in determining fiscal 2012 executive compensation remained the same as those used in fiscal 2011 (with the exception of Atheros Communications, Inc., which was removed because it was acquired) and were as follows:

Altera Corporation	Microchip Technology Incorporated
Fairchild Semiconductor International, Inc.	Microsemi Corporation
First Solar, Inc.	PMC-Sierra, Inc.
Hexcel Corp.	RF Micro Devices, Inc.
Integrated Device Technology Inc.	Silicon Laboratories Inc.
Intersil Corp.	Skyworks Solutions, Inc.
Linear Technology Corp.	SunPower Corporation
Maxim Integrated Products, Inc.	TriQuint Semiconductor, Inc.
MEMC Electronic Materials, Inc.	Xilinx, Inc.

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In fiscal 2012, the Committee evaluated the Company’s performance against the performance of the peer group and reviewed each executive officer’s compensation against the peer group proxy data for comparable positions where a comparable position was disclosed.

The Company’s relative financial performance compared to that of the peer companies on a three- and five-year basis through fiscal 2011 is as follows:

- Compound annual revenue growth—above the 75th percentile
- Total shareholder return—above the 75th percentile
- Net income growth—above the 75th percentile on a three-year basis and above the 50th percentile on a five-year basis.

Radford Global Technology Survey

The Committee considers the Radford Global Technology survey as another source of competitive data to ascertain compensation levels in the broader competitive market. For benchmarking purposes in fiscal 2012, the Committee selected data from the surveys for public high-technology companies with annual revenue levels between \$500 million and \$1.5 billion. A list of these companies can be found in Appendix A. The analysis included the 25th, 50th, and 75th percentiles on base salary, short-term incentive compensation, and equity compensation.

Determination of Target Total Direct Compensation

In April of each year, Radford presents to the Committee an overview of regulatory trends in executive compensation and developments in the industry. In August, Radford presents a comprehensive analysis of the Company’s executive compensation as compared to the industry and the Company’s peer companies. Radford presents analyses of base pay, target performance-based cash incentives, and guideline equity award levels for each executive officer and makes recommendations to the Committee using criteria that align with the Company’s compensation philosophy. The Committee assesses each compensation component as described below:

• Base salary increases are recommended by the CEO for the executive officers (with the exception of the CEO himself) based on:

- individual performance, including but not limited to, achievement of financial objectives, strategy development and implementation, and overall leadership capabilities including demonstration of the Cree values,
- the scope of responsibilities for which the executive is accountable, and
- the relative position to market for that job as compared to the peer group and industry.

• Cash-based performance incentive targets as a percent of base pay are evaluated and approved based on the:

- level of impact each of the respective executive officer roles has on financial and strategic results,
- desired mix of base salary, short-term and long-term incentive compensation, and
- relative position to market and comparable short-term incentive targets as a percent of base pay for that job as compared to the peer group and industry.

• Stock option and restricted stock guidelines are assessed based on the:

- level of the executive within the organization and the desire to most closely link jobs with the highest impact on financial results to the returns experienced by the Company’s shareholders,
- scope of responsibilities for which the executive is accountable, and
- competitive position of the Company’s target long-term equity incentive compensation as compared to the peer group and industry.

After a comprehensive review of these elements, the Committee develops target total cash and direct compensation for the named executive officers for the fiscal year.

Determination of Financial and Individual Objectives

The Committee establishes annual revenue and earnings per share (non-GAAP) objectives that align with the strategic and financial goals for the coming fiscal year. Each executive officer’s performance is assessed against these objectives. The named executive officers, excluding the CEO, are also evaluated against quarterly financial

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and individual objectives that are established by the CEO. Achievement of these pre-determined financial and individual objectives determines the eventual performance incentive payouts as defined by the program guidelines. Performance Assessment and Approval of Performance-based Cash Incentives

The Committee has delegated authority to the CEO to approve quarterly payouts under the MICP. Throughout the year, the executive officers have the opportunity to provide input into developing their quarterly individual goals. At the end of each quarter, the executive officers’ performance is assessed against those goals and the CEO reviews and approves quarterly payouts under the performance-based cash incentive plan.

At the close of each fiscal year, the CEO reviews the performance of each executive officer (other than himself) and develops a performance summary and recommendations for base salary increases. The CEO also recommends any annual payout under the short-term cash-based incentive plan, which is based on pre-approved financial targets at prescribed payout levels, already approved by the Committee. These recommendations are presented to the Committee and are one factor the Committee considers in making final compensation decisions.

The independent members of the Board of Directors evaluate the CEO’s performance for the previous fiscal year. His performance is assessed based on financial results, overall leadership, and achievement of strategic objectives. A summary of this evaluation is presented to the Committee along with the short-term incentive payout recommendation. The Committee then determines the pay actions that will be taken for the CEO for the next fiscal year.

Role of Tally Sheets

In making compensation decisions for the CEO for each fiscal year, the Committee members review a three-year tally sheet. The tally sheet lists the individual elements of compensation for the past three fiscal years and provides an arithmetic value and summary of the individual elements. This summary provides the Committee with the value of the CEO’s compensation package and assists it in determining appropriate changes for the upcoming fiscal year. Consideration of these factors is necessarily subjective in nature and actual pay decisions involve the subjective discretion of the Committee.

Role of the Advisory (Non-binding) Vote to Approve Executive Compensation

The Company provides its shareholders with the opportunity to cast an annual advisory (non-binding) vote to approve executive compensation, or the “Say-on-Pay” proposal. At the 2011 Annual Meeting of Shareholders, a substantial majority of the votes cast at that meeting (89%) were voted in favor of the Say-on-Pay proposal, which the Committee believes affirms shareholders’ support of the Company’s executive compensation program. The Committee considered the result of this vote, and following such consideration, did not make any changes to the Company’s executive compensation decisions or policies. The Committee will continue to consider the outcome of the Say-on-Pay votes when making future compensation decisions for the named executive officers.

Elements of Executive Compensation and Analysis of Fiscal 2012 Compensation Decisions

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

Compensation Element	Purpose	Practice
Base salary	Annual cash compensation for services rendered during the fiscal year.	Competitive market ranges are established using the 50th and 75th percentile of the market data as “goal posts.” Actual executive salary is based on a holistic assessment by the Committee of the scope of position, experience, overall contributions to the Company’s success and individual performance and may be outside of the goal posts.
Performance-based cash incentive compensation	Annual cash payments for achieving predetermined financial goals and quarterly cash payments (for all executive officers except the CEO) for achieving predetermined financial and / or individual performance goals.	Target incentives, as a percentage of an executive’s base salary, are established based on market data. Actual payout is linked directly to the achievement of specified individual performance and/or corporate financial goals.

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Compensation Element	Purpose	Practice
Long-term equity incentive compensation	Time-based stock options and restricted stock that may be accelerated in the event of a change in control and are designed to drive executives' focus on long-term growth and increased shareholder value and to promote retention.	Equity award grants are based on an evaluation of market data, corporate performance and potential retention risks. Equity levels vary among participants based on position and individual performance. Equity comprises a larger portion of the total direct compensation than the other pay elements. The Company has entered into a change in control agreement with the CEO, which features a "double trigger," described in "Change in Control Agreement" on page 43 below. Each named executive officer is covered under a severance plan which provides for severance benefits in the event the executive officer is terminated without cause or resigns for good reason (provided that the CEO is not entitled to severance under the severance plan if he is entitled to severance under the change in control agreement).
Post-termination and severance benefits	To provide for certain economic security in the event an executive officer is terminated without cause or resigns with good reason.	Other benefits are generally those available to all employees. The only perquisite offered to named executive officers is the availability of a voluntary comprehensive physical examination once every two calendar years until age 50 and once per calendar year over age 50.
Other benefits	To attract and retain executives by providing market competitive benefits.	

The Committee demonstrates its commitment to paying executive officers based on performance through the design of the Company's compensation programs and the setting of stretch goals that support the Company's growth strategy and commitment to increasing shareholder value. The Committee is also committed to maintaining a compensation program that creates appropriate incentives and does not create risks that are reasonably likely to have a material adverse effect on us. See "Compensation Program Risk Assessment" on page 12 for details regarding the Committee's annual assessment of the compensation program.

Overall Program Design and Fiscal 2012 Implementation

For fiscal 2012, the Committee set targeted total cash compensation, which is comprised of base pay and target cash incentive compensation, below the 50th percentile of the market data, while the Committee set targeted total direct compensation (which includes the Black-Scholes value of stock options and restricted stock at target) above the 50th percentile of the market data. However, using the percent of company method (the measure of each executive's stock option equivalents as a percentage of basic total common shares at a given point in time), target equity grants to executive officers were below the 25th percentile of the market. As previously discussed, the Committee also considered the relevant experience and scope of responsibilities of each executive officer as it determined the target total direct compensation for the Company's executive officers. In particular, in setting his target total direct compensation at levels higher than those of the other executive officers, the Committee took into account Mr. Swoboda's increased responsibilities and his more than ten years' experience as the CEO.

The Committee evaluates the prior fiscal year performance to determine rewards for prior year performance and as a reference point in setting objectives for the current fiscal year. For example, the fiscal 2011 financial performance was one element of assessing performance and determining base pay increases that were awarded in the first quarter of fiscal 2012.

The Company's financial results for fiscal 2011 were mixed. When analyzing the Company's fiscal 2011 performance, the Committee considered absolute financial metrics, such as revenue, net income and earnings per share. The Committee also examined the Company's revenue growth, total shareholder return, net income growth and earnings

per share relative to the peer group for fiscal 2011. The information was reviewed on a one-year, three-year (compounded) and five-year (compounded) basis. Highlights of the financial performance for fiscal 2011 include: Fiscal 2011 revenue grew approximately 14% year-over-year to \$987.6 million. However, net income decreased approximately 3.8% to \$146.5 million.

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Revenue growth, net income growth, and earnings per share results in fiscal 2011 were between the 25th and 50th percentile of the peer group, while the Company's total shareholder return fell to below the 25th percentile. For the three-year compounded measure, the Company was positioned above the 75th percentile for all four of the key metrics: compounded revenue growth, compounded net income growth, compounded earnings per share growth, and compounded shareholder return.

For the five-year compounded measure, the Company performed above the 75th percentile for compounded revenue growth and shareholder return and above the 50th percentile for compounded net income and earnings per share growth.

Each compensation element is discussed and analyzed below along with the Committee's decisions regarding compensation actions for fiscal 2012.

Base Salary

Base salary ranges are established for each executive officer based on job responsibilities and the competitive range derived from the market data. The Committee considers several factors when determining whether to set actual base salaries within the competitive range and whether to increase the base salaries. It assesses the executive's performance against corporate and individual goals, experience, qualifications and scope of responsibilities, and competitive salary practices by the peer companies and as reported in the Radford Global Technology survey. Further, the Committee considers the portion of each named executive officer's total compensation package that is comprised of fixed compensation (i.e., base salary) and the portion that is comprised of at-risk compensation (i.e., performance based awards). The Committee is committed to reinforcing pay-for-performance, which it does by ensuring that fixed pay is a relatively small proportion of total direct compensation.

For named executive officers serving at the beginning of fiscal 2012, the Committee approved base salary increases in August 2011 as follows:

Executive Officer	Fiscal 2011 Salary	Fiscal 2012 Salary	Percentage Increase
Charles M. Swoboda	\$ 600,000	\$ 625,000	4.2%
Stephen D. Kelley	\$ 370,000	\$ 370,000	0.0%
John T. Kurtzweil	\$ 375,000	\$ 375,000	0.0%

For Messrs. Hiller and Mitchell, who began serving as executive officers in October 2011, the Committee approved the following fiscal 2012 base salaries when they were appointed as executive officers:

Executive Officer	Fiscal 2011 Salary	Fiscal 2012 Salary	Percentage Increase
Norbert W. G. Hiller	\$ 270,000	\$ 290,250	7.5%
Tyrone D. Mitchell, Jr.	\$ 250,000	\$ 290,000	16.0%

Mr. McDevitt began serving as an executive officer in May 2012 when he was appointed as Vice President and Interim Chief Financial Officer, and at that time the Committee approved an annualized base salary of \$375,000 for his tenure in this role. Mr. McDevitt's fiscal 2011 base salary was \$202,462, and his fiscal 2012 base salary, prior to his appointment as Vice President and Interim Chief Financial Officer, was \$208,536, an increase of 3.0%.

The Committee considered the following factors when determining the fiscal 2012 base salaries for the named executive officers:

Charles M. Swoboda. Both Mr. Swoboda's quantitative and qualitative leadership ratings from the Board's leadership assessment were strong, which was a key consideration of the Committee in determining the level of base salary increase for Mr. Swoboda. The Committee considered the Board's ratings of Mr. Swoboda's strategic and leadership accomplishments as measured by his annual performance evaluation when approving this base salary increase. The Committee noted that while Mr. Swoboda's base salary increase positioned him below the 50th percentile of the market data, other elements of compensation in the aggregate positioned him within the competitive range of the market data.

Michael E. McDevitt. Mr. McDevitt received a 3% merit increase effective August 28, 2011 while he was serving as Director-Sales Operations. In May 2012, in connection with Mr. Kurtzweil's resignation as chief financial officer, Mr. McDevitt was appointed Vice President and Interim Chief

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Financial Officer. At that time, Mr. McDevitt's base salary was increased to \$375,000 on an annualized basis during the tenure in this role. The temporary salary increase represents an increase of 80%, which is in recognition of Mr. McDevitt's commitment to the success of the organization and his willingness to accept this temporary assignment in addition to the extensive expansion of his scope of responsibilities. This increase positions Mr. McDevitt's base salary slightly below the 50th percentile of the market data.

Norbert W. G. Hiller. The Committee awarded Mr. Hiller a 7.5% base salary increase based on his strong individual performance during fiscal 2011, his base pay as compared to the market data, and the promotion of Mr. Hiller to Executive Vice President that was effective October 2011. After his promotion, Mr. Hiller's base salary was slightly below the 25th percentile of the market data.

Tyrone D. Mitchell, Jr. The Committee approved a 16% base salary increase for Mr. Mitchell based on his strong individual performance during fiscal 2011, including his leadership in the Ruud Lighting acquisition, his base pay as compared to the market data, and the promotion of Mr. Mitchell to Executive Vice President that was effective October 2011. After his promotion, Mr. Mitchell's base salary approximated the 25th percentile of the market data.

Stephen D. Kelley and John T. Kurtzweil. The Committee reviewed the base salaries for both Mr. Kelley and Mr. Kurtzweil and determined that they were appropriate without increase or decrease based on the scope of their jobs, position to market, and individual performance.

Performance-Based Cash Incentive Compensation

The Company measures the performance of each of the named executive officers against annual financial objectives established at the beginning of the fiscal year. The Company also measures the performance of the named executive officers other than the CEO against quarterly financial and individual objectives established at the beginning of each fiscal quarter. The Company pays awards for the achievement of annual financial objectives under either the Company's long-term incentive compensation plan, or LTIP, or the MICP and pays awards for achievement of quarterly objectives under the MICP.

Mr. Swoboda is eligible to receive annual performance-based cash incentive compensation under the LTIP. The LTIP is designed to comply with Internal Revenue Code § 162(m) in that performance unit awards are contingent upon achievement of pre-determined corporate objectives for non-GAAP earnings per share and revenue. Mr. Swoboda does not participate in any other cash-based performance incentive plan, including the MICP described below.

The named executive officers (other than the CEO) who were serving as executive officers at the beginning of fiscal 2012 (Messrs. Kelley and Kurtzweil) were eligible for annual awards under the LTIP and for quarterly awards under the MICP. The named executive officers who were not serving as executive officers at the beginning of fiscal 2012 (Messrs. Hiller, Mitchell, and McDevitt) were eligible for annual and quarterly awards under the MICP.

Management Incentive Compensation Plan (MICP)

The Committee approved the MICP in August 2011. The MICP provides guidelines for the calculation of performance-based cash incentive compensation relating to performance in fiscal 2012, subject to Committee oversight and modification. The participants in the MICP included the named executive officers (other than the CEO), other senior level managers who report directly to the CEO, and other key employees identified as participants by the CEO.

Awards under the MICP are determined based on performance measures in two categories: corporate goals, set both annually and quarterly, and individual goals, which are established quarterly. Annual corporate performance goals are defined in reference to fiscal year revenue and non-GAAP earnings per share (EPS) targets established at the beginning of the fiscal year. The annual corporate goals require that a minimum level of performance must be achieved for both the revenue and EPS (non-GAAP) targets before any award may be paid based on the annual goals. The Committee approved amendments to the MICP in August 2012, before any payments had been made to executive officers for fiscal 2012. The MICP was amended to reflect the Company's practice of setting quarterly corporate performance goals in reference to quarterly financial targets established at the beginning of the quarter. For fiscal 2012, the financial targets were stated in terms of non-GAAP operating income, which equaled targeted GAAP operating income excluding amortization of acquired intangibles, stock-based compensation expense, and

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certain expenses related to the Ruud Lighting acquisition. Individual goals are also established at the beginning of each fiscal quarter. These goals include individual performance goals specific to such individual or his business unit's performance for the quarter. No award may be paid based on achievement of individual goals in a fiscal quarter unless the Company achieves its corporate financial goals for that quarter unless otherwise determined by the CEO or the Committee, as described below. Quarterly corporate goals and individual goals are measured at quarter end, and any corresponding awards are paid to eligible participants following approval of the award amounts by the CEO. In order to ensure the Company's best interests are met, the amount of a payment on an award otherwise calculated in accordance with the MICP may be increased, decreased or eliminated at any time prior to payment, in the sole discretion of the CEO, except that no change with respect to any award to any executive officer of the Company shall be made without Committee approval. The actual awards paid to participants, if any, may vary with the level of achievement of the corresponding goals but cannot exceed the aggregate level approved by the Committee for 100% achievement.

Unless otherwise approved by the Committee in the case of executive officers or by the CEO in any other case, and except in the case of termination due to death or disability or in connection with a change in control, eligible participants must be employed by the Company on the last day of the performance period in order to receive payment for an award under the MICP. The MICP provides that, in the event of a change in control, the Company's performance against the quarterly corporate goals and each participant's performance measurement against individual goals for any performance period ending after the effective date of the change in control will be deemed to be 100%, the Company's performance against the annual corporate goals will be deemed to be at least 100%, and the associated awards will be paid regardless of whether the participant remains employed during or at the end of the performance period.

Long-Term Incentive Compensation Plan (LTIP)

The cash-based awards under the LTIP are referred to as performance units, which have value based on achievement of performance goals established under the LTIP. The payout for the performance units is calculated using a pre-defined formula based on the level of performance and the target award expressed as a percentage of each participating executive officer's salary. The targets under the performance units are the same as those established for the annual corporate performance goals under the MICP. Any payment under the performance units will be paid in cash. Utilizing an award under the LTIP is intended to permit the award to qualify for the performance-based compensation exemption under Section 162(m) of the Internal Revenue Code of 1986, as amended.

Except as provided in the Severance Plan for Section 16 Officers, or the Severance Plan (discussed below), and except as provided with respect to death or long-term disability or a change in control, (1) each executive who receives performance units must be continuously employed by us as an executive officer through the last day of the performance period, (2) the performance units will not be considered earned by the executive until the last day of the performance period, and (3) if the executive terminates his employment prior to the last day of the performance period, with or without cause, he will forfeit his performance units. Accordingly, because Mr. Kurtzweil and Mr. Kelley resigned in fiscal 2012, only Mr. Swoboda was ultimately eligible for a cash payout under the performance units for fiscal 2012 (which he did not earn due to our failure to meet the applicable performance targets). If there had been a change in control and Mr. Swoboda's employment had been terminated on or prior to June 24, 2012, Mr. Swoboda would not have been entitled to payment under his performance units; however, he would have been entitled to payment of a similar amount under his Change in Control Agreement (discussed below).

Cash Incentive Targets and Components

Consistent with fiscal 2011, the CEO's annual target cash incentive award for fiscal 2012 was 100% of his base salary, which positions the CEO's total target cash compensation below the 25th percentile of the peer group and slightly above the 25th percentile of the Radford Technology survey data. The target cash incentive awards for the other named executive officers are summarized as follows:

• Total cash incentive target is 65% of base salary.

• Annual goals comprise 60% of the target incentive or 60% of 65%, which is 39% of base salary.

• Quarterly goals comprise 40% of the target incentive or 40% of 65%, which is 26% of base salary. Of these, 50% of the quarterly goals represent the achievement of corporate financial objectives and 50% represent the achievement of

individual objectives. No payout is made in any given quarter if the corporate financial objective is not met.

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A schematic of the plan design for executive officers, excluding the CEO, is shown below:

Threshold attainment of both annual goals must be achieved for payout

100% attainment of quarterly corporate goals must be achieved for payout

LTIP and MICP Annual Component

When determining the level of annual cash-based awards payable under the LTIP or MICP, performance against each financial measure is weighted equally in determining the amount of any annual award payout, and the annual award payout percentage is the average of the percentage of achievement of each measure, rounded to the nearest whole percentage. No payout for the annual corporate financial goals is made unless the minimum performance level for the fiscal year is achieved for both goals. If attainment of a goal meets or exceeds the minimum but falls below target, a payment is earned with respect to that award of at least 30% but less than 100% of the target award opportunity for such annual corporate goal. If attainment of a goal meets or exceeds the target performance level but falls below maximum, a payment is earned with respect to that award of at least 100% but less than 150% of the target award opportunity for such corporate goal. If attainment of a corporate goal meets or exceeds the maximum performance level, a payment is earned with respect to that award of 150% of the target award opportunity.

MICP Quarterly Component

Quarterly targets consistent with quarterly corporate financial guidance and individual performance objectives specific to each named executive officer (other than the CEO) are set at the beginning of each quarter. Individual performance objectives during fiscal 2012 for each of the named executive officers were as follows:

Michael E. McDevitt. Mr. McDevitt was appointed as Vice President and Interim Chief Financial Officer effective May 22, 2012, approximately one month before the end of fiscal 2012. Following his appointment, his individual objectives encompassed implementing budgeting controls for the business units, developing the fiscal 2013 annual operating plan, and meeting free cash flow and gross margin metrics.

Norbert W. G. Hiller. Mr. Hiller's individual objectives encompassed production expense, gross margins and inventory metrics for LED products.

Tyrone D. Mitchell, Jr. Mr. Mitchell's individual objectives encompassed production expense, gross margins and inventory metrics and product development for lighting products.

Stephen D. Kelley. Mr. Kelley's individual objectives for the first quarter of fiscal 2012 included the implementation of corporate-wide cost savings and successful conclusion of business development opportunities.

John T. Kurtzweil. Mr. Kurtzweil's individual objectives encompassed a wide range of objectives, including developing budget controls for the business units and transitioning the order-to-cash process as part of the Ruud Lighting integration.

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Performance Goals for Fiscal 2012

Annual Corporate Goals

Threshold, target, and maximum goals for each performance measure were pre-set and approved by the Committee based upon a comparison to the actual revenue and non-GAAP EPS achieved in the fourth quarter of fiscal 2011. Both the minimum revenue and non-GAAP EPS goals for fiscal 2012 were set higher than the annualized fourth quarter fiscal 2011 actual results. The target revenue and non-GAAP EPS were set at 16% and 35% respectively above the annualized fourth quarter fiscal 2011 actual results. Stretch goals were developed in consideration of forecasted revenues and expenses associated with the Ruud Lighting acquisition as well as projected industry drivers.

The Committee established the following goals for fiscal 2012:

Performance Goal	Minimum	Target	Maximum	
Revenue	\$ 1.00	B \$ 1.35	B \$ 1.50	B
EPS (Non-GAAP)*	\$ 1.15	\$ 1.46	\$ 1.75	

* The EPS goal was established on a non-GAAP basis and excluded amortization of acquired intangibles and stock-based compensation expense, net of tax.

Results and Actual Payouts for Fiscal 2012

Although the Company met the minimum level of revenue required for the LTIP and MICP annual payments as the Company's revenue of \$1.2 billion was above the required minimum of \$1.0 billion, the Company did not achieve the threshold level of earnings per share, as the Company's EPS (non-GAAP) of \$0.95 fell below the minimum threshold of \$1.15 per share. Consequently, no annual payouts were made to the named executive officers under the LTIP or the MICP. The Company did achieve the financial goals for the fourth quarter, so a quarterly payout was made to each named executive officer (other than the CEO) who was serving as an executive officer at the end of fiscal 2012. The named executive officers earned the following performance-based incentive cash awards for fiscal 2012:

Executive Officer	Target Award	Actual Award Earned	Actual Award as a Percent of Target	Actual Award as a Percent of Salary
Charles M. Swoboda	\$ 625,000	\$ 0	0.0%	0.0%
Michael E. McDevitt*	\$ 87,305	\$ 17,041	19.5%	6.8%
Norbert W. G. Hiller	\$ 188,663	\$ 16,980	9.0%	5.9%
Tyrone D. Mitchell, Jr.	\$ 188,500	\$ 15,646	8.3%	5.4%
Stephen D. Kelley	\$ 240,500	\$ 0	0.0%	0.0%
John T. Kurtzweil	\$ 243,750	\$ 0	0.0%	0.0%

* Effective on May 22, 2012, Mr. McDevitt moved into the role of Vice President and Interim Chief Financial Officer and became an executive officer. Before becoming an executive officer, his MICP target was 30% of his base salary, and he received a third quarter payout under the MICP for achievement of individual goals. At the time he became an executive officer, his MICP target was increased to 65% of his new temporary base salary. Mr. McDevitt's fourth quarter payout under the MICP was prorated based on the percentage of time he spent in each of the respective roles and the associated target incentive as a percent of base salary.

LTIP Equity Awards

Equity awards are granted to the named executive officers under the shareholder-approved LTIP to align their performance with shareholder interests and provide an opportunity for these officers to increase their ownership stake in the Company. For fiscal 2012, the Committee approved grants of stock options and restricted stock as long-term equity compensation. The Committee emphasizes the importance of company and shareholder value growth over executive officer retention. Consequently, the Company targets a greater proportion of the total value of executive officer equity to consist of stock options with the remaining portion in the form of restricted stock grants. Stock options are viewed as an effective form of equity compensation by the Committee as they only have value to

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the option holder when the stock price increases above the grant price, thereby resulting in economic value to the executive officers only if economic value is generated for shareholders. Stock options thus serve a vital purpose in aligning the interests of the named executive officers with the interests of the Company's shareholders.

Restricted stock, which is subject to time-based vesting, also aligns the interests of the named executive officers with the interests of the Company's shareholders since the value of restricted stock fluctuates with the stock price. However, the primary value of restricted stock is that it creates an incentive for retention. Restricted stock has full value to the executive officers upon vesting.

At the August 2011 Committee meeting, Radford advised the Committee that five-year vesting for restricted stock was not aligned with more common vesting schedules as compared to other companies in the peer group and the technology sector as a whole and that three- and four-year vesting schedules were considerably more common in the technology industry. The Committee voted to reduce the standard restricted stock vesting terms for future grants from five years to four years from the grant date. Vesting will continue to be straight-line with annual tranches.

The Committee generally approves annual equity grants under the LTIP to be made on the first business day of September. The Committee awards equity grants without regard to any scheduled or anticipated release of material information, and does not accelerate or delay equity grants in response to material information or delay the disclosure of information due to plans to make equity grants.

Stock Options

Stock options are granted with an exercise price equal to the closing price of the Company's common stock on Nasdaq on the date of the grant. The Committee may not grant options with an exercise price that is less than the fair market value of the Company's common stock on the grant date.

All of the options granted to the named executive officers in fiscal 2012 vest ratably in annual increments over the first three years of the seven-year option term. Vesting ceases upon termination of employment and all unvested options are forfeited, and exercise rights cease 90 days thereafter, except in the case of death or disability. Vesting accelerates upon death or termination of employment due to disability, and the options may be exercised for a year after death or termination of employment due to disability unless they expire prior to that event. Prior to the exercise of an option, the holder has no rights as a shareholder with respect to the shares subject to the option, including voting rights and the right to receive dividends or dividend equivalents.

Restricted Stock

Restricted stock awards granted to the named executive officers in fiscal 2012 vest ratably in annual increments over four years from the grant date. Vesting ends upon termination of employment, and all unvested shares of restricted stock are forfeited; however, vesting accelerates upon death or termination of employment due to disability. However, under the terms of Mr. Swoboda's change in control agreement, vesting of options and restricted stock may be accelerated in certain circumstances as discussed below.

Fiscal 2012 Equity Awards

The Committee approved the following equity grants to named executive officers at the August 2011 meeting. The awards were granted on September 1, 2011, and the stock options have an exercise price of \$30.92:

Executive Officer	Stock Options	Shares of Restricted Stock
Charles M. Swoboda	120,000	35,000
Stephen D. Kelley	35,000	6,000
John T. Kurtzweil	30,000	6,000
Arthur & Margarate James(1)	200,000	0
JDR Consulting(1) John D. Rivers	200,000	0
JDR Consulting(1) John D. Rivers	200,000	0
Andrew Lenza(1)	200,000	0
George Maglaras(1)	200,000	0
Joseph Manzi(1)	200,000	0
Alfred Naftel(1)	200,000	0

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Bruce Nlsen(1)		200,000	200,000	0
Alfred Pasi(1)		200,000	200,000	0
B. Michael Pisani(4)		260,000	260,000	0
Edward Pomianoski(1)		200,000	200,000	0
Antonio Rizzo(1)		200,000	200,000	0
Domenic Santana(1)		200,000	200,000	0
Alfred Sferra(1)		200,000	200,000	0
Jerome Shinkay(1)		200,000	200,000	0
Mark Shoicket(1)		200,000	200,000	0
Richard Staelin(1)		200,000	200,000	0
Buckman, Buckman & Reid (5)	H. John Buckman	145,250	145,250	0
Buckman, Buckman & Reid (5)	Thomas P. Buckman	72,625	72,625	0

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Buckman, Buckman & Reid (5)	H. John Buckman Jr.	72,625	72,625	0
Buckman, Buckman & Reid (5)	Abdul Jabbar Al Sayegh	41,500	41,500	0
Richard Egan(6)		69,500	69,500	0
George Maglaras(6)		5,000	5,000	0
Mark Shoicket(6)		30,000	30,000	0
Andrew Lenza(6)		5,000	5,000	0
H. John Buckman Jr.(6)		20,000	20,000	0
Christopher Dedea(6)		5,000	5,000	0
Matthew Taylor(6)		10,000	10,000	0
Brian Arnott(6)		5,000	5,000	0
William Egbert(6)		5,000	5,000	0
John Doyle(6)		5,000	5,000	0
Alpha Capital Aktiengesellschaft(7)	Konrad Ackerman	5,853,971	8,243,695	0
Whalehaven Capital Fund Limited (7)	Evan Schemenauer	3,172,515	4,411,403	0
Harborview Master Fund LP (7)	Richard Rosenblum and David Stefansky (9)	1,990,737	2,796,389	0
Hunter Wise Financial Group, LLC (8)	Fred Jager, President & CEO	400,000	400,000	0
Total		18,703,723	23,182,889	0

* A Natural Person is an officer if a corporation; a partner if a partnership; a member if a Limited Liability company.

**

Unless otherwise indicated, the selling stockholders have sole voting and investment power with respect to its shares of Common Stock. The inclusion of any shares in this table does not constitute an admission of beneficial ownership for the selling stockholders. The number of shares includes shares of Common Stock that the selling stockholder has the right to acquire beneficial ownership of within 60 days.

Assumes the sale of all shares of Common Stock offered hereby and no other transactions in the Common Stock by the selling stockholders of their affiliates. Stockholders are not required to sell their shares.

(1)

Includes 100,000 shares of Common Stock issuable upon the exercise of warrants of the Company.

(2)

Includes 150,000 shares of Common Stock issuable upon the exercise of warrants of the Company.

(3)

Includes 40,000 shares of Common Stock issuable upon the exercise of warrants of the Company.

(4)

Includes 130,000 shares of Common Stock issuable upon the exercise of warrants of the Company.

(5)

Includes 332,000 shares of Common Stock issuable upon the exercise of warrants of the Company.

(6)

Includes 159,500 shares of Common Stock issuable upon the exercise of warrants of the Company.

(7)

Includes 5,000,000 shares of Common Stock issuable upon the exercise of warrants of the Company, which consists of 2,666,666 shares of Common Stock issuable to Alpha Capital Aktiengesellschaft, 1,666,667 shares of Common Stock issuable to Whalehaven Capital Fund Limited and 666,667 shares of Common Stock issuable to Harborview Master Fund L.P.

(8)

Includes 400,000 shares of Common Stock issuable upon the exercise of warrants of the Company.

(9)

Harborview Master Fund L.P. is a master fund whose general partner is Harborview Advisors LLC. Richard Rosenblum and David Stefansky are the managers of Harborview Advisors LLC and have ultimate responsibility for trading with respect to Harborview Master Fund L.P. Messrs. Rosenblum and Stefansky disclaim beneficial ownership of the shares being registered hereunder.

Except as provided above, no affiliate of any of the selling stockholders has held any position or office with us or any of our affiliate and none of the selling stockholders has had any other material relationship with us or any of our affiliates within the past three years other than as a result of its ownership of shares of equity securities.

PLAN OF DISTRIBUTION

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The Registration Statement relates to the Offering of 23,182,889 shares of Common Stock owned by the selling stockholders. The Company will not receive any proceeds from the sale of such shares. The selling stockholders may, from time to time, sell any or all of their shares of Common Stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices.

The selling stockholders have advised us that the sale or distribution of our Common Stock owned by the selling stockholders may be effected by the selling stockholders as principals or through one or more underwriters, brokers, dealers or agents from time to time in one or more transactions (which may involve crosses or block transactions) (i) on the over-the-counter market or on any other market in which the price of our shares of Common Stock are quoted or (ii) in transactions otherwise than in the over-the-counter market or in any other market on which the price of our shares of Common Stock are quoted. Any of such transactions may be effected at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at varying prices determined at the time of sale or at negotiated or fixed prices, in each case as determined by the selling stockholders or by agreement between the selling stockholders and underwriters, brokers, dealers or agents, or purchasers. If the selling stockholders effect such transactions by selling their shares of Common Stock to or through underwriters, brokers, dealers or agents, such underwriters, brokers, dealers or agents may receive compensation in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of Common Stock for whom they may act as agent (which discounts, concessions or commissions as to particular underwriters, brokers, dealers or agents may be in excess of those customary in the types of transactions involved).

The selling stockholders may use any one or more of the following methods when selling shares:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

short sales after this Registration Statement becomes effective;

broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

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The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

The selling stockholders may also engage in short sales against the box after this Registration Statement becomes effective, puts and calls and other transactions in our securities or derivatives of our securities and may sell or deliver shares in connection with these trades.

Broker-dealers engaged by the selling stockholders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. Any profits on the resale of shares of Common Stock by a broker-dealer acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, attributable to the sale of shares will be borne by a selling stockholder. The selling stockholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares if liabilities are imposed on that person under the Securities Act.

The selling stockholders may from time to time pledge or grant a security interest in some or all of the shares of Common Stock owned by them and, if they default in the performance of their secured obligations, the pledges' or secured parties may offer and sell the shares of Common Stock from time to time under this prospectus after we have filed an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

The selling stockholders also may transfer the shares of Common Stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus and may sell the shares of Common Stock from time to time under this prospectus after we have filed an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

We are required to pay all fees and expenses incident to the registration of the shares of Common Stock. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Each of the selling stockholders acquired the securities offered hereby in the ordinary course of business and has advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their shares of Common Stock, nor is there an underwriter or coordinating broker acting in connection with a proposed sale of shares of Common Stock by any selling stockholder. If we are notified by any selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of shares of Common Stock, if required, we will file a supplement to this prospectus. If the selling stockholders use this prospectus for any sale of the shares of Common Stock, they will be subject to the prospectus delivery requirements of the Securities Act.

The anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of our Common Stock and activities of the selling stockholders.

LEGAL MATTERS

The legality of the issuance of the shares offered in this prospectus will be passed upon for us by Kirkpatrick & Lockhart Nicholson Graham LLP.

EXPERTS

The financial statements as of December 31, 2005 and for the years ended December 31, 2005 and 2004, and the period from April 10, 2000 (Inception) to December 31, 2005, included in this prospectus have been audited by Berenfeld, Spritzer, Shechter & Sheer, independent certified public accountants, as stated in its report appearing herein and elsewhere in this Registration Statement, and have been so included in reliance upon the report of this firm given upon their authority as experts in auditing and accounting.

INTERESTS OF NAMED EXPERTS AND COUNSEL

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the common stock was employed on a contingency basis, or had, or is to receive, in connection with the offering, a substantial interest, direct or indirect, in the registrant or any of its parents or subsidiaries. Nor was any such person connected with the registrant or any of its parents or subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer, or employee.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements regarding accounting and financial disclosure matters with our independent certified public accountants.

AVAILABLE INFORMATION

We have filed with the SEC a Registration Statement on Form SB-2 (including exhibits) under the Securities Act, with respect to the shares to be sold in this Offering. This prospectus does not contain all the information set forth in the Registration Statement as some portions have been omitted in accordance with the rules and regulations of the SEC. For further information with respect to our Company and the Common Stock offered in this prospectus, reference is made to the Registration Statement, including the exhibits filed thereto, and the financial statements and notes filed as a part thereof. With respect to each such document filed with the SEC as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description of the matter involved.

Once the Registration Statement is declared effective with the SEC, we will be subject to the information and reporting requirements of the Exchange Act, and we will file reports, proxy statements and other information with the SEC pursuant to the Securities Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

BIOELECTRONICS CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

BioElectronics Corporation

Frederick, Maryland

We have audited the accompanying balance sheet of BioElectronics Corporation (A Development Stage Company) as of December 31, 2005 and the related statements of operations, stockholders' deficiency and cash flows for the years ended December 31, 2005 and 2004, and for the period from April 10, 2000 (Inception) to December 31, 2005. 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 required that we plan and perform the audits 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 financial position of BioElectronics Corporation as of December 31, 2005 and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004, and for the period from April 10, 2000 (Inception) to December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note D to the financial statements, the Company has restated its consolidated balance sheet at December 31, 2005 and related statements of operations, stockholders' deficiency, and cash flows for the year ended December 31, 2005 and for the period from April 10, 2000 (Inception) to December 31, 2005.

Berenfeld Spritzer Shechter & Sheer, CPA's

Sunrise, Florida

April 5, 2006 (Except as to notes E and M as to which

the date is June 19, 2006 and note D as to which the date is September 21, 2006)

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BioElectronics Corporation (A Development Stage Company)
Balance Sheets

	June 30, 2006	December 31, 2005
ASSETS	(Unaudited)	(Restated)
CURRENT ASSETS		
Cash	\$ -	\$ 323,039
Accounts Receivable, Net	15,851	68,864
Inventory	240,937	192,710
Prepaid Expenses	5,659	5,796
TOTAL CURRENT ASSETS	262,447	590,409
MACHINERY AND EQUIPMENT, net	99,730	100,084
OTHER ASSETS		
Deferred Financing Costs	473,215	639,709
Security Deposits	7,762	7,762
	480,977	647,471
TOTAL ASSETS	\$ 843,154	\$ 1,337,964
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Accounts Payable	\$ 623,224	\$ 391,804
Accrued Liabilities	142,976	69,044
Current Portion of Note Payable	266,448	191,281
Current Portion of Capital Lease Obligations	5,413	4,573
Current Portion of Related Party Notes Payable	5,012	74,621
TOTAL CURRENT LIABILITIES	1,043,073	731,323
LONG-TERM LIABILITIES		
Related Party Notes Payable, Net of Current Portion	705,244	298,904
Note Payable	562,500	562,500
Capital Lease Obligations, Net of Current Portion	-	840
TOTAL LONG-TERM LIABILITIES	1,267,744	862,244
TOTAL LIABILITIES	2,310,817	1,593,567
STOCKHOLDERS' DEFICIENCY		
Common Stock, Par Value \$.001 Per Share, 200 Million Shares Authorized; Issued and Outstanding 66,388,642 at June 30, 2006 and 62,864,892 at December 31, 2005	66,388	62,864
Additional Paid-In Capital	3,413,519	3,019,546
Deficit Accumulated During the Development Stage	(4,947,570)	(3,338,013)
TOTAL STOCKHOLDERS' DEFICIENCY	(1,467,663)	(255,603)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$	843,154	\$	1,337,964
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The accompanying notes are an integral part of these financial statements.

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BioElectronics Corporation (A Development Stage Company)
Statements of Operations

	Six Months Ended June 30,		Period from April 10, 2000 (Inception) to	Years Ended December		Period from April 10, 2000 (Inception) to December 31, 2005
	2006 (Unaudited)	2005	June 30, 2006 (Unaudited)	2005 (Restated)	2004	2005 (Restated)
SALES	\$ 165,319	\$ 116,310	\$ 801,509	\$ 303,690	\$ 302,002	\$ 636,189
COST OF GOODS SOLD	45,534	96,263	350,278	141,455	112,724	304,744
GROSS PROFIT	119,785	20,047	451,231	162,235	189,278	331,445
OPERATING EXPENSES						
General and Administrative	1,040,832	550,916	3,338,136	1,103,896	695,058	2,297,303
Design & Development	169,063	-	379,219	210,156	-	210,156
Selling Expenses	278,566	117,169	1,301,222	692,393	265,347	1,022,656
	1,488,461	668,085	5,018,577	2,006,445	960,405	3,530,115
LOSS FROM OPERATIONS	(1,368,676)	(648,038)	(4,567,346)	(1,844,210)	(771,127)	(3,198,670)
OTHER EXPENSES						
Interest Expense	(240,881)	(20,904)	(329,116)	(59,916)	(19,920)	(88,235)
Other	-	-	(22,158)	(9,927)	(1,752)	(22,158)
	(240,881)	(20,904)	(351,274)	(69,843)	(21,672)	(110,393)
NET LOSS	\$(1,609,557)	\$(668,942)	\$(4,918,620)	\$(1,914,053)	\$(792,799)	\$(3,309,063)
PER SHARE DATA:						
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:						
BASIC AND DILUTED	63,928,909	52,901,725	N/A	57,626,059	45,976,334	N/A
NET LOSS PER SHARE:						
	\$ (0.025)	\$ (0.013)	N/A	\$ (0.033)	\$ (0.017)	N/A

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The accompanying notes are an integral part of these financial statements.

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BioElectronics Corporation (A Development Stage Company)
Statements of Changes in Stockholders' Deficiency

	Capital Stock		Additional	Deficit	
	Shares	Amount	Paid-in	Accumulated	Total
			Capital	During the	
				Development	
				Stage	
Balance at April 10, 2000 (Inception)	-	\$ -	\$ -	\$ -	\$ -
Net Loss	-	-	-	(34,124)	(34,124)
Contribution of Assets	-	-	8,000	-	8,000
Issuance of Common Stock for					
Services Rendered	22,150,000	22,150	(8,000)	(13,150)	1,000
Balance at December 31, 2000	22,150,000	22,150	-	(47,274)	(25,124)
Net Loss		-	-	-	-
Balance at December 31, 2001	22,150,000	22,150	-	(47,274)	(25,124)
Net Loss		-	-	-	-
Balance at December 31, 2002	22,150,000	22,150	-	(47,274)	(25,124)
Net Loss		-	-	(568,087)	(568,087)
Sale of Common Stock at \$.03 per share	3,950,000	3,950	112,100	-	116,050
Sale of Common Stock at \$.0496 per share	800,000	800	38,900	-	39,700
Sale of Common Stock at \$.35 per share	40,000	40	13,960	-	14,000
Balance at December 31, 2003	26,940,000	26,940	164,960	(615,361)	(423,461)
Net loss		-	-	(792,799)	(792,799)
Common Stock Dividend	15,800,577	15,800	-	(15,800)	-
Issuance of Common Stock for					
Services Rendered	2,245,649	2,246	100,036	-	112,282
Sale of Common Stock at \$.3540 per share	678,000	678	239,322	-	240,000

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Sale of Common Stock at \$.4286 per share	149,333	149	63,851	-	64,000
Sale of Common Stock at \$.30 per share	83,333	83	24,917		25,000
Sale of Common Stock at \$.01 per share	5,020,000	5,020	45,180	-	50,020
Balance at December 31, 2004	50,916,892	50,916	648,266	(1,423,960)	(724,778)
Net loss		-	-	1,914,053	(1,914,053)
Fair value of warrants issued in connection with financing arrangements			542,460		542,460
Issuance of Common Stock for					
Services Rendered	2,128,000	2,128	205,043	-	207,171
Sale of Common Stock at \$.30 per share	3,420,000	3,420	1,022,580	-	1,026,000
Sale of Common Stock at \$.0833 per share	4,600,000	4,600	378,785	-	383,385
Sale of Common Stock at \$.0959 per share	800,000	800	75,912	-	76,712
Sale of Common Stock at \$.1475 per share	1,000,000	1,000	146,500	-	147,500
Balance at December 31, 2005	62,864,892	62,864	3,019,546	(3,338,013)	(255,603)
Net loss				(1,609,557)	(1,609,557)
Issuance of Common Stock for					
Services Rendered	3,283,750	3,284	292,515	-	295,799
Sale of Common Stock at \$.1667 per share	240,000	240	39,760	-	40,000
Stock based compensation expense under the Black-Scholes formula	-	-	61,698	-	61,698
Balance at June 30, 2006	66,388,642	\$ 66,388	\$ 3,413,519	\$ (4,947,570)	\$ (1,567,663)

The accompanying notes are an integral part of these financial statements.

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BioElectronics Corporation (A Development Stage Company)
Statements of Cash Flows

	Six Months Ended June 30,		Period from April 10, 2000 (Inception) to	Years Ended December		Period from April 10, 2000 (Inception) to December 31, 2005
	2006	2005	June 30, 2006	2005	2004	2005
	(Unaudited)		(Unaudited)	(Restated)		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES						
Net Loss	\$ (1,609,557)	\$ (668,942)	\$ (4,969,501)	\$ (1,914,053)	\$ (792,799)	\$ (3,359,944)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities						
Depreciation of machinery and Equipment	11,104	5,442	38,304	16,811	8,818	27,200
Amortization of Loan Costs	166,494	-	189,097	22,603		22,603
Provision for Bad Debts			34,615	20,000	14,615	34,615
Non-cash stock-based compensation and Expenses	357,497	-	701,950	207,171	137,282	344,453
Non-cash Interest Expenses	75,167	-	75,167	-	-	
(Increase) Decrease in:						
Accounts Receivable	53,014	(179,870)	(50,465)	(88,864)	(8,786)	(103,479)
Inventory	(48,227)	(44,793)	(190,056)	(110,360)	(50,115)	(141,829)
Prepaid Expenses	137	(6,896)	(5,658)	(4,829)	234	(5,795)
Increase (Decrease) in:						
Accounts Payable	231,420	71,079	623,223	175,493	54,139	391,803
Accrued Liabilities	79,931	(5,827)	142,975	10,195	2,758	69,044
NET CASH USED IN OPERATING ACTIVITIES	(689,020)	(818,153)	(3,410,349)	(1,665,833)	(633,854)	(2,721,329)
CASH FLOWS FROM INVESTING ACTIVITIES						
Security Deposits	-	-	(7,762)	(7,762)	-	(7,762)
Purchase of Equipment	(10,750)	(19,941)	(119,047)	(50,014)	(53,045)	(108,297)
NET CASH USED BY INVESTING ACTIVITIES	(10,750)	(19,941)	(126,809)	(57,776)	(53,045)	(116,059)
CASH FLOWS FROM FINANCING						

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ACTIVITIES						
Payments on Note Payable	-	(300,000)	(366,219)	(366,219)	-	(366,219)
Proceeds from Note Payable, Net of Loan Costs	-	-	1,000,148	630,148	370,000	1,000,148
Proceeds from Related Party Notes Payable	406,340	296,602	794,943	105,279	-	363,603
Payments on Related Party Notes Payable	(69,609)	(21,661)	(84,687)	(3,644)	(11,434)	(15,078)
Payments on Capital Lease Obligations	-	(1,167)	(4,574)	(3,222)	(753)	(4,574)
Proceeds from Issuance of Capital Stock	40,000	839,979	2,197,547	1,633,597	379,200	2,182,547
NET CASH PROVIDED BY FINANCING ACTIVITIES	376,731	813,753	3,537,158	1,995,939	737,013	3,160,427
NET INCREASE (DECREASE) IN CASH						
	(323,039)	24,241	-	272,330	50,114	323,039
CASH, BEGINNING OF PERIOD	323,039	50,709	-	50,709	595	-
CASH, END OF PERIOD	\$ (0)	\$ 26,468	\$ -	\$ 323,039	\$ 50,709	\$ 323,039

The accompanying notes are an integral part of these financial statements.

BioElectronics Corporation (A Development Stage Company)
Statements of Cash Flows

	Six Months Ended June 30, 2006 (Unaudited)		Period from April 10, 2000 (Inception) to June 30, 2006		Years Ended December 2005 2004 (Restated)		Period from April 10, 2000 (Inception) to December 31, 2005 (Restated)	
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SUPPLEMENTAL
DISCLOSURE OF
CASH

FLOW

INFORMATION:

Cash Paid During the
Period:

Interest	\$ 30,096	\$ 9,920	\$ 96,728	\$ 37,313	\$ 10,076	\$ 66,632
Income taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

SCHEDULE OF
NON-CASH
INVESTING

AND FINANCING
ACTIVITIES:

Equipment purchases financed through capital leases and notes payable	\$ -	\$ -	\$ 9,986	\$ -	\$ -	\$ 9,986
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The accompanying notes are an integral part of these financial statements.

BioElectronics Corporation (A Development Stage Company)

Notes to Financial Statements

(Information as of and for the six months ended June 30, 2006 and 2005 is unaudited)

NOTE A - ORGANIZATION AND NATURE OF ACTIVITIES

BioElectronics Corporation was incorporated in April 2000 and began employee-based operations in 2003.

BioElectronics Corporation (the "Company") is a developer and marketer of drug-free, anti-inflammatory patches. The Company has U.S., FDA, Health Canada and European Union market clearance for its products.

The Company's first product, ActiPatch[®] Therapy is a dermal patch with an embedded battery operated microchip that delivers weeks of continuous pulsed therapy. The patch delivery system and the Company's patented technology is a self-administered equivalent of the operator administered pulsed electromagnetic energy therapy used extensively world-wide for decades to reduce swelling, relieve pain and enhance the healing of post-surgical incisions, chronic wounds and orthopedic conditions.

The accompanying financial statements are those of a development stage company. The Company is currently engaged in and devotes considerable time to financial planning, raising capital, establishing sources of material supply and manufacturing subcontractors, recruiting and training sales personnel and establishing a market presence for its product. While there has been revenue from the sale of the product, nearly a third of the revenue in 2004 is from sales to one distributor and approximately two thirds of the 2005 revenue is derived from sales to two distributors. A significant market presence and sales account base has yet to be achieved.

The board of directors has the authority, without action by the Company's stockholders, to provide for the issuance of preferred stock in one or more classes or series and to designate the rights, preferences and privileges of each class or series, which may be greater than the rights of the common stock.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company has prepared the financial statements in accordance with accounting principles generally accepted in the United States of America.

Interim Financial Statements

The interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In management's opinion, the interim financial data presented herein include all adjustments (which include only normal recurring adjustments) necessary for a fair presentation. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. Results for interim periods are not necessarily indicative of results to be expected for the full year.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments, which are readily convertible into cash and have maturities of three months or less. The Company places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to significant concentration of credit risk, consist primarily of cash and cash equivalents. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. Management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

Accounts Receivable

Allowance for Doubtful Accounts -- The Company maintains reserves on customer accounts where estimated losses may result from the inability of its customers to make required payments. These reserves are determined based on a number of factors, including the current financial condition of specific customers, the age of accounts receivable balances and historical loss rate. The Allowance for Doubtful Accounts was \$34,615 at June 30, 2006 and December 31, 2005. Bad debt expense for the six months ended June 30, 2006 and 2005 was \$0 and \$0 and for the years ended December 31, 2005 and 2004 was \$97,778 and \$14,615, respectively.

Inventory

Inventories are stated at the lower of cost or market, cost being determined under the first-in, first-out method. The Company periodically reviews inventories and items considered outdated or obsolete are reduced to their estimated net realizable value.

Machinery and Equipment

Machinery and equipment is stated at cost, net of accumulated depreciation and amortization, which is computed using the straight-line method over the estimated useful lives of the related assets of five to ten years. Expenditures for maintenance and repairs are charged to expense as incurred. Major improvements that extend the lives of assets are capitalized. Any gain or loss on disposition of assets is recognized currently. Accumulated Depreciation was \$ 39,289 and \$28,185 at June 30, 2006 and December 31, 2005, respectively.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairments whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company has not recognized any impairment losses through June 30, 2006.

Income Taxes

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Revenue Recognition

The Company sells its products to wholesale distributors and directly to hospitals and clinics. In accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition", the Company recognizes revenue when the evidence of an arrangement exists, pricing is fixed and determinable, collection is reasonably assured, and shipment has occurred. Payment is due on a net basis in 30 days. If the customer is deemed not credit worthy, payment by credit card is required. The Company's agreement with customers includes a right of return. To date returns are not significant. Therefore, an allowance for returns has not been made. Defective units are replaced at the request of the customer.

Amounts billed to customers for shipping and handling are included as a component of sales. Shipping and handling costs, which represent costs incurred to ship products to the Company's customers, are included as a component of selling, general and administrative expenses

Loan Costs

Costs incurred to obtain financing have been capitalized and are being amortized using the straight-line method over the life of the financing arrangement.

Advertising

Advertising costs are charged to expense as incurred, and are included in general and administrative expenses. Advertising expense was approximately \$17,000 and \$ 1,300 for the six months ended June 30, 2006 and 2005 and \$8,138 and \$1,776 for the years ended December 31, 2005 and 2004, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in its financial statements and accompanying notes. Actual results could differ from those estimates.

Net Loss per Share

The Company calculates basic and diluted net loss per share in accordance with SFAS 128, "*Earnings per Share*." Basic and diluted net loss per share is computed by dividing net loss by the weighted-average number of outstanding shares of common stock.

As of June 30, 2006 and 2005 and December 31, 2005 and 2004, options, warrants and other convertible securities to purchase 16.5, 6.6, 19.7 and 2.6 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted earnings per share, because the effect would be anti-dilutive.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, accounts receivable, accounts payable, accrued liabilities and loans and notes payable. The carrying amounts of such financial instruments approximate their respective estimated fair value due to the short-term maturities and approximate market interest rates of these instruments. The estimated fair value is not necessarily indicative of the amounts the Company would realize in a current market exchange or from future earnings or cash flows.

Compensated Absences

The Company does not accrue for compensated absences and recognizes the costs of compensated absences when paid to employees. Accordingly, no liability for such absences has been recorded in the accompanying consolidated financial statements. Management believes the effect of this policy is not material to the accompanying financial statements.

Stock-Based Compensation

In accordance with SFAS No. 123 (Revised 2004), *Share Based Payment* ("SFAS No. 123R") and the Securities and Exchange Commission's rule amending the compliance dates of SFAS No. 123R, the Company began to recognize compensation expense for equity-based compensation using the fair value method in 2006 using the "Modified Prospective Method". This method allows the Company to apply the fair value provisions of SFAS No. 123R only on the future share-based payment arrangements and unvested portion of prior awards at the adoption date.

The Modified Prospective Method allows the Company to account for the stock-based awards issued prior to the adoption of fair value provisions under SFAS No. 123R using the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and the disclosure provisions of SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123*.

Prior to January 1, 2006 the Company accounted for its stock-based compensation plan as permitted by SFAS No. 123, using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and made the pro forma disclosures required by SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" ("SFAS No. 148") for the years ended December 31, 2005 and December 31, 2004. Except for options granted to certain officers of the Company for services rendered, that vest over time, all options granted under the Plan (discussed in Note H) had exercise prices equal to the fair market value of the underlying Common Stock on the date of grant. Accordingly, for the years ended December 31, 2005 and 2004, stock-based compensation related to options granted to officers of the Company for services rendered, are recorded in accordance with APB Opinion No. 25.

Equity instruments issued to non-employees are accounted for at fair value. The fair value of the equity instrument is determined using either the fair value of the underlying stock

The Company recognizes compensation expense for fixed stock awards with pro rata vesting on a straight-line basis over the requisite service period of the award.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No 153, "Exchanges of Non-monetary Assets," and an amendment to Opinion No 29, "Accounting for Non-monetary Transactions." SFAS No 153 eliminates certain differences in the guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to Opinion No. 29 eliminates the fair value exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for non-monetary assets exchanges occurring in periods beginning after December 16, 2004. The adoption of this statement did not have an impact on the Company's audited financial statements for the year ended December 31, 2005.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", which replaces APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements". APB Opinion No. 20 required that changes in accounting principles be recognized by including the cumulative effect of the change in the period in which the new accounting principle was adopted. SFAS No. 154 requires retrospective application of the change to prior periods' financial statements, unless it is impracticable to determine the period-specific effects of the change. SFAS No. 154 also provides that a change in method of depreciating or amortizing long-lived non-financial assets be accounted for as a change in estimate effected by a change in accounting principle, and also provides that correction of errors in previously issued financial statements should be termed a "restatement". SFAS No. 154 is effective for the Company's year ending December 31, 2006. Management does not expect the adoption of this statement to have a material impact, if any, on the Company's financial position or results of operations.

In February 2006, the FASB issued FASB No. 155, *Accounting for Certain Hybrid Instruments, as an amendment of FASB Statements No. 133 and 140*. FASB No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first year that begins after September 15, 2006. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

NOTE C - INVENTORY

The components of inventory as of June 30, 2006 and December 31, 2005 are:

	June 30, 2006	December 31, 2005
Raw materials	\$ 69,016	\$ 26,039
Supplies	13,536	14,420
Finished goods	<u>158,385</u>	<u>152,251</u>
	\$ <u>240,937</u>	\$ <u>192,710</u>

NOTE D RESTATEMENT OF FINANCIAL STATEMENTS

In 2005, the Company recorded as revenue \$300,000. The Company has now determined that this revenue should not have been recorded as a sale in the year ended December 31, 2005 because it did not meet the criteria of the generally accepted accounting principles for inclusion of this sale as revenue.

Additionally, in accordance with EITF No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments", the Company has reevaluated its sale of its convertible notes payable with detachable warrants for the beneficial conversion features. The Company has determined that it should have allocated the proceeds from the placement of the debt to the warrants and the debt based on their relative pro-rated values. The deferred financing costs are being amortized on the straight line basis over the life of the note, which approximates the effective interest rate.

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Accordingly, the accompanying financial statements presented for the year ended December 31, 2005 and for the period from April 10, 2000 (Inception) to December 31, 2005 have been restated as follows.

BALANCE SHEET	Accumulated Deficit	Paid-in capital	Deferred Financing Cost	Note Receivable	Inventory
As originally reported	\$ 3,058,791	\$ (2,477,086)	\$ 119,852	\$ 307,500	\$141,829
Inventory	(50,881)				50,881
Note receivable	307,500			(307,500)	
Deferred financing costs		(542,460)	542,460		
Amortization of deferred finance costs	22,603		(22,603)		
Adjusted amount	\$ 3,338,013	\$(3,019,546)	\$ 639,709	\$ -	\$192,710

STATEMENT OF
OPERATIONS

Year ended December 31, 2005	Net Loss	Revenue	Cost of Goods Sold	Interest Income	Interest Expense
As originally reported	\$ (1,634,831)	\$ (603,690)	\$ 192,336	\$ 7,500	\$ 37,313
Revenue	(307,500)	300,000	7,500		
Cost of Goods Sold			50,551		
Amortization of deferred financing costs	(22,603)				22,603
Adjusted amount	\$ (1,964,934)	\$ (303,690)	\$ 141,455	\$ -	\$59,916
For the period from April 10, 2000 (Inception) to December 31, 2005					
As originally reported	\$ (3,029,841)	\$ (936,189)	\$ 355,625	\$ (7,500)	\$ 65,632
Revenue	(307,500)	300,000		7,500	
Cost of Goods Sold			(50,881)		
Amortization of deferred financing costs	(22,603)				22,603
Adjusted amount	\$ (3,359,944)	\$ (636,189)	\$ 304,744	\$ -	\$ 88,235

NOTE E - NOTES PAYABLE

On December 8, 2005, the Company issued \$750,000 of Senior Secured Convertible Notes ("the Notes") to three investors and agreed to issue an additional \$250,000 of Notes (the "Additional Notes") with interest at a fixed rate of 8% per annum, payable monthly. The Notes and the Additional Notes are convertible into 3,000,000 shares and 1,000,000 shares of the Company's common stock at \$0.25 per share. On June 16, 2006 the Subscription Agreement was amended to change the Notes conversion price to \$0.18 per share. As a result the Notes are convertible into 4,166,667 shares of common stock and the Additional Note into 1,388,889 shares of common stock.

The Notes are collateralized by a security interest in substantially all of the Company's assets. For each share of the Company's Common Stock for which the Notes and the Additional Notes are convertible at the time of closing, the investors will receive one warrant, exercisable for five-years from the date of closing of the Notes. Payments of 1/16 of the outstanding amount of the Notes will commence on September 8, 2006 and on the eighth day each month thereafter until the Notes have been paid in full, whether by cash or by conversion of the Principal and interest into

Common Stock pursuant to the terms of the Notes. The Additional Notes are not contingent to any other conditions, and the right to issue and convert these Additional Notes is in the control of the Company. As required by Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities, deferred financing costs of \$542,000 were recorded that are being amortized over the two year term of the notes to their maturity date based on their fair value of \$542,000 using the Black Scholes option pricing model based on the following assumptions: (1) risk free interest rate of 4.21%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 40%; and (4) an expected life of the option of .5 to 5 years. Additionally, the proceeds were allocated between the notes and warrants using the relative fair value method. During the years ended December 31, 2005 and the six months ended June 30, 2006, amortization as interest expense was \$22,603 and 166,494 respectively.

The note contains a provision that if a Registration Statement is not filed with the Securities and Exchange Commission by April 8, 2006 the Company must pay liquidated damage of 2% for each 30 days subsequent to that date until the Registration Statement is filed. Additionally, the Registration Statement must be declared effective by October 14, 2006. The liquidated damages, at the option of the Company, may be paid in cash or additional shares of its common stock: accrued interest of \$30,000 and liquidated damages of \$45,000 through June 15, 2006 will be added to the Notes and converted into 416,666 shares of the Company's common stock.

On August 14, 2006, \$100,000 relating to the Additional Notes was received by the Company.

Maturities of notes payable at December 31, 2005 are:

<u>Year Ended December 31,</u>	<u>Amount</u>
2006	\$191,281
2007	562,500
<u>Total payments</u>	<u>\$753,781</u>

NOTE F - CAPITAL LEASE OBLIGATIONS

The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is depreciated over the lower of their related lease terms or their estimated productive lives. The lease has a purchase option at the expected fair value of the property at the expiration of the lease term.

Capital lease obligations consist of an equipment lease with an implicit interest rate of 16.99% and monthly payments of \$288, maturing in March, 2007, collateralized by equipment with a book value of \$4,103 at December 31, 2005.

Depreciation expense of assets under a capital lease for the six months ended June 30, 2006 and 2005 was \$942; for the years ended December 31, 2005 and 2004 was \$1,884.

Minimum futures lease payments under capital leases as December 31, 2005 are:

<u>Year Ended December 31,</u>	<u>Amount</u>
2006	\$4,610
2007	1,729
Total minimum lease payments	6,339
Less: Implicit Interest	926
Total minimum lease payments	<u>\$ 5,413</u>

NOTE G - RELATED PARTY NOTES PAYABLE

In 2003 and 2004, the Company borrowed \$270,353 from its stockholders that are evidenced by promissory notes, that bear interest at 9% per annum, are unsecured, and mature on various dates through December, 2018.

At December 31, 2005 related party notes payable include short term advances of \$33,124 that was repaid in 2006. Additionally, at December 31, 2005 related party notes payable includes \$40,000 which was classified as a current liability and converted into the Company's common stock in January 2006.

Maturities of long-term debt for each of the next five years and thereafter are:

	June 30,	
	2006	December 31, 2005
2006	\$ 5,012	\$ 74,621
2007	462,023	4,038
2008	149,709	201,354
2009	4,831	4,831
2010	5,284	5,284
Thereafter	83,397	83,397
	\$ 710,256	\$373,525

NOTE H - STOCK OPTION PLANS

On November 30, 2004, as amended March 22, 2005, the Company adopted the BioElectronics Equity Incentive Plan ("the Plan"), for the purpose of providing incentives for officers, directors, consultants and key employees to promote the success of the Company, and to enhance the Company's ability to attract and retain the services of such persons.

The Plan reserves 10 million shares of common stock for issuance. The options may be incentive, nonqualified or stock appreciation rights.

Option awards are granted with an exercise price equal to Company's bid price on the on the Pink Sheets on the date of grant, which is fair value. The options vest over three years of continuous service and are exercisable over five years from the date of grant.

On exercise of a stock appreciation right, the holder may receive shares of common stock and cash equal to the excess of the fair market value of the common stock at the date of exercise over the option price. Stock appreciation rights may be exercised five years from the date of grant. As of June 30 2006 no stock appreciation rights have been granted.

The following table sets forth options, granted, cancelled, forfeited and outstanding:

Number of Shares	Aggregate Grant Date	Weighted Average
---------------------	-------------------------	---------------------

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		Fair Value	Exercise Price
January 1, 2004	None	None	none
Granted	2,100,000	\$ 630,000	\$0.40
Exercised	-	-	-
Forfeited	-	-	-
Outstanding,			
December 31,2004	2,100,000	630,000	\$0.40
Granted	3,785,000	1,443,650	\$0.38
Exercised	-	-	-
Forfeited	-	-	-
Outstanding,			
December 31, 2005	5,885,000	2,073,650	\$0.39
Granted	30,000	9,000	\$0.30
Exercised	-	-	-
Forfeited	(3,150,000)	(945,000)	\$0.43
Outstanding,			
June 30, 2006	2,765,000	\$1,137,650	\$ 0.34

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Summary information about the Company's stock options outstanding at December 31, 2005:

Range of Exercise Prices	Options Outstanding	Weighted Average		Options Exercisable	Weighted Average Exercise Price
		Remaining contractual life	Years of Weighted Average Exercise Price		
\$.30-.31	1,755,000	4.3	\$.30	700,000	\$.30
\$.40	1,730,000	4.0	\$.40	-	-
\$.50	1,700,000	3.9	\$.40	-	-

As of June 30 2006 and December 31, 2005 1,800,000 and 700,000 options were exercisable and 7,235,000 and 4,115,000 were available for future grant.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock option plan. Accordingly, no compensation cost had been recognized for the stock option plan through December 31, 2005

For the six months ended June 30, 2006 the Company applied SFAS No. 123R and accordingly compensation costs charged to expense under the plan was \$61,698 with no income tax benefit.

Had compensation cost for the Company's stock options plan been determined consistent with SFAS No. 123, the Company's net loss and net loss per share for the six months ended June 30, 2005 and years ended December 31, 2005 and 2004 would have been increased to the pro forma amounts indicated in the following table:

	June 30, 2005	December 31, 2005	2004
As Reported net loss	(\$ 719,823)	(\$1,964,934)	(\$792,799)
Deduct: Stock-based compensation expense, pro-forma	(18,000)	(179,994)	(11,646)
Pro-forma net loss	(\$737,823)	(\$2,144,928)	(\$804,445)
Earnings per Share:			
Basic and diluted net loss per share" as reported	(\$ 0.014)	(\$0.034)	(\$0.017)
Pro-forma basic and diluted net loss per share	(\$ 0.014)	(\$0.037)	(\$0.017)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for options granted are:

Assumptions	Six Months	Years Ended	
	Ended June 30	December 31,	
	2006	2005	2004
Risk-free interest rate	4.30%	4.21%	3.39%
Dividend yield	0%	0%	0%
Expected life of option grants	5 years	5 years	5 years
Expected stock price volatility	40%	40%	40%

The Company's computation of the expected volatility for the years ended December 31, 2005 and 2004 is based primarily upon historical volatility and the expected term of the option. The expected term is based on the historical exercise experience under the share-based plans of the underlying award and represents the period of time the share-based awards are expected to be outstanding. The interest rate is based on the U.S. Treasury yield in effect at the time of grant for a period commensurate with the estimated expected life. The forfeiture rate is based on historical data.

NOTE I - WARRANTS

On April 4, 2005, the Company sold 3,420,000 shares of Common Stock for \$1,026,000 in a private placement and issued 3,911,500 warrants, including 491,500 agent's warrants, ("PPM Warrants") to purchase 3,911,500 shares of the Company's Common Stock.

On December 8, 2005, the Company issued \$750,000 of Senior Secured Convertible Notes and agreed to issue an additional \$250,000 of Notes (see Note E). In connection with this financing, the Company issued warrants ("Investor Warrants") to purchase a total of 5,400,000 shares of the Company's Common Stock.

All but 1,000,000 of the warrants became exercisable in 2005.

The warrants did not contain a beneficial exchange feature at the date of the agreement. The exercise price of the investor warrants are subject to adjustment in certain events, including split-ups or combinations of common stock, dividends payable in common stock, and the issuance of rights to purchase additional shares of common stock or to receive other securities or rights convertible into or entitling the holder to receive additional shares of common stock without payment of any consideration. The shares underlying the warrants are subject to a registration rights agreement.

The Investor Warrants are redeemable by the Company at a price of \$.01 per investor warrant at any time prior to their exercise or expiration upon 30 days written notice provided that the closing stock price for the Common stock for at least thirty days has been \$1.00 per share and the shares underlying the warrants have been registered.

At June 30, 2006 and December 31, 2005 9,311,500 warrants were outstanding.

The following table summarizes information for warrants outstanding and exercisable at June 30, 2006 and December 31, 2005:

Options
outstanding
weighted average

Exercise Price	Original NumberTerm (Years)	remaining life in years
\$0.50	3,420,0003	2.75
\$0.33	332,0005	2.75
\$0.40	159,5002	2.75
\$0.468	3,000,0005	4.9
\$0.468	1,000,0000.5	0.5
\$0.468	1,000,0005	5.0
\$0.39	400,0005	4.9

NOTE J - INCOME TAXES

At December 31, 2005 the Company has available for federal income tax purposes approximately \$2,996,000 of net operating loss carry forwards which are subject to annual limitations and expire beginning in 2016 through 2022.

The Tax Reform Act of 1986 imposed substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change", as defined by the Internal Revenue Code. All federal and state net operating loss carry-forwards are subject to limitations as a result of these restrictions. If there should be a subsequent ownership change, as defined, the Company's ability to utilize its carry-forwards could be reduced.

NOTE K- COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leases office space under operating leases expiring in various years through 2007. In the normal course of business, operating leases are generally renewed or replaced by other leases.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year are as of:

	December 31,
	<u>2005</u>
2006	\$44,620
2007	<u>20,585</u>
Total minimum future rental payments	<u>\$65,205</u>

Rent expense was \$27,863 and \$6,690 for the six months ended June 30, 2006 and 2005 and \$56,140 and \$26,752 for the years ended December 31, 2005 and 2004.

Employment Agreements

At December 31, 2005 the Company has employment agreements with three officers and with one officer at June 30, 2006.

Future payments under these employment agreements are as of:

June 30, 2006	December 31,
------------------	--------------

		2005
2006	\$ 130,000	\$410,000
2007	130,000	410,000
Total future payments due	\$ 260,000	\$820,000

Two of the officers also received grants of 500,000 shares of common stock each that vest over three years. The value of the stock on the date of grant is being expensed over the vesting period, using the Black-Scholes formula.

The treatment of compensation expense relating to stock options is described in Notes B and H of Notes to Financial Statements.

NOTE L - STOCKHOLDER TRANSACTIONS

As enumerated in the Statement of Changes in Stockholders' Deficiency the Company has issued shares of its common stock for services rendered for clinical studies, financial advisors, market studies, public relations, members of the Board of Directors and members of the Medical Advisory Board . Management believes that the shares issued based on their selling price per share approximate the fair value of the services rendered. The issuance of common stock for services rendered, with the exception of the shares issued during the year ended December 31, 2000, approximated the price of shares sold for cash.

NOTE M-SUBSEQUENT EVENT

On May 18, 2006 a legal action was brought by a former employee against the Company, PAW, LLC and Andrew J. Whelan, the Company's major shareholder and Chief Executive Officer claiming that he is owed an additional 900,000 shares of common stock of the Company. In the opinion of management, this matter will not have a material adverse impact on the Company's financial position or results of operations.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 24. *Indemnification of Directors and Officers*

Our directors and officers are indemnified as provided by the Maryland General Corporation Law and in our By-laws and Articles of Incorporation.

Our Articles of Incorporation provide that each director and officer or former director or officer of the Company, or any person who may have served at the request of the Company as a director or officer of another corporation in which this Company owns shares of capital stock or of which it is a creditor, shall be indemnified by the Company against liabilities, fines, penalties and claims imposed upon or asserted against him by reason of having been such a director or officer, except in relation to matters as to which he shall have been finally adjudged by a court of competent jurisdiction to be liable by reason of having been guilty of gross negligence or willful misconduct in the performance of his duty as such director or officer.

Our By-laws also provide that we shall indemnify, to the fullest extent permitted by the laws of the State of Maryland, any present or former director, officer, employee, incorporator or agent of the Company, or any person who serves or served another corporation, partnership, joint venture, trust, or other enterprise in one of such capacities at the request of the Company, who, by reason of such position, was, is, or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers or persons controlling us pursuant to the foregoing provisions, or otherwise, we have been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person in the successful defense or any action, suit or proceeding) is asserted by one of our directors, officers or controlling persons in connection with any of our securities that are being registered, we will, unless in the opinion of our legal counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Item 25. *Other Expenses of Issuance and Distribution*

The following table sets forth the expenses expected to be incurred by us in connection with the issuance and distribution of the Common Stock registered hereby, all of which expenses, except for the SEC registration fee, are estimates:

Description	Amount
Registration Fee	\$ 223.25
*Accounting fees and expenses	* \$ 25,000
Legal fees and expenses	\$ 35,000
Transfer Agent fees and expenses	\$ 0
*Printing	* \$ 500.00
Miscellaneous fees and expenses	\$ 15,000.00
Total	\$ 75,723.25

* Estimated

The selling stockholders will not bear any expenses associated with the filing of the Registration Statement.

Item 26. Recent Sales of Unregistered Securities

In September 2003 the Company sold 20,000 shares of Common Stock to Duane Lawson for \$7,000 and in October 2003 the Company sold 20,000 shares of Common Stock for \$7,000 to Daniel Kloos. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offers and sales of the Common Stock did not involve a public offering, as the purchasers had represented that they were "accredited" investors, as defined in Rule 501 under the Securities Act.

In December 2003 the Company sold 400,000 shares of Common Stock to Robert and Kelly Lorenz for \$19,355 and 400,000 shares of Common Stock to Betty Rutkowski for \$19,355. The shares were issued pursuant to an exemption from registration under Rule 506 of Regulation D of the Securities Act of 1933. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as all of the purchasers were "accredited" investors and no general solicitation was involved in the offering.

In January and February 2004, the Company issued 450,000 pre dividend and 245,542 post dividend shares of Common Stock, valued at \$22,500 to three medical advisors for services rendered. Management believes that the shares issued approximate the fair value of the services rendered to the Company. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as all of the purchasers were "accredited" investors and no general solicitation was involved in the offering.

On March 15, 2004, the Company sold 5,020,000 shares of Common Stock to Phalanx Holding Corp. for \$50,200. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as the institutional purchaser was an "accredited" investor and no general solicitation was involved in the offering.

In March 2004, the Company sold 149,333 shares of Common Stock to four investors for \$64,000. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as all of the purchasers were "accredited" investors and no general solicitation was involved in the offering.

During June and July 2004, the Company sold 678,000 shares of Common Stock to five investors for \$240,000. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as all of the purchasers were "accredited" investors and no general solicitation was involved in the offering.

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In August 2004, the Company issued 1,545,648 shares of Common Stock, valued at \$77,282, to three medical advisors for services rendered to the Company. Management believes that the shares issued approximate the fair value of the services rendered. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as all of the purchasers were "accredited" investors and no general solicitation was involved in the offering.

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In August 2004, the Company sold 83,333 shares of Common Stock to Craig Hurst for \$25,000. The shares were issued pursuant to an exemption from registration under Rule 506 of Regulation D of the Securities Act of 1933. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as the purchaser was an "accredited" investor and no general solicitation was involved in the offering.

In August 2004, the Company issued 100,000 shares of Common Stock, valued at \$5,000 for by a financial advisory services provided to the Company. Management believes that the shares issued approximate the fair value of the services rendered. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as the purchaser was an "accredited" investor and no general solicitation was involved in the offering.

In November 15, 2004 the Company borrowed \$370,000 for working capital purposes. Buckman, Buckman & Reid, Inc., acted as placement agent and received as compensation, 150,000 shares of the Company's Common Stock valued at \$7,500. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as the purchaser was an "accredited" investor and no general solicitation was involved in the offering.

In April 2005, the Company sold 3,420,000 shares of Common Stock and warrants to purchase 3,911,500 (includes 491,500 agent's warrants) shares of Common Stock for \$1,026,000 pursuant in a private placement, with Buckman, Buckman & Reid, Inc. acting as the Placement Agent for the offering. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as the securities were issued to independent third parties and /or existing stockholders, each of whom were "accredited" investors and no general solicitation was involved in the offering.

During the months of January to May 2005, the Company issued 533,000 shares of Common Stock valued at \$51,890 to medical, financial and market research advisors to the Company for services rendered. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as all of the purchasers were "accredited" investors and no general solicitation was involved in the offering.

In September 2005, the Company sold 800,000 shares of Common Stock to Ibox for \$76,712. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as the institutional purchaser was an "accredited" investor and no general solicitation was involved in the offering.

In October 2005, the Company sold 1,000,000 shares to Popular Assembly of Lordsman for \$147,500. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as the institutional purchaser was an "accredited" investor and no general solicitation was involved in the offering.

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In October 2005, the Company sold 4,600,000 shares of Common Stock for \$383,385 to eight investors. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offers and sales of the Common Stock did not involve a public offering, as the purchasers had represented that they were "accredited" investors, as defined in Rule 501 under the Securities Act.

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During the months of October to December 2005, the Company issued 1,595,000 shares of Common Stock valued at \$51,890 to medical, financial, public relations and market research advisors to the Company for services rendered. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as all of the purchasers were "accredited" investors and no general solicitation was involved in the offering.

During the months of January to March 2006, the Company issued 965,000 shares of Common Stock valued at \$96,500 to individuals for service on the Board of Directors, medical consulting, investor relations and employee compensation. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as all of the purchasers were "accredited" investors and no general solicitation was involved in the offering.

During the months of April to June 2006, the Company issued 2,318,750 shares of Common Stock valued at \$197,320 to individuals for investor relations service, sales and marketing services and employee compensation. The Company relied on the exemption from the registration requirements of the Securities Act provided in Section 4(2) and Rule 506 promulgated there under, based on its belief that the offer and sale of the shares did not involve a public offering, as all of the purchasers were "accredited" investors and no general solicitation was involved in the offering.

Item 27. Exhibits

The following exhibits are included as part of this Form SB-2.

Exhibit No.	Description
3.1	BioElectronics Corporation Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's SB-2/A, filed on June 19, 2006).
3.11*	Certificate of Correction of BioElectronics Corporation, dated November 16, 2006.
3.12*	Certificate of Correction of BioElectronics Corporation, dated November 16, 2006.
3.13*	Articles of Restatement of BioElectronics Corporation, dated November 17, 2006.
3.2	BioElectronics Corporation Bylaws (incorporated by reference to Exhibit 3.2 to the Company's SB-2/A, filed on June 19, 2006).
4.1	Form of Common Stock Purchase Warrant, dated December 8, 2005 (incorporated by reference to Exhibit 4.1 to the Company's SB-2/A, filed on June 19, 2006).
4.2	Form of Sales Agent Two Year Common Stock Purchase Warrant, dated April 4, 2005 (incorporated by reference to Exhibit 4.2 to the Company's SB-2/A, filed on June 19, 2006).
4.3	Form of Investor and Placement Agent Five Year Common Stock Purchase Warrant, dated April 4, 2005 (incorporated by reference to Exhibit 4.3 to the Company's SB-2/A, filed on June 19, 2006).
4.4	BioElectronics Corporation 2004 Stock Incentive Plan, dated

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	November 30, 2004 (incorporated by reference to Exhibit 4.4 to the Company's SB-2/A, filed on June 19, 2006).
4.5	BioElectronics Corporation 2004 Stock Incentive Plan, as amended, March 22, 2005 (incorporated by reference to Exhibit 4.5 to the Company's SB-2/A, filed on June 19, 2006).
4.6	Limited Standstill Agreement, dated December 4, 2005, between BioElectronics Corporation and Mary K. Whelan (incorporated by reference to Exhibit 4.6 to the Company's SB-2/A, filed on June 19, 2006).
4.7	Limited Standstill Agreement, dated December 4, 2005, between BioElectronics Corporation and Andrew J. Whelan (incorporated by reference to Exhibit 4.7 to the Company's SB-2/A, filed on June 19, 2006).
4.8**	Form of Specimen Stock Certificate.
5**	Opinion of Kirkpatrick & Lockhart Nicholson Graham LLP as to the legality of the shares.
10.1	Employment Agreement between BioElectronics Corporation and Joseph M. Iglesias, dated June 2, 2005 (incorporated by reference to Exhibit 10.1 to the Company's SB-2/A, filed on June 19, 2006).
10.2	Employment Agreement between BioElectronics Corporation and Todd J. Kislak, dated January 3, 2005 (incorporated by reference to Exhibit 10.2 to the Company's SB-2/A, filed on June 19, 2006).
10.3	Employment Agreement between BioElectronics Corporation and Thomas O'Connor, dated October 8, 2004 (incorporated by reference to Exhibit 10.3 to the Company's SB-2/A, filed on June 19, 2006).
10.4	Lease Agreement between BioElectronics Corporation and Madison Commerce Center-A, LLC dated August 31, 2005 (incorporated by reference to Exhibit 10.4 to the Company's SB-2/A, filed on June 19, 2006).
10.5	Lease Agreement between BioElectronics Corporation and Westlake Plaza Business Park, LLC dated January 31, 2005 (incorporated by reference to Exhibit 10.5 to the Company's SB-2/A, filed on June 19, 2006).
10.6	Secured Convertible Promissory Note, dated December 8, 2005, between BioElectronics Corporation and Whalehaven Capital Fund Limited (incorporated by reference to Exhibit 10.6 to the Company's SB-2/A, filed on June 19, 2006).
10.7	Secured Convertible Promissory Note, dated December 8, 2005, between BioElectronics and Alpha Capital Aktiengesellschaft (incorporated by reference to Exhibit 10.7 to the Company's SB-2/A, filed on June 19, 2006).
10.8	Secured Convertible Promissory Note, dated December 8, 2005, between BioElectronics Corporation and Harborview Master Fund, Ltd. (incorporated by reference to Exhibit 10.8 to the Company's SB-2/A, filed on June 19, 2006).
10.9	Promissory Note, dated June 30, 2005, between BioElectronics Corporation and MaxMed Technologies, Inc. (incorporated by reference to Exhibit 10.9 to the Company's SB-2/A, filed on June 19, 2006).
10.10*	Subscription Agreement, dated December 8, 2005, between BioElectronics Corporation and the Subscribers.
10.11	Registration Rights Agreement, dated April 4, 2005, between BioElectronics Corporation and the Investors listed therein (incorporated by reference to Exhibit 10.11 to the Company's SB-2/A, filed on June 19, 2006).

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10.12	Distribution Agreement, dated June 30, 2005, between BioElectronics Corporation and MaxMed Technologies, Inc. (incorporated by reference to Exhibit 10.12 to the Company's SB-2/A, filed on June 19, 2006).
10.13	Modification and Amendment Agreement to the Subscription Agreement, dated August 14, 2006 between BioElectronics Corporation and the Subscribers listed therein (incorporated by reference to Exhibit 10.13 to the Company's SB-2, filed August 14, 2006).
10.14*	Secured Convertible Promissory Note, dated August 14, 2007, by and between BioElectronics Corporation and Alpha Capital Aktiengesellschaft.
10.15*	Secured Convertible Promissory Note, dated August 14, 2007, by and between BioElectronics Corporation and Whalehaven Capital Fund Limited.
10.16*	Secured Convertible Promissory Note, dated August 14, 2007, by and between BioElectronics Corporation and Harborview Master Fund LP.
23.1*	Consent of Berenfeld Spritzer Shechter & Sheer.
23.2*	Consent of Kirkpatrick & Lockhart Nicholson Graham, LLP.
24*	Powers of Attorney of certain officers and directors of the Company (included on the signature page of this Registration Statement).

*Filed herewith.

**To be filed by amendment.

Item 28. *Undertakings*

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Company hereby undertakes that it will:

(1) File, during any period in which it offers or sells securities, a post-effective amendment to this Registration Statement to:

(i)

Include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii)

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Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement;

(iii)

Include any additional or changed information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each such post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial *bona fide* offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(4) For determining liability of the undersigned Company under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned Company undertakes that in a primary offering of securities of the undersigned Company pursuant to this Registration Statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Company will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i)

Any preliminary prospectus or prospectus of the undersigned Company relating to the offering required to be filed pursuant to Rule 424;

(ii)

Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned Company or used or referred to by the undersigned Company

(iii)

The portion of any other free writing prospectus relating to the offering containing material information about the undersigned Company or its securities provided by or on behalf of the undersigned Company; and

(iv)

Any other communication that is an offer in the offering made by the undersigned Company to the purchaser.

Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the Registration Statement

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as of the date it is first used after effectiveness. *Provided however*, that no statement made in a registration statement or prospectus that is part of the Registration Statement or made in a document incorporated or deemed incorporated by reference into the Registration Statement or prospectus that is part of the Registration Statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the Registration Statement or prospectus that was part of the Registration Statement or made in any such document immediately prior to such date of first use.

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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it met all the requirements of filing on Form SB-2 and authorized this Registration Statement to be signed on its behalf by the undersigned, in Frederick, Maryland on November 21, 2006.

BioElectronics Corporation

By: /s/Andrew J. Whelan
Andrew J. Whelan
President

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Andrew J. Whelan as true and lawful attorney-in-fact and agent with full power of substitution and resubstitution and for him/her and in his/her name, place and stead, in any and all capacities to sign any and all amendments (including pre-effective and post-effective amendments) to this Registration Statement, as well as any new registration statement filed to register additional securities pursuant to Rule 462(b) under the Securities Act, and to file the same with all exhibits thereto, and other documents in connection therewith, with the SEC, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act, this Registration Statement was signed by the following persons in the capacities and on the dates stated.

Signature	Title	Date
<u>/s/ Andrew J. Whelan</u> Andrew J. Whelan	Chairman and President (principal executive officer)	November 21, 2006
<u>/s/ Lawrence H. Rosen</u> Lawrence H. Rosen	Director and Chief Financial Officer (principal financial and accounting officer)	November 21, 2006
<u>/s/ Brian M. Kinney</u> Brian M. Kinney	Director	November 21, 2006

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/s/ Ashton Perry
Ashton Peery

Director

November 21, 2006

/s/ Douglas Watson
Douglas Watson

Director

November 21, 2006

/s/ Mary Whelan
Mary Whelan

Director

November 21, 2006

/s/ Richard Staelin
Richard Staelin

Director

November 21, 2006

EXHIBIT INDEX

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- 10.6 Secured Convertible Promissory Note, dated December 8, 2005, between BioElectronics Corporation and Whalehaven Capital Fund Limited (incorporated by reference to Exhibit 10.6 to the Company's SB-2/A, filed on June 19, 2006).
- 10.7 Secured Convertible Promissory Note, dated December 8, 2005, between BioElectronics and Alpha Capital Aktiengesellschaft (incorporated by reference to Exhibit 10.7 to the Company's SB-2/A, filed on June 19, 2006).
- 10.8 Secured Convertible Promissory Note, dated December 8, 2005, between BioElectronics Corporation and Harborview Master Fund, Ltd. (incorporated by reference to Exhibit 10.8 to the Company's SB-2/A, filed on June 19, 2006).
- 10.9 Promissory Note, dated June 30, 2005, between BioElectronics Corporation and MaxMed Technologies, Inc. (incorporated by reference to Exhibit 10.9 to the Company's SB-2/A, filed on June 19, 2006).
- 10.10* Subscription Agreement, dated December 8, 2005, between BioElectronics Corporation and the Subscribers listed therein.
- 10.11 Registration Rights Agreement, dated April 4, 2005, between BioElectronics Corporation and the Investors listed therein (incorporated by reference to Exhibit 10.11 to the Company's SB-2/A, filed on June 19, 2006).
- 10.12 Distribution Agreement, dated June 30, 2005, between BioElectronics Corporation and MaxMed Technologies, Inc. (incorporated by reference to Exhibit 10.12 to the Company's SB-2/A, filed on June 19, 2006).
- 10.13 Modification and Amendment Agreement to the Subscription Agreement, dated August 14, 2006 between BioElectronics Corporation and the Subscribers listed therein (incorporated by reference to Exhibit 10.13 to the Company's SB-2, filed August 14, 2006).
- 10.14* Secured Convertible Promissory Note, dated August 14, 2007, by and between BioElectronics Corporation and Alpha Capital Aktiengesellschaft.
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- 10.15* Secured Convertible Promissory Note, dated August 14, 2007, by and between BioElectronics Corporation and Whalehaven Capital Fund Limited.
- 10.16* Secured Convertible Promissory Note, dated August 14, 2007, by and between BioElectronics Corporation and Harborview Master Fund LP.
- 23.1* Consent of Berenfeld Spritzer Shechter & Sheer.
- 23.2* Consent of Kirkpatrick & Lockhart Nicholson Graham, LLP.
- 24* Powers of Attorney (on signature page)

*Filed herewith.

**To be filed by amendment.
