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CREE INC  
Form PRE 14A  
August 23, 2010  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

CREE, INC.

(Name of Registrant as Specified In Its Charter)

N/A

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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- 2) Aggregate number of securities to which transaction applies: \_\_\_\_\_
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.. Fee paid previously with preliminary materials.

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- 1) Amount Previously Paid: \_\_\_\_\_
- 2) Form, Schedule or Registration Statement No.: \_\_\_\_\_
- 3) Filing Party: \_\_\_\_\_
- 4) Date Filed: \_\_\_\_\_

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

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To the Shareholders of Cree, Inc.:

The 2010 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 26, 2010, 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 Approval of an amendment to the Bylaws to set the size of the Board of Directors at not less than five nor more than nine members, with the number within that range to be determined by the Board of Directors from time to time

Proposal No. 4 Ratification of the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending June 26, 2011

All shareholders are invited to attend the meeting in person. Only shareholders of record at the close of business on August 30, 2010 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 3, 2010

**PLEASE NOTE:**

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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 13, 2010, we expect to mail to our shareholders a Notice of Internet Availability of Proxy Materials which will indicate how to access our 2010 Proxy Statement and 2010 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.**

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**PROXY STATEMENT**

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**MEETING INFORMATION**

The Board of Directors of Cree, Inc., or the Company, is asking for your proxy for use at the 2010 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 26, 2010, at 10:00 a.m. local time, to conduct the following business and such other business as may be properly brought before the meeting: (1) election of eight directors; (2) approval of an amendment to the 2004 Long-Term Incentive Compensation Plan, or the LTIP, to increase the number of shares authorized for issuance under the plan; (3) approval of an amendment to the Company's Bylaws to set the size of the Board of Directors at not less than five nor more than nine members, with the number within that range to be determined by the Board of Directors from time to time; and (4) ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending June 26, 2011.

**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 approval of the amendment to the Bylaws and FOR ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending June 26, 2011.**

Beginning on or about September 13, 2010, proxy materials for the annual meeting, including this proxy statement and our 2010 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 26, 2010:**

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

*[www.cree.com/annualmeeting](http://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 13, 2010, 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

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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 30, 2010 are entitled to vote at the meeting and any adjournments of the meeting. At that time, there were [ ] 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 25, 2010, 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 25, 2010 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 25, 2010.

*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**

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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 approval of the amendment to the Bylaws and FOR ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending June 26, 2011.

### **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. There is an important change this year related to a broker's ability to vote when it does not receive voting instructions from the beneficial owner of

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shares. 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.

## **Quorum Required**

A quorum must be present at the meeting before business can be conducted. A quorum will be present if a majority of the shares entitled to vote are represented in person or by proxy at the meeting. Shares represented by a proxy with instructions to withhold authority to vote or to abstain from voting on any matter will be considered present for purposes of determining the existence of a quorum. Shares represented by a proxy as to which a broker, bank, custodian or other nominee has indicated that it does not have discretionary authority to vote on any matter (sometimes referred to as 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, the proposed amendment to the Bylaws and ratification of the appointment of Ernst & Young LLP as independent auditors for fiscal 2011 will be approved if the votes cast for approval exceed the votes cast against approval.

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

**Table of Contents****PROPOSAL NO. 1 ELECTION OF DIRECTORS****Nominees for Election as Directors**

Seven of the persons nominated for election to the Board of Directors at the annual meeting are currently serving as directors of the Company. John W. Palmour, Ph.D., one of the Company's founders who has served on the Board of Directors since 1995, is not standing for re-election. Upon the recommendation of the Governance and Nominations Committee, the Board of Directors has nominated Robert L. Tillman, who has not previously been associated with the Company, for election as director. 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.

<b>Name</b>	<b>Age</b>	<b>Principal Occupation and Background</b>	<b>Director Since</b>
Charles M. Swoboda	43	Mr. Swoboda has served as the Company's Chief Executive Officer since June 2001, as President since January 1999, as a member of the Board of Directors since October 2000 and as chairman since April 2005. He was Chief Operating Officer of the Company from 1997 to June 2001 and Vice President for Operations from 1997 to 1999. Prior to his appointment as Vice President for Operations, Mr. Swoboda served as Operations Manager from 1996 to 1997, as General Manager of the Company's former subsidiary, Real Color Displays, Incorporated, from 1994 to 1996 and as LED Product Manager from 1993 to 1994. He was previously employed by Hewlett-Packard Company.	2000

Mr. Swoboda's employment with the Company for the past 17 years in diverse roles, his leadership as the Company's Chief Executive Officer for more than nine years and his service on the Board of Directors for a decade, including his service as Chairman of the Board for the past five 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.

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<b>Name</b>	<b>Age</b>	<b>Principal Occupation and Background</b>	<b>Director Since</b>
Dolph W. von Arx	76	<p>Mr. von Arx has been a member of the Board of Directors since October 1991 and has served as Lead Independent Director since April 2005. He is the former Chairman, President and Chief Executive Officer of Planters Lifesavers Company, an affiliate of RJR Nabisco, Inc. Since his retirement from Planters Lifesavers Company in 1991, Mr. von Arx served as non-executive Chairman of Morrison Restaurants Inc., a publicly held family dining business, from 1996 to 1998 and is currently a director of Sanibel Captiva Trust Company and Juice Technologies LLC.</p> <p>Mr. von Arx has nearly 20 years of service on the Company's Board of Directors and at various times has served as Chairman of the Executive Committee (which has been discontinued as a committee), the Audit Committee, the Compensation Committee and, currently, the Governance and Nominations Committee. He has also served as Lead Independent Director for over five years. Mr. von Arx's long tenure and knowledge of the Company's history and the functioning of the Board enable him to offer valuable insight, judgment and perspectives in support of the Board's oversight role and its other functions. Mr. von Arx also brings a great deal of senior leadership experience to the Board of Directors, having himself served as Chairman and Chief Executive Officer of two public companies.</p>	1991
Clyde R. Hosein	50	<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 the past five 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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<b>Name</b>	<b>Age</b>	<b>Principal Occupation and Background</b>	<b>Director Since</b>
Robert A. Ingram	67	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 Lowe's Companies, Inc., Allergan, Inc., and Edwards Lifesciences Corporation, and serves as Lead Director of Valeant Pharmaceuticals International. 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. and Wachovia Corp. until 2005, 2006 and 2008, respectively.	2008

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. 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.

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<b>Name</b>	<b>Age</b>	<b>Principal Occupation and Background</b>	<b>Director Since</b>
Franco Plastina	47	<p>Mr. Plastina joined the Board of Directors in December 2007. Since February 2006, he has served as President and Chief Executive Officer, and as a board member, of Tekelec, a publicly traded provider of telecommunications network systems and software applications. Before joining Tekelec, from September 2005 through February 2006, Mr. Plastina served as Executive in Residence at Warburg Pincus LLC, a private equity firm, where he was responsible for evaluating potential investments and providing executive support to portfolio companies. From 2003 to 2005, he held various executive positions with Proxim Corporation, a provider of Wi-Fi and broadband wireless access products, including Executive Chairman, President and CEO. 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.</p> <p>Mr. Plastina brings to the Board significant senior executive leadership experience, including experience from his current service as chief executive officer of a publicly traded company as well as over 23 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 three years, his private equity investment experience and his qualifications as an accounting committee financial expert.</p>	2007
Robert L. Tillman	66	<p>Mr. Tillman served as a director of Lowe's Companies, Inc. from November 1994 to January 2005 and as its Chairman from January 1998 to January 2005, and served 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 for election to the Company's Board.</p>	N/A

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<b>Name</b>	<b>Age</b>	<b>Principal Occupation and Background</b>	<b>Director Since</b>
Harvey A. Wagner	69	<p>Mr. Wagner has served on the Board of Directors since February 2004. Since April 2008, he has served as President and Chief Executive Officer, and as a board member, of Caregiver Services, Inc., a home care provider. From August 2007 through March 2008, Mr. Wagner served as managing principal of H.A. Wagner Group LLC, an investment and consulting firm. Mr. Wagner previously served as President and Chief Executive Officer of Quovadx, Inc., a global software and services company, from October 2004 to July 2007, as its Acting President and Chief Executive Officer from May 2004 to October 2004, and as a member of its Board of Directors from April 2004 to July 2007. From 1989 to 1994 he served as CFO at Computervision Corporation and from 1994 to 1998 at Scientific-Atlanta, Inc. From 1998 until joining Quovadx in 2004, he held CFO positions with Premiere Technologies, Inc., PaySys International, Inc., Optio Software, Inc. and Mirant Corporation. Earlier in his career, he spent 18 years in Silicon Valley where he held senior financial positions with GTE Corporation, Fairchild and American Microsystems. He is currently also a director of FormFactor, Inc. and StarTek, Inc. and served as a director of Quovadx until 2007.</p> <p>Mr. Wagner has served as chief financial officer of six publicly traded companies, 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 six 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
Thomas H. Werner	50	<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.</p> <p>Mr. Werner's qualifications to serve as a director include his four years of service on the Company's Board of Directors and his three 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 seven years.</p>	2006

**The Board of Directors recommends shareholders**

**vote FOR election of the nominees named above.**



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### **Director Not Standing for Re-election**

John W. Palmour, Ph.D.	49	Dr. Palmour, one of the Company's founders who has served on the Board of Directors since October 1995 and has served as the Company's Chief Technology Officer Advanced Devices since September 2008, is not standing for re-election. He previously served as the Company's Director of Advanced Devices from 1995 to September 2008 and as an Executive Vice President from August 2002 to September 2008. As Chief Technology Officer Advanced Devices, Dr. Palmour is responsible for research associated with the Company's power and radio frequency businesses and also manages the Company's contract research programs. He previously served on the Board of Directors from 1992 to 1993.	1995
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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. John T. Kurtzweil (age 54) and Stephen D. Kelley (age 48) also serve as executive officers of the Company.

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

Mr. Kelley was appointed as an Executive Vice President and as Chief Operating Officer of the Company effective August 19, 2008. Before joining the Company, he served from 2003 to 2008 as Vice President and General Manager of the Standard Linear and Logic Group of Texas Instruments Incorporated, a publicly traded semiconductor supplier based in Dallas, Texas. Mr. Kelley previously served as Senior Vice President and General Manager of Philips Semiconductors, a division of Royal Philips Electronics N.V., from 2002 to 2003 and held a series of other executive positions with Philips Semiconductors beginning in 1993. He was previously employed by National Semiconductor Corporation, MX-COM, Inc., Fairchild Semiconductor International, Inc. and Motorola Semiconductor (now Freescale, Inc.).

### **Code of Ethics**

We have adopted a Code of Ethics applicable to our senior financial officers, including our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. The full text of our Code of Ethics is published on our website at [www.cree.com](http://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**

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

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A majority of the Board of Directors must be comprised of independent directors for the Company to comply with the listing requirements of The Nasdaq Stock Market, or Nasdaq. Currently, the Board of Directors is composed of Messrs. Swoboda, von Arx, Hosein, Ingram, Plastina, Wagner and Werner as well as John W. Palmour, Ph.D., who has decided not to stand for re-election at the annual meeting. The Board of Directors has determined that six of the present directors Messrs. von Arx, Hosein, Ingram, Plastina, Wagner and Werner are each an independent director within the meaning of the applicable Listing Rules of Nasdaq. All of these directors are standing for re-election. In addition, the Board of Directors has determined that Mr. Tillman, who has been nominated for election as a director, would be an independent director within the meaning of the applicable Listing Rules of Nasdaq.

## **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.

Our Lead Independent Director, Mr. von Arx, has served in that capacity since 2005. The Board has adopted corporate governance guidelines that call for the Board to designate a Lead Independent Director any time that the Chairman of the Board is not an independent director. As specified in the governance guidelines, 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. The independent directors meet at regularly scheduled sessions at least four times each year without other directors or members of management present.

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 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 guidelines, 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

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hold the position of Chairman of the Board in addition to his role as Chief Executive Officer, with Mr. von Arx serving as Lead Independent Director. This determination is based in part upon the experience, leadership qualities and skills that Mr. Swoboda and Mr. von Arx 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

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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.

### **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 periodically review 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 by 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 periodically review 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 risks 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 of compensation policies and practices, focusing on programs with variable compensation, specifically:

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stock option and restricted stock awards under our LTIP;

performance unit awards to our executive officers under the LTIP which provide for cash payments based upon achieving annual corporate financial goals;

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awards under our Management Incentive Compensation Program in which most of our senior managers participate (other than the CEO) 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

our quarterly profit-sharing plan in which all other regular, full-time employees participate and are eligible to receive cash payments as a function of the amount, if any, by which our quarterly operating income exceeds a pre-established target.

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 reviewed the results of this review with the Compensation Committee at a meeting in August 2010, and the Committee concurred with management's assessment.

## **Attendance at Meetings**

The Board of Directors held six meetings during fiscal 2010. 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 eight directors serving at that time attended the 2009 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](http://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.

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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 Mr. Wagner, Mr. Hosein and Mr. Plastina is an audit committee financial expert as defined in Item 407 of Regulation S-K of the Securities and Exchange Commission. The Audit Committee held eight meetings during fiscal 2010. The Audit Committee from time to time also takes action by unanimous written consent in lieu of holding a meeting.

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### *Governance and Nominations Committee*

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

The members of the Governance and Nominations Committee are Messrs. von Arx, Hosein, Ingram, Plastina, Wagner and Werner. The Board of Directors has determined that all members of the Committee are independent directors within the meaning of the applicable Nasdaq Listing Rules. Mr. von Arx is Chairman of the Governance and Nominations Committee and has served in that capacity since 2004. The Governance and Nominations Committee charter establishes a policy with regard to the consideration of director candidates, including those candidates recommended by shareholders. The Committee will consider written nominations properly submitted by shareholders according to procedures set forth in the Company's Bylaws. For a description of these procedures and policies regarding nominations see Procedures for Director Nominations and 2011 Annual Meeting of Shareholders below. The Governance and Nominations Committee held four meetings during fiscal 2010. 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 Govern